

CAPITAL GEARING TRUST P.L.C

Annual Report and Accounts

For the year ended 5 April 2011

Company Summary

• Investment Objective

To achieve capital growth in absolute terms principally through investment in quoted closed ended and other collective investment vehicles, invested in equities or property, with a willingness to hold cash, bonds, index linked securities and commodities when appropriate.

• Continuation of the Company

It is the Board's intention to continue with the commitment to offer shareholders the opportunity to realise their investment in the Company, at a price that fairly reflects the underlying net asset value of their investment, with the next opportunity expected to be in 2015.

• Capital Structure and Voting Rights

The share capital comprises Ordinary Shares of 25 pence each. As at 5 April 2011, 2,847,906 shares were in issue (5 April 2010: 2,794,906). Each Ordinary Share has one vote.

• Investment Management and Portfolio Administration

Investment management is carried out by CG Asset Management Limited under an agreement dated 27 April 2001. Portfolio administration is carried out by Smith & Williamson Investment Management Limited under an agreement dated 13 June 2006.

• Company Secretarial and Accounting Services

Company secretarial and accounting services are provided by TMF Corporate Secretarial Services Limited and TMF Management (UK) Limited, respectively.

• Annual General Meeting

The Annual General Meeting of the Company will be held at the offices of Smith & Williamson Investment Management Limited, 25 Moorgate, London EC2R 6AY at 11.00 a.m. on Tuesday, 5 July 2011.

• ISA

The Company manages its affairs so as to be a fully qualifying investment trust under the Individual Savings Account (ISA) rules.



The Association of
Investment Companies

The Company is a member of the Association of Investment Companies.

Information disclaimer

This report is produced for members of the Company with the purpose of providing them with information relating to the Company and its financial results for the period under review. This report contains subjective opinion, analysis and forward looking statements which, by their very nature involve uncertainty. Events beyond the control of the Directors and the Company may affect actual results which may therefore differ to those indicated within this report. Market and currency fluctuations may occur which may in turn have an impact on the Company's underlying investments. Past performance is no guarantee of future performance. Investments are not guaranteed and you may not get back the amount you originally invested. Neither the Directors nor the Company take responsibility for matters outside of their control.

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Financial Highlights

| | 5 April 2011 | 5 April 2010 | % Change |
|---------------------------|--------------|--------------|----------|
| Share Price | 3,115.0p | 2,630.0p | +18.4 |
| Net Asset Value per Share | 2,652.8p | 2,467.4p | +7.5 |
| Premium | 17.4% | 6.6% | – |
| Shareholders' Funds | £75.6m | £69.0m | +9.6 |
| Market Capitalisation | £88.7m | £73.5m | +20.7 |
| Total Expense Ratio* | 1.4% | 1.4% | – |
| Dividend per Share: | | | |
| Ordinary | 15.5p | 15.0p | +3.3 |
| Special | 3.0p | 7.5p | -60.0 |
| | 18.5p | 22.5p | -17.8 |

* Operating expenses divided by total assets less current liabilities

Performance

Performance in the 10 years to 2011

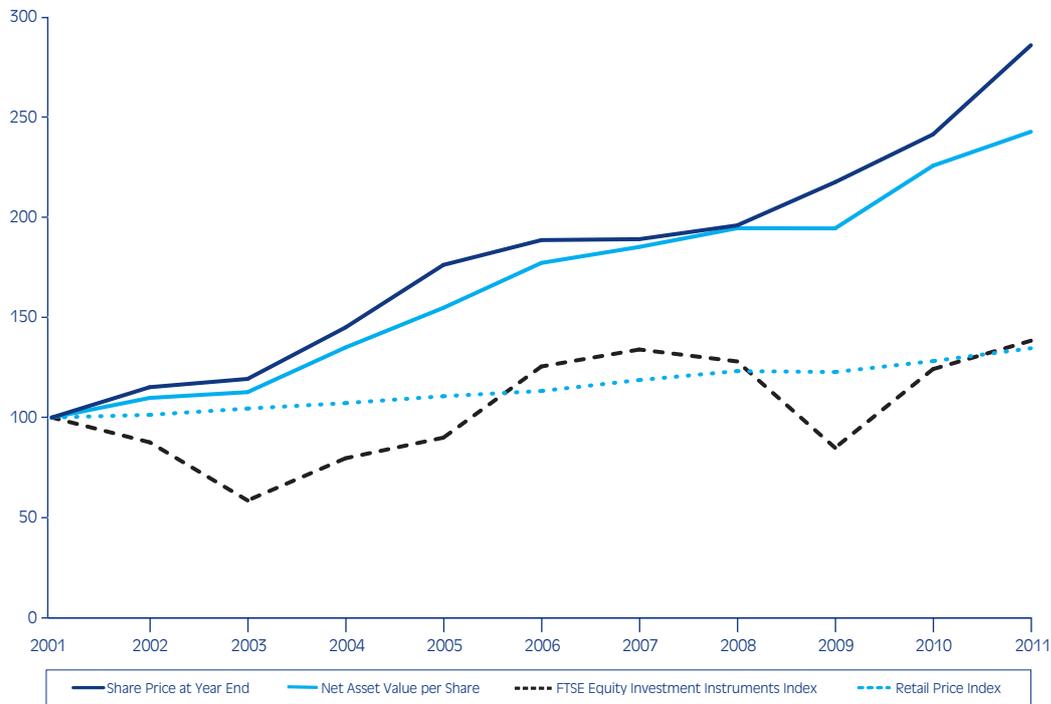
| 5 April | Net assets £'000 | NAV per 25p Share p | Appreciation on previous year % | Cumulative appreciation from 5 April 2001 % | FTSE Equity Investment Instruments Index Index | Appreciation on previous year % | Cumulative appreciation from 5 April 2001 % |
|---------|---------------------|---------------------------|--|---|---|--|---|
| 2002 | 27,863 | 1,200.5 | 10 | 10 | 3,947.4 | (12) | (12) |
| 2003 | 31,368 | 1,232.1 | 3 | 13 | 2,640.5 | (33) | (41) |
| 2004 | 40,656 | 1,475.8 | 20 | 35 | 3,588.5 | 36 | (20) |
| 2005 | 46,612 | 1,692.0 | 15 | 55 | 4,052.0 | 13 | (10) |
| 2006 | 54,136 | 1,937.0 | 14 | 77 | 5,651.1 | 39 | 25 |
| 2007 | 56,576 | 2,024.2 | 5 | 85 | 6,032.7 | 7 | 34 |
| 2008 | 59,432 | 2,126.4 | 5 | 94 | 5,765.2 | (4) | 28 |
| 2009 | 59,404 | 2,125.4 | – | 94 | 3,824.2 | (34) | (15) |
| 2010 | 68,962 | 2,467.4 | 16 | 126 | 5,592.2 | 46 | 24 |
| 2011 | 75,550 | 2,652.8 | 8 | 143 | 6,230.4 | 11 | 38 |

The net assets and net asset value ('NAV') per share for 2002 to 2005 have been restated for the changes in accounting policy in 2006.

Performance Graphs

Performance over 10 Years

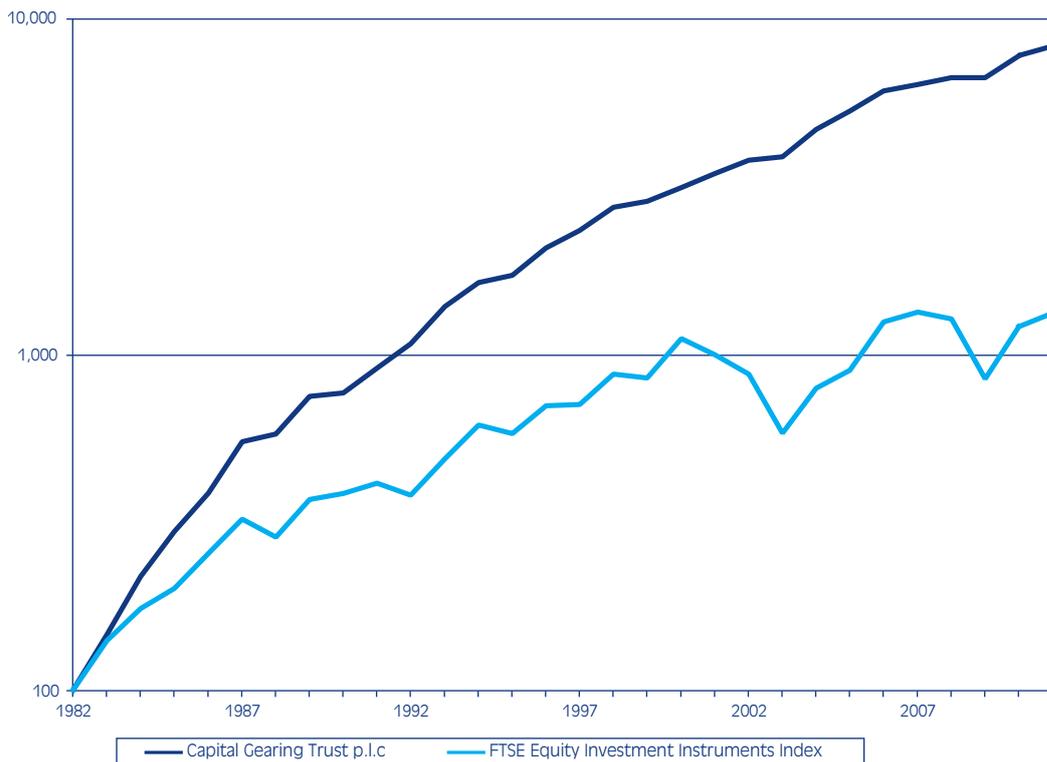
The graph below shows the Company's net asset value per share and share price against the FTSE Equity Investment Instruments Index and the Retail Price Index.



All figures are rebased to 100 at 5 April 2001

Performance 1982 to 2011

Rebasing each of the net asset value per share of the Company and the FTSE Equity Investment Instruments Index to 100 in 1982, the subsequent performance of the Company net asset value per share and the FTSE Equity Investment Instruments Index compare as follows:



Directors and Managers

Directors:

Mr T R Pattison Chartered FCSI (60) Chairman

Appointed a Director in 1985 and Chairman with effect from 1 January 2005. Mr Pattison is also a member of the Company's Audit Committee. Mr Pattison has over 30 years experience in managing both private client and institutional investment portfolios and is currently an executive director and Chairman of Fieldings Investment Management Limited.

Mr G A Prescott BA, FCA (66)

Appointed a Director on 5 February 2010. Mr Prescott is also Chairman of the Company's Audit Committee. Mr Prescott is a chartered accountant and until his retirement in 2009 was Deputy Group Executive of the Ecclesiastical Insurance Group. He was also, until March 2010, a member of the board of the Mapfre Re-Insurance Company. He is currently Chairman of Giles Insurance Brokers and a member of the board of JP Morgan Cazenove Pension Trustee Company. He is also a director of Mapfre USA and Commerce Insurance (US) and recently took up an appointment as trustee of M&G Charibond and Charifund. Mr Prescott is also a Member of the Court, Finance & Investment Committee of the Worshipful Company of Coopers.

Mr R P A Spiller MA (Oxon), FCSI (63)

Appointed a Director in 1986. Mr Spiller was a partner in Cazenove & Co until 30 April 2001. He is now a director and Chief Executive of CG Asset Management Limited and a director of CG Portfolio Fund Limited.

Mr E G Meek MSc (63)

Appointed a Director in 2004. Mr Meek is also a member of the Company's Audit Committee. Mr Meek is a former investment banker and stockbroker and was previously an executive director of Smith New Court plc and Chairman of SPI Lasers plc. He is currently a non-executive director of Filtronic plc.

Managers:

Investment Manager

CG Asset Management Limited

Established in 2001. The company currently has five clients: Capital Gearing Trust plc, the CG Portfolio Fund Limited, the CG Portfolio Fund plc Real Return Fund, the CG Portfolio Fund plc Dollar Fund and the CG Portfolio Fund plc Capital Value Fund with total funds under management of £1.3 billion. The portfolios are run on a long only basis with a low risk style focusing on achieving absolute returns.

Custodian and Administrator

Smith & Williamson Investment Management Limited

Appointed by the Investment Manager in 2006 to provide dealing, custody and treasury services for the portfolio. Founded in 1881, Smith & Williamson are a leading independent provider of investment management, accountancy, tax, corporate and financial advisory services to private clients, corporate bodies, professional practices and non-profit organisations.

Company Secretary

TMF Nominees Limited

Appointed as Company Secretary in 2007. TMF Nominees Limited is part of the TMF Group which is a global independent provider of accounting and corporate secretarial services, with over 3,300 professionals working from 87 offices in 67 countries.

Chairman's Statement

Overview

In the year to 5 April 2011 the net asset value per share increased by 7.5% to an all time high of 2,652.8p. The stated investment objective of achieving capital growth in absolute terms has therefore once again been met. This performance has been achieved during a period when the FTSE Equity Investment Instruments Index and the FTSE All-Share Index increased by 11.4% and 5.9% respectively. The FTSE Government All Stocks Index was largely unchanged over the year.

Earnings per share for the period amounted to 19.8p compared to 23.8p last year, reflecting the reduced income in the current lower interest rate environment; income generation continues to be of lesser importance for the trust relative to the principal objective of capital preservation and growth.

Asset allocation continues to reflect a balance between maximising the potential for asset appreciation with that of capital preservation. As at the year end, fixed interest and index linked securities and cash represented 59.9% of total assets with a further 13.3% held in zero dividend preference shares.

Dividend

Last year, a total distribution of 22.5p was paid. This was made up of 15.0p plus a special dividend of 7.5p. At this year's Annual General Meeting ('AGM'), and subject to shareholder approval, the Board will recommend a total distribution of 18.5p made up of 15.5p plus a special dividend of 3.0p. The special dividend continues to reflect the relatively high exposure to bonds that might at some stage be switched into lower yielding growth investments.

Continuation of the Company

As stated in previous reports, the Board remains committed to offering shareholders the periodic opportunity to realise their investment in the Company. This commitment was last honoured in November 2008 by way of a sale and purchase facility and it is the Board's current intention to next offer shareholders a similar opportunity to realise their investment in 2015.

Annual General Meeting

This year's AGM will be held at the London offices of Smith & Williamson Investment Management Limited on Tuesday 5 July 2011 at 11.00 a.m. The Notice convening the forty eighth AGM of the Company is set out at the end of this document and I and the rest of the Board look forward to meeting you then. As in previous years, after the formal business of the meeting has concluded, our investment manager will be making a short presentation on the outlook for markets and the Company's investments.

Issuance and Repurchase of Shares

The Board continues to operate an informal discount/premium control mechanism whereby major market supply and demand imbalances are satisfied by either the issuance of shares at a premium to net asset value or buying back shares at a discount. At the last AGM, shareholders approved the necessary resolutions to enable these policies to be renewed and similar resolutions will again be put forward at this year's AGM.

As disclosed in our Half-Year Report, 40,000 Ordinary Shares were issued at a price of £28.25 (representing a 14.7% premium to the prevailing net asset value) on 6 August 2010. On 18 March 2011, a further 13,000 Ordinary Shares were issued at a price of £30.05 (representing a 14.3% premium to the prevailing net asset value).

The Board

This year Mr R P A Spiller, Mr E G Meek and I will retire at the AGM and offer ourselves for re-election in accordance with the Company's articles of association and with the guidelines for good practice set out in the AIC Code of Corporate Governance and the Combined Code. Further details in respect of each Director's retirement, evaluation and re-election can be found on page 15.

Regulatory Changes

Shareholders who have been following updates provided by the Association of Investment Companies ('AIC') will be aware that the Alternative Investment Fund Managers ('AIFM') Directive has now been approved by the European Parliament and the final text of the Directive agreed. Under the current timetable, it appears that the final rules will be applied to AIC members in 2013. Before then, however, the detail of how the rules will apply and how they will be transposed into the UK's own rulebook will need to be agreed and consultations in this regard will continue throughout 2011. Given the threats to the investment company structure created by earlier drafts of the Directive, the AIC believes that the final version is a far more positive outcome for its members than might have been expected. The Board would like to thank the AIC for its continuing efforts to achieve the best outcome for its members and investment company stakeholders.

One event that could have a positive impact on the investment company industry in general is the implementation of the Financial Services Authority's Retail Distribution Review ('RDR'). Post 2012, in order to continue to practise, all retail financial advisers will be required to have obtained a high level professional qualification. Exam syllabuses will include content on investment trusts and other closed ended funds. As investment companies are designated retail investment products, independent advisors will be required to consider investment trusts and other closed ended funds alongside Open Ended Investment Companies and unit trusts which are more commonly used at present. Thus, RDR presents an opportunity for the industry to increase both the professional advisor's awareness of and appetite for closed ended funds as an attractive and cost effective investment option. Moreover, to the extent that it is our policy to invest actively in closed ended funds, a healthy and growing closed ended investment company sector would undoubtedly be in our shareholders' best interests.

Although the AIFM Directive and RDR represent the major regulatory changes currently impacting the Company, European regulators are becoming increasingly interventionist as the reaction to the financial crisis continues. Accordingly, it is likely that further changes to regulation and governance will impact on the activities of the Company in the years to come. Your Board will, as it has done previously, continue to monitor these changes and seek to minimise their impact on administrative costs, whilst embracing those changes to governance practice that are of value to the Company.

Outlook

Policy responses to the aftermath of the liquidity crunch and subsequent banking crisis of 2008/9 continue to influence the direction of financial markets. The unusual and unsustainable occurrence of a prolonged period of abnormally low interest rates and rising inflation appear to be the key drivers. Even unrest in the Middle East, the Japanese Tsunami and mounting debt problems in southern European countries have for the moment anyway failed to interrupt the general upward trend in equity prices and bubble like conditions in the commodity markets.

In spite of many economic and geopolitical uncertainties, our investment manager's defensive but pragmatic investment approach has, for the past twenty six years, produced an enviable and consistent record of positive returns for shareholders. In the context of our investment objective we believe we are well positioned to continue to produce satisfactory long term returns for shareholders.

Mr T R Pattison

24 May 2011

Investment Manager's Report

Review

As reported by the Chairman, the NAV increased by 7.5% over the year, consistent with the trust's absolute return investment objective. The FTSE All-Share increased by 5.9%, albeit with some marked volatility within the period. The pivotal event was the announcement of more quantitative easing (QE2), which reversed the first half slide in the equity and commodity prices and fuelled a dramatic second half rally. The bond markets reacted in a diametrically opposite fashion, with a strong first half of the year followed by a steepening of curve in the second half.

The largest weighting within the portfolio was to index linked bonds. These have been steady performers as the inflationary impact of excessively loose monetary policy has become apparent. However, the Sterling measured gains on the US Treasury Index Linked Securities (TIPS) were impacted by the Dollar's fall to its lowest trade weighted levels since the termination of the gold standard.

The German and Swiss nominal bonds performed strongly in the first half, allowing for some profit taking with the proceeds reinvested into Swedish index linked. In the second half most of the gains were lost with yields rising to similar levels to the start of the year. However, the key attraction of long dated Bunds was very evident throughout the year; their strong negative correlation with equity prices. This feature, combining the "free option" of a deflation hedge and the potential for a currency gain means that Bunds will continue to have a central place in the portfolio.

The equity portfolio performed well, ahead of the broader market and the FTSE Equity Investment Instruments Index (the old Investment Trust Index). Additions were made in private equity and hedge fund holdings, including Candover, Private Equity Investor and Tapestry, all of which are in liquidation and were acquired at good discounts. Profits were taken in trusts which had been re-rated (Blackrock Smaller, Aberdeen Asian Smaller and World Trust), and realisations occurred on the liquidation of Advance UK, Active Capital, Ceres and Aberdeen Development Capital. Gold performed well in the year, and we have modestly added to our position. The zero dividend preference share allocations were also increased, with pockets offering significantly better value than the fixed income markets.

The portfolio ends the year with a similar allocation to the start; defensively positioned with a primary focus on capital preservation. The unprecedented liquidity injection from quantitative easing is unsustainable and its dramatic effect on asset prices is likely to reverse when the tap is finally turned off. Quite how this process will impact the capital markets is very uncertain.

Outlook

Equity markets have held on to recent strength, but little progress has been made in resolving the imbalances that threaten financial stability around the world. There have been some improvements; the trade surplus in China disappeared in the first quarter of 2011 and the UK has begun to implement its austerity programme with less protest than might have been expected. Inflation, though, has accelerated as higher food, energy and commodity prices compound the pressures from overheating in emerging economies and the internal inconsistencies of the Eurozone are more and more apparent. Most importantly of all, aggregate levels of debt remain unsustainable, even with a greater proportion being shifted to governments.

Those debt ratios can be improved only by an extended period of high national savings or restructuring of the debt (aka default) or growing the denominator, nominal GDP, by accelerated inflation. In the Anglo-Saxon countries, the last seems to be the implicit choice.

In the UK, short real interest rates are between 3.5% and 4.8% negative, depending on the choice of inflation index. Yet monetary policy tightening is now not expected until the autumn and the forecast implicit in the index linked gilt curve of interest rates remaining below inflation for the next two years seems credible. Indeed, monetary policy is probably required to be accommodative as an offset to the austerity of the fiscal policy; the alternative might be a double dip recession. So far, inflation pressures have been supply led; oil, food and metal prices; rising taxes; reduced subsidies, e.g. train fares and university fees; and rising prices of goods imported from the emerging economies. Demand pull is not strong, as suggested by the tepid growth of M3. Narrow money, though, is growing strongly and it is a matter of time before velocity increases and that strength shows up in the broad money.

That story is mirrored in the US, with the difference being that fiscal policy is unsustainably loose, yet there is currently no plan to bring the deficits under control. QE2 is still in place. Unsurprisingly, the US Dollar has been weak; on a PPP basis it is now 15% cheaper against Sterling, but TIPS look good value in an uncertain world.

In currency markets, the country with the best value is Germany. That value will not be realised, of course, until Germany and the PIIGS do not share a currency; however, the strain of maintaining the current structure looks too strong to bear over the medium term. Northern politics and Southern austerity fatigue will likely combine to force a restructuring of the Euro. The timing is clearly unknown but such a move would give a good boost to our Bund holdings. In the event that the Euro does hold together, the outlook for the coming decade may resemble the last 20 years in Japan; low nominal growth and low interest rates.

With corporate profits around the world boosted by the huge stimulus to the American and Chinese economies, equity valuations look fair on a short term basis, but remain rich compared to cyclically adjusted p/e ratios and Tobin's 'q', the ratio of prices to book value. That high valuation at a time of macro uncertainty suggests that risk in the equity markets is high. The allocation to equities, including venture capital, funds of hedge funds and real estate, is therefore kept to around a quarter of the portfolio. Opportunities in investment trusts continue to be good and there is every reason to be confident that the equity portfolio will outperform the underlying asset classes.

Mr R P A Spiller
24 May 2011

Portfolio Analysis

Distribution of investment funds of £74,591,000 (2010: £68,309,000)

| | UK % | North America % | Europe % | Elsewhere % | 2011 Total % | 2010 Total % |
|---------------------------------|---------|-----------------------|-------------|----------------|--------------------|--------------------|
| Investment Trust Assets: | | | | | | |
| Ordinary shares | 11.3 | 3.0 | 4.9 | 7.6 | 26.8 | 19.8 |
| Endowment funds | – | – | – | – | – | 0.3 |
| Zero dividend preference shares | 13.3 | – | – | – | 13.3 | 12.2 |
| Other Assets: | | | | | | |
| Index linked | 9.7 | 17.4 | 6.0 | – | 33.1 | 33.4 |
| Fixed interest | 2.7 | – | 21.2 | – | 23.9 | 26.5 |
| Floating interest | – | – | – | – | – | 0.7 |
| Cash | 2.9 | – | – | – | 2.9 | 7.1 |
| | 39.9 | 20.4 | 32.1 | 7.6 | 100 | 100 |

Investments of the Company – Market value greater than £500,000 as at 5 April 2011

| | 2011 £'000 | 2010 £'000 |
|--|---------------|---------------|
| Investment Trust Ordinary Shares: | | |
| North Atlantic Smaller Companies | 2,183 | 1,619 |
| ETFs Metal Securities (physical gold) | 1,573 | 605 |
| Mithras Investment Trust | 1,143 | 943 |
| TR Property Investment Trust Sigma | 1,059 | 897 |
| SR European Investment Trust | 806 | 828 |
| Oryx International Growth Fund | 799 | 563 |
| London & St Lawrence Investment Company | 791 | 826 |
| Close European Accelerated Fund | 741 | 492 |
| Henderson Global Property Companies | 737 | 311 |
| Advance Developing Markets Subscription Shares | 672 | 455 |
| Renewable Energy Generation | 605 | 166 |
| Prospect Japan Fund | 548 | 467 |
| European Investment Trust | 529 | 494 |
| Jupiter Green Investment Trust | 507 | – |
| Strategic Equity Capital | 504 | 231 |
| Other: 35 investments (2010: 36 investments) | 6,782 | 4,850 |
| | 19,979 | 13,747 |
| Investment Trust Zero Dividend Preference Shares: | | |
| Utilico Finance 2012 | 1,777 | 1,685 |
| EW&PO Finance | 1,770 | 1,224 |
| EPIC Securities | 1,077 | 974 |
| M&G High Income Investment Trust | 960 | 754 |
| Utilico Finance 2016 | 616 | 560 |
| Jupiter Second Split Trust | 589 | 535 |
| F&C Private Equity Zeros | 580 | 257 |
| Premier Energy & Water Trust | 578 | 122 |
| Edinburgh New Income Trust | 517 | 500 |
| Other: 6 investments (2010: 6 investments) | 1,442 | 1,695 |
| | 9,906 | 8,306 |

Portfolio Analysis (continued)

Investments of the Company – Market value greater than £500,000 as at 5 April 2011 continued

| | 2011 £'000 | 2010 £'000 |
|---|---------------|---------------|
| Index Linked Securities: | | |
| Treasury 1.25% Index Linked 2017 | 4,500 | 2,393 |
| USA Treasury 1.75% Index Linked Bonds 2028 | 3,852 | 3,689 |
| USA Treasury 1.375% Index Linked Bonds 2018 | 2,954 | 2,870 |
| USA Treasury 2.0% Index Linked Bonds 2026 | 2,199 | 2,104 |
| Germany (Federal Republic) 1.75% Index Linked 2020 | 2,110 | – |
| Treasury 1.25% Index Linked 2027 | 1,781 | – |
| Sweden (Kingdom of) 3.5% Index Linked Bonds 2028 | 1,596 | 719 |
| USA Treasury 2.0% Index Linked Bonds 2016 | 1,514 | 2,931 |
| Canada (Govt of) 4.0% Index Linked 2031 | 1,256 | 1,192 |
| USA Treasury 3.625% Index Linked Bonds 2028 | 1,083 | 1,061 |
| Treasury 2.5% Index Linked 2016 | 954 | 908 |
| Sweden (Kingdom of) 4.0% Index Linked Bonds 2020 | 780 | – |
| Treasury 2.5% Index Linked 2013 | – | 4,489 |
| Other investments: 1 investment (2010: 2 investments) | 106 | 475 |
| | 24,685 | 22,831 |
| Fixed Interest Securities: | | |
| Switzerland (Govt of) 3% Bonds 2018 | 3,599 | 3,428 |
| Germany (Federal Republic) 4% Bonds 2037 | 3,316 | 684 |
| Germany (Federal Republic) 4.75% Bonds 2028 | 2,900 | 3,022 |
| Switzerland (Govt of) 2% Bonds 2014 | 2,401 | 4,281 |
| Germany (Federal Republic) 4.75% Bonds 2034 | 1,077 | 1,114 |
| France (Govt of) 5.5% OAT 2029 | 1,024 | 3,218 |
| The Cayenne Trust 3.25% Convertible Unsecured Loan Stock 2016 | 824 | 798 |
| Switzerland (Govt of) 2.5% Bonds 2036 | 693 | 652 |
| Standard Life UK Smaller Companies Trust 3.5% Convertible Unsecured Loan Stock 2018 | 572 | – |
| Other investments: 6 investments (2010: 4 investments) | 1,464 | 930 |
| | 17,870 | 18,127 |
| Floating Interest: | | |
| Smith & Williamson Investment Funds (cash) | – | 451 |
| | | |
| Total investments | 72,440 | 63,462 |
| Cash held by the custodian awaiting investment | 2,151 | 4,847 |
| | | |
| Total investment funds | 74,591 | 68,309 |

A full portfolio listing as at 5 April 2011 can be found on the Company's website at www.capitalgearingtrust.com.

Report of the Directors

The Directors present their Report, Business Review, Corporate Governance Statement and the Audited Financial Statements of the Company for the year ended 5 April 2011.

a) Status

The Company is an investment trust as defined by Section 833 of the Companies Act 2006 and operates as such in accordance with Chapter 4 of Part 24 of the Corporation Tax Act 2010 ('CT Act'). This legislation provides conditions that the Company must meet in respect of each accounting period that it seeks to be classed as an investment trust. A breach of Chapter 4 could lead to the Company being subject to capital gains tax on its investments. HM Revenue and Customs approval of the Company's status as an investment trust has been received for the year to 5 April 2010; this is however subject to review should there be any enquiry under Corporation Tax Self Assessment. The Directors are of the opinion that the Company has met the conditions set out in Chapter 4 of Part 24 of the CT Act and continues to conduct its affairs in a manner which will enable it to continue to meet these conditions. The Board in conjunction with the Investment Manager reviews compliance with Chapter 4 of Part 24 of the CT Act in addition to other financial and regulatory requirements.

b) Business Review and Principal Risks

The Business Review has been prepared in accordance with the requirements of Section 417 of the Companies Act 2006. A review of the year's activities and an indication of future policy are given in the Chairman's Statement and Investment Manager's Report. The principal risks and uncertainties facing the Company are detailed below and in the notes to the financial statements. The very nature of forward looking statements involves uncertainty as events beyond the control of the Company may affect actual results. Performance and results may therefore differ from the plans and objectives of the Company; neither the Directors, nor the Company take responsibility for matters outside of its control.

Investment Objective

The investment objective and policy are monitored to ensure continued investor interest and for consideration of continuation of the Company in its present form. Investment performance is monitored and the Investment Manager presents a report to each Board meeting for consideration and discussion.

Premium/Discount Level

The Board regularly reviews the level of premium/discount and, in the event of prolonged trading at a discount, consideration is given to enhancement strategies for the share price. The Board operates an informal discount control mechanism and will buy in shares as and when necessary to manage the discount at an appropriate level.

Stock Price

Uncertainty of future stock prices presents a risk in relation to potential losses on market positions held. The Board, with the Investment Manager, considers asset allocation on a regular basis to minimise potential risks where possible.

Shareholder Register

The Board reviews all large transactions and periodically considers a full shareholder analysis. In the event of activist shareholders being attracted onto the Register, the Board would be able to consider quickly whether any action was required.

Other Risks

Risks associated with the Company's financial instruments include market price, interest rate, foreign currency and credit; information relating to such risks is given in note 19 to the financial statements on pages 31 to 35. Other risks are identified and managed by the Company's internal control system, which is summarised on page 14.

Social, Community and Environmental Matters

The Company does not have any employees. The Company invests primarily in closed ended and other collective investment vehicles with the objective of achieving capital growth. The Board is of the opinion that the underlying investee companies have policies to act with due regard to community, welfare and environmental factors and do not therefore intervene in these areas.

Political and Charitable Contributions

No contributions were made during the year for political or charitable purposes (2010: nil).

Key Performance Indicators ('KPIs')

The Board monitors numerous KPI indices and ratios for the purpose of assessing and reporting investment performance. The Chairman, in his statement, has summarised performance of the Company's net asset value ('NAV') per share for the year to 5 April 2011 and has compared this year's capital growth (in absolute terms) against the FTSE Equity Investment Instruments Index, the FTSE All-Share Index and the FTSE Government All Stocks Index. He also describes the earnings per share and dividends paid for the year.

A graph showing the Company's NAV per share compared with the FTSE Equity Investment Instruments Index over the period from 1982 is shown on page 2. A comparison of the Company's share price total return over the last five years, compared with the FTSE Equity Investment Instruments Index which reflects the performance of similar companies, is shown on page 18.

In addition, the Board monitors the following additional KPIs:

- Share price premium/discount to NAV, an important measure of demand for the Company's shares and a key indicator of the need for shares to be bought back (if discount to NAV is high) or issued (if share price is at a premium to NAV). At the start of the year under review the premium to NAV was 6.6% compared with 17.4% at the year end.
- Total expense ratio, which enables the Board to measure the control of costs and help in meeting the dividend payment objective. The ratio of operating expenses to net assets was 1.4% for the year to 5 April 2011 (2010: 1.4%).

Report of the Directors (continued)

Investment Policy

Policy & Risk

The Company's objective is to achieve capital growth in absolute terms rather than relative to a particular stock market index. The preservation of shareholders' wealth is an important consideration in fulfilling this objective and has a strong underlying influence on the Company's investment policy.

To meet its objective, the Company's investment policy is to invest primarily in quoted closed ended and other collective investment vehicles, invested in equities or property, with a willingness to hold cash, bonds, index linked securities and commodities when appropriate.

Recognising the diverse attributes of most closed ended investment companies and collective investment instruments, as well as the lower risk characteristics attached to the other principal asset classes in which the Company invests, a flexible approach to asset allocation is adopted.

Asset Allocation

A maximum (100%) exposure to each of the asset categories mentioned above is allowable, provided that such exposure is deemed to be in the best interests of shareholders in achieving the Company's objective. Such extreme positions are however unlikely and subject to Board approval. It is anticipated that under most market conditions a broad mix of assets is likely to continue to be maintained and a maximum 80% exposure to either equity or fixed interest securities, including index linked and cash, may be held before requiring Board consideration and approval.

The maximum proportion of the Company's gross assets that can be held in other UK listed investment companies, which do not have a stated investment policy to invest no more than 15% of their gross assets in other UK investment companies, is 10%.

The Manager has the authority to invest in any geographical region and has no set limits on industry sector or country exposure. However, the Company will not invest more than 15% of its investment portfolio in any single investment on acquisition without prior Board approval.

Gearing

The gearing range of the Company at any one time shall be between 0% and 20% of NAV at the time of acquisition. Gearing in excess of the maximum range will be subject to prior Board approval.

Additional Elements

The Board from time to time will consider investments in relation to derivatives such as guarantees, options and currency. Such investments may only be made for the purpose of efficient portfolio management and are subject to prior approval from the Board, which will only be given following an in-depth review of the investment, the potential return for shareholders and the regulatory impact to the Company. Additionally, investments in CG Asset Management Limited ('CGAM') managed funds or associates of CGAM will be considered by the Board on a case by case basis and are subject to prior Board approval.

Net Asset Value

At 5 April 2011 the net assets per 25p Ordinary Share of the Company amounted to 2,652.8p, as compared with a figure of 2,467.4p as at 5 April 2010.

Results and Dividend

The revenue return for the financial year was £559,000 (2010: £666,000).

The Directors recommend the payment of a dividend of 18.5p per Ordinary Share for the year ended 5 April 2011, made up of 15.5p plus a special dividend of 3.0p (2010: a total of 22.5p, made up of 15.0p plus a special dividend of 7.5p) amounting to £527,000 (2010: £629,000) for approval by shareholders at the forthcoming Annual General Meeting. The dividend will be payable on 11 July 2011 to shareholders on the Register of Members on 3 June 2011, the associated ex-dividend date being 1 June 2011. Under FRS 21 final dividends should not be accrued in the financial statements unless they have been approved by shareholders before the balance sheet date. As such, the amount recognised in the 2011 financial statements comprises the 2010 final dividend.

Creditor Payment Policy

Whilst following no formal code, it is the Company's policy to settle all its investment transactions within the time frames indicated in the markets in which it operates, generally within one week of the transaction. Other expenses are paid within 30 days in the normal course of business or under agreed terms with suppliers. At the year end, creditors represented 67 days (2010: 69 days).

Going Concern

The Company's business activities and financial position, together with factors likely to affect its future performance, are set out in the Financial Highlights, Chairman's Statement, Investment Manager's Report and the Business Review. In addition, note 19 to the financial statements details the Company's financial instruments and its exposure to market price, interest rate, foreign currency, liquidity and credit risk. The Directors believe that the Company is well placed to manage its business risks in the foreseeable future.

The Directors consider that the Company has adequate resources, an appropriate financial structure and suitable arrangements in place to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Report of the Directors (continued)

Management and Contracts

Investment Manager

The Company's investments are managed by CG Asset Management Limited ('CGAM') under an agreement dated 27 April 2001, which is terminable on 12 months notice. Under this agreement, CGAM receives an annual investment management fee of 0.85% of the gross assets of the Company based on quarterly valuations and payable quarterly in arrears, as detailed in note 3 to the financial statements on page 27. In the event of termination of the agreement otherwise than at the end of a quarter, the Company shall pay to the Investment Manager a due proportion (pro-rated based on the time remaining in the period) of the fee for the period ended on the termination of the agreement, calculated by reference to the gross assets of the Company as at the date of termination. No other compensation would be payable in the event of termination.

The Investment Manager operates under an investment policy and guidelines drawn up by the Board as detailed on page 9. Any proposed deviation from the policy is required to be discussed with and agreed by the Board, or by the Chairman where authority is required between Board meetings. In addition, the Investment Manager presents a report at each Board meeting detailing compliance with the policy during the preceding quarter and outlining any instances where approval for investment decisions was sought from either the Board or the Chairman.

Performance, Evaluation and the Continuing Appointment of the Investment Manager

The performance of the Investment Manager during the year and the contractual arrangements with the Investment Manager were discussed at a Board meeting in May 2011, along with a formal evaluation completed by all independent Directors. Mr Spiller, as representative of the Investment Manager, was not present during the course of the discussion.

In reviewing the Investment Manager's performance, the Directors take the following into consideration:

- adherence to the pre-agreed investment policy and guidelines as prescribed by the Board;
- whether the strategy adopted by the Investment Manager has been and continues to be consistent with the aim of providing growth in net asset value in absolute terms;
- the asset value performance achieved in the year under review as well as over the longer term and whether this has satisfied the investment objectives as communicated to shareholders;
- performance comparison to a selected peer group; and
- compliance and administration competence.

Based on investment performance over the year, the independent Directors concluded that the continuing appointment of the Investment Manager on the existing terms was in the best interests of the shareholders as a whole.

Custodian and Administrator

Smith & Williamson Investment Management Limited ('S&W') were appointed in 2006 to provide custodial and administrative services in relation to the portfolio. Under this agreement, S&W receive an annual portfolio management fee of 0.1% based on quarterly portfolio valuations. Additionally, S&W receive an administration fee of £12.50 per trade (£50.00 for overseas stocks) plus 0.125% commission on the full consideration. Details of the fees paid to S&W are given in note 4 to the financial statements on page 27. Termination of the agreement requires 3 months written notice.

Company Secretarial and Accounting Services

TMF Corporate Secretarial Services Limited and TMF Management (UK) Limited (collectively 'TMF') were appointed by the Company in 2007 to provide company secretarial and accounting services. Under this agreement, which may be terminated on 3 months written notice, TMF receive an annual compliance fee exclusive of VAT of £46,500* for company secretarial services and £31,460 for accounting services. Further fees may be payable for additional work undertaken during the year. Details are given in note 4 to the financial statements on page 27.

*The annual compliance fee, exclusive of VAT, for company secretarial services was increased with effect from 1 July 2010 from the previous fee of £44,100.

c) Corporate Governance Statement

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance ('AIC Code'), by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the 2008 Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board continues to consider that reporting in accordance with the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), will provide better information to shareholders. Copies of the AIC Code and the AIC Guide can be found at www.theaic.co.uk and the Combined Code at www.frc.org.uk.

The fourth edition of the AIC Code, endorsed by the Financial Reporting Council ('FRC') in February 2009 and issued to members in March 2009, is applicable to the year under review.

In May 2010 the FRC published the new UK Corporate Governance Code which is effective for accounting periods commencing on or after 29 June 2010, following which the AIC published a fifth edition of its AIC Code and an updated version of its AIC Guide. The Company will report against these updated codes in the 2012 Report and Accounts.

Report of the Directors (continued)

The following table demonstrates how the principles of the 2009 AIC Code have been applied and explains those recommendations which were not complied with during the year.

The Combined Code includes provisions relating to the role of the chief executive and executive directors' remuneration. For the reasons set out in the AIC Guide, and in the preamble to the Combined Code, the Board considers that these provisions are not relevant to the position of the Company as an externally managed investment company with no employees and has therefore not reported further in respect of these provisions.

| Principle | Company Compliance |
|-----------|--------------------|
|-----------|--------------------|

The Board

1. The chairman should be independent.

Mr T R Pattison is the Chairman of the Board. The results of the annual performance and independence evaluation of the Chairman were discussed at a meeting of the Board on 18 May 2011. The Chairman was not present during the course of this discussion.

The Board considers that the Chairman remains independent of the Investment Manager despite the fact that he has served on the Board for more than nine years, as he continues to act with independent judgement and to represent the interests of shareholders as a whole.

Mr E G Meek is the Senior Independent Director ('SID') and is available to shareholders if they have concerns which contact through the normal channel of Chairman has failed to resolve or for which such contact is inappropriate. Mr E G Meek replaced Mr J C Morton as SID following the latter's retirement at last year's AGM.

2. A majority of the board should be independent of the manager.

The Board comprises four Non-Executive Directors and, with the exception of Mr R P A Spiller, all of the Directors are considered to be independent of the Company's Investment Manager and independent in both character and judgement. Independence questionnaires are completed annually by each of the Directors, other than Mr R P A Spiller, and reviewed by the Chairman and then the Board as a whole.

Guidelines in respect of how the Board should determine whether a Director is deemed to be independent are detailed in the Combined Code. The AIC Code, however, supports the Board having flexibility in determining appropriate limits on length of service whilst recognising the need to review the level of skills and enthusiasm on the Board.

The Board does not adhere to the theory that length of service prevents a Director from remaining independent and acting independently of others and supports Principle 2 of the AIC Code which allows Directors, including the Chairman, who have served in excess of nine years, to continue to be classed as independent.

3. Directors should be elected for a fixed term of no more than three years. Nomination for re-election should not be assumed but be based on disclosed procedures.

Directors are initially appointed for a three-year term following which they are subject to re-election by shareholders at the intervals specified in the Company's Articles of Association and in accordance with good corporate governance practice.

Board support for re-election is not assumed but is based on the outcome of an annual performance evaluation. The performance of each Director and nominations for re-election are discussed by the Board as a whole in the absence of the Director in question.

Subject to annual re-election and the need to refresh its membership from time to time, the Board is of the opinion that the term of office of individual Directors should be determined by the Board's judgement of their continuing effectiveness and performance.

Directors (including the Chairman) who have served for more than nine years are subject to annual re-election. Details of the Directors seeking re-election at this year's AGM can be found on page 15.

4. The board should have a policy on tenure, which is disclosed in the annual report.

No limit is placed on the age or length of service of the Directors by the Board or by the Articles of Association of the Company. The Board does not consider that age or tenure should prevent a Director from being regarded as independent from the Investment Manager.

5. There should be full disclosure of information about the board.

The Directors' biographies can be found on page 3 and details of their interests in shares and meeting attendance can be found on pages 15 and 16, respectively. The Directors' Remuneration Report is set out on page 18. The Board has established an Audit Committee but due to the small size of the Board does not feel it necessary to establish separate Remuneration, Nomination or Management Engagement Committees; the functions of the latter three are carried out by the Board as a whole.

6. The board should aim to have a balance of skills, experience, ages and length of service.

The independence, contribution and performance of each member of the Board is evaluated annually and the process incorporates discussion on the composition and balance of the Board.

The Directors believe that the Board displays the necessary balance of skills and experience.

Report of the Directors (continued)

| Principle | Company Compliance |
|--|--|
| <i>7. The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.</i> | <p>On an annual basis each Director completes an evaluation questionnaire covering the actions of individual Directors, the Board as a whole, the Audit Committee and, in general, the actions of the Board in conjunction with its advisers. Additionally, all independent Directors complete an evaluation of the Investment Manager. Within the evaluation process each Director has the opportunity to raise concerns for the Board to take action on.</p> <p>Following completion and summarising by the Company Secretary, the Board as a whole considers the evaluation results and discusses areas for improvement or change.</p> <p>The performance evaluation as detailed above was carried out in May 2011 in respect of the year ended 5 April 2011.</p> |
| <i>8. Director remuneration should reflect their duties, responsibilities and the value of their time spent.</i> | <p>The Board as a whole reviews the Directors' remuneration annually. A peer group comparison and consideration of activity during the period is used to benchmark remuneration. A full report on Directors' remuneration is given on page 18.</p> |
| <i>9. The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the annual report.</i> | <p>As the Board is small there is no formal Nomination Committee and appointments of new Directors are considered and voted on by the Board as a whole. When appropriate, the Directors are invited to submit nominations and external advisors may be used to help identify potential candidates for consideration by the Board.</p> |
| <i>10. Directors should be offered relevant training and induction.</i> | <p>On appointment, each Director is provided with a summary of the responsibilities and duties of directors, together with relevant background information on the Company and appropriate training is arranged where this is considered necessary.</p> <p>In addition, each of the Directors is encouraged to seek ongoing training opportunities, both in relation to their office with the Company and otherwise.</p> <p>The Board has an established procedure whereby Directors, in the furtherance of their duties, may seek independent professional advice at the Company's expense. All Directors have access to the advice and services of the Company Secretary.</p> |
| <i>11. The chairman (and the board) should be brought into the process of structuring a new launch at an early stage.</i> | <p>Not applicable to the Company at present.</p> |

Board Meetings and the Relationship with the Manager

| | |
|---|--|
| <i>12. Boards and managers should operate in a supportive, co-operative and open environment.</i> | <p>The Board meets at least quarterly and additionally as necessary to review the overall business of the Company and to consider the matters specifically reserved for it to decide on. Detailed information is provided by the Investment Manager, Portfolio Administrator and Company Secretary at each meeting, which enables the Directors to monitor the investment performance of, and other matters of relevance to, the Company. Details of the number of Board and Committee meetings held during the financial year and the attendance record of each Director is shown on page 16.</p> |
| <i>13. The primary focus at regular board meetings should be a review of investment performance and associated matters such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues.</i> | <p>At each Board meeting the Investment Manager presents an update on the investment performance of the Company and a report detailing compliance with the investment policy and guidelines during the preceding period, outlining any instances where approval for investment decisions was sought from either the Board or the Chairman.</p> <p>The Directors review the Company's activity over the period to ensure it adheres to its investment policy or, if it is considered appropriate, to authorise any change in policy.</p> <p>The Company Secretary and other advisors, as appropriate, assist the Chairman in his responsibility for ensuring the Directors receive accurate, timely and clear information including updates on investor relations, industry related issues and the activities of the Company's peer group.</p> <p>The Company Secretary attends all Board and Committee meetings and advises the Board, through the Chairman, on all matters relating to Board procedures and corporate governance.</p> |

Report of the Directors (continued)

| Principle | Company Compliance |
|---|--|
| <i>14. Boards should give sufficient attention to overall strategy.</i> | The Board discusses the performance and position of the Company at every Board meeting. Investment strategy and policy and the continuation of the Company are regularly discussed. |
| <i>15. The board should regularly review both the performance of, and contractual arrangements with, the manager (or executives of a self-managed company).</i> | <p>The Board has not established a Management Engagement Committee. The performance of and contractual arrangements with the Investment Manager are considered annually and discussed by the Board as a whole. Mr Spiller, as representative of the Investment Manager, is not present during the discussions.</p> <p>Details of the items considered in the evaluation of the Investment Manager and the rationale for the continuance of the contract can be found on page 10.</p> |
| <i>16. The board should agree policies with the manager covering key operational issues.</i> | <p>The Investment Manager operates under an investment policy and within guidelines drawn up by the Board. The guidelines set out parameters within which the Investment Manager operates, including the overall investment strategy of the Company. Any proposed deviation from the guidelines is required to be discussed with and agreed by the Board, or by the Chairman on behalf of the Board where authority is required between Board meetings.</p> <p>The Investment Manager reports at every Board meeting on the performance of the Company and submits a statement of compliance with the investment policy. The Board monitors the Investment Manager's performance and adherence to the policy, and regularly discusses the investment strategy of the Company.</p> <p>Unless specifically directed by the Board, the Investment Manager has the authority to vote the shares held in investee companies in the best interests of the Company and will bring to the attention of the Board any matters requiring direction or of a contentious nature. The Investment Manager broadly supports the principles of the Financial Reporting Council's Stewardship Code and a statement of its position on each of the seven principles of the Stewardship Code can be found on its website, www.cgasset.com.</p> |
| <i>17. Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.</i> | The Board considers the performance of the Company's shares and the portfolio at every Board meeting and considers any actions required to improve performance. The Board operates an informal discount/premium control mechanism whereby major market supply and demand imbalances are satisfied by either the issuance of shares at a premium to net asset value or buying back shares at a discount. During the year, in pursuance of this mechanism, 53,000 shares were issued at a premium to net asset value. Further details can be found under the 'Other Statutory Information' section on page 16. |
| <i>18. The board should monitor and evaluate other service providers.</i> | <p>The Board has engaged external firms to undertake the secretarial, accounting, registration and custodial activities of the Company, and has delegated authority to them.</p> <p>The Board has considered fully the services offered and the internal control system of each provider prior to entering into the contracts. The Board evaluates annually the external firms to ensure that services delegated are being performed satisfactorily, effectively and competitively.</p> |

Shareholder Communications

| | |
|--|---|
| <i>19. The board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the board's views to shareholders.</i> | <p>The Board reviews large transactions within the shareholder register as they occur and at Board meetings where required. All shareholders have the opportunity to attend and vote at the Annual General Meeting, during which the Investment Manager makes a presentation and the Directors are available to discuss key issues affecting the Company.</p> <p>Informal communications with major shareholders continue to be maintained by the Chairman and/or Investment Manager in order that the Board has an understanding of their views on the Company. In addition, each of the Directors, including the Investment Manager, is always available to discuss issues of concern raised by any of the shareholders.</p> <p>Shareholders and others may contact the Company and/or its service providers via the Company's website, www.capitalgearingtrust.com.</p> <p>Separate resolutions are proposed at general meetings for each item of business and the proxy card allows for shareholders to withhold their vote. The results of the proxy votes received in respect of each resolution proposed are announced at the meeting and published on the Company's website after the meeting.</p> |
|--|---|

Report of the Directors (continued)

| Principle | Company Compliance |
|--|--|
| <i>20. The board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman.</i> | The Board is directly involved in and responsible for communications on major corporate issues. |
| <i>21. The board should ensure that shareholders are provided with sufficient information for them to understand the risk:reward balance to which they are exposed by holding the shares.</i> | <p>The Annual and Half-Year Reports are posted to all shareholders and are also available to view on the Company's website along with the Interim Management Statements and the full portfolio list at each year end.</p> <p>The Annual Report sets out the responsibilities reserved for the Board and those delegated to the Investment Manager and records the Board's consideration of the performance of the Investment Manager over the year.</p> <p>The Board has decided to continue to publish via a regulatory information service a monthly portfolio update as it is considered to be a useful update for shareholders and others taking an interest in the Company.</p> |

Other Governance

The Company has neither executive directors nor any employees. A formal whistleblowing policy has therefore not been adopted; however, the Board has agreed a procedure through which any of the Directors or employees of external service providers can bring to the attention of the Chairman or Senior Independent Director matters of concern to them. The Company has adequate Directors' and Officers' Liability Insurance in place for all Directors which is reviewed annually. The Company's Articles of Association also provide the Directors with a qualifying third party indemnity provision, consistent with the applicable statutory provisions, in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgements in their favour are given by the court. The qualifying third party indemnity provision was in force throughout the financial year and at the date of approval of the Annual Report.

Internal Control

The Directors acknowledge that they are responsible for ensuring that the Company's activities are subject to a system of internal control and for reviewing its effectiveness. These controls aim to ensure that the assets of the Company are safeguarded, proper accounting records are maintained, and the financial information used within the business and for publication is reliable. Whilst acknowledging this responsibility they also recognise that the existence of a system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board has established procedures necessary to implement the requirements of the Combined Code relating to internal control as reflected in the Turnbull guidance. The Board has established a continuous process for identifying, calculating and managing significant risks faced by the Company. This process has been in place for the year under review and up to the date of approval of the Annual Report and is subject to an annual review by the Board, which includes a review of internal controls by the Audit Committee. This process includes written agreements with service providers and procedures for reviewing in detail the Annual and Half-Year Reports produced by the Company. The Board also utilises a risk map to assist it in monitoring and mitigating the risks faced by the Company. The risk map, which covers all risks that the Company faces including financial, regulatory, reputational and the risks faced by the loss of key personnel, is subject to review and, where necessary, revision at least annually.

In common with the majority of investment trusts, the Board has decided that the most effective way to manage the Company is for the Directors to determine investment strategy and for the day to day administration, detailed investment decisions and custodial functions to be delegated to organisations which are specialists in these areas and which can provide, because of their size and specialisation, economies of scale, segregation of duties and all that is required to provide proper systems of internal control, within a regulated environment. These organisations maintain their own systems of internal control.

The Board receive where appropriate from relevant service providers a report on their internal controls, control policies and procedures in operation. For this reason and because the Company itself has no employees, it does not have an internal audit function. The Board will continue to monitor the effectiveness of the system of internal control on an ongoing basis in order to provide assurance that it operates as intended and the Audit Committee review annually whether an internal audit function is required. The system of internal control was in place throughout the year and up to the date of approval of this report. The Board confirms that no significant failings or weaknesses were identified from the ongoing review of the effectiveness of internal controls during the year.

Matters Reserved for the Board

There is a formal schedule of matters reserved for the Board which includes inter alia specific duties in relation to the final approval of the annual and half year financial statements and other statutory requirements, performance evaluation of Directors and service providers, matters of a stock exchange or internal control nature and areas of investment strategy, performance and management.

Report of the Directors (continued)

Audit Committee

The Company has a separate Audit Committee consisting of Mr G A Prescott (Chairman), Mr T R Pattison and Mr E G Meek. Mr Prescott assumed the chairmanship of this Committee on 7 July 2010 following the retirement of Mr J C Morton. The Board considers that Mr Prescott has sufficient and relevant financial experience and that each member of the Audit Committee meets the independence requirements. The Board also considers that Mr Morton met the requisite requirements for experience and independence during the part of the year in which he was a member of the Committee.

The Terms of Reference of the Committee are available on request from the Company Secretary and are also available on the Company's website at www.capitalgearingtrust.com. The Committee meets with the Auditors to consider any matters arising from the financial statements or the audit and meets at least once a year with the Company's Auditors without the presence of the Investment Manager. The main duties of the Audit Committee that have been delegated by the Board are:

- reviewing the integrity of the financial statements and related announcements;
- reviewing the Company's internal control and risk management systems; and
- reviewing the appointment and remuneration of the Auditors, together with the Auditors' objectivity and independence including the provision by them of any non-audit services.

The non-audit services provided by the Auditors relate to taxation services and their review of the Half-Year Report. Considering the nature of these services and the safeguards put in place by the Auditors, these services do not, in the opinion of the Board, compromise the independence of the audit team. The proposed provision of any other non-audit services would be considered on a case by case basis by the Audit Committee.

Compliance with the Recommendations of the AIC and Combined Codes

Subject to the exceptions explained in the foregoing table and paragraphs, during the financial year the Company has complied with the recommendations of the 2009 AIC Code and the relevant provisions of Section 1 of the 2008 Combined Code.

Directors and their interests

The Directors in office during the year under review and the number of shares in the Company over which they held an interest are listed below. Biographical details of each Director can be found on page 3.

| | Ordinary shares of 25p each | |
|---|-----------------------------|--------------|
| | 5 April 2011 | 5 April 2010 |
| Mr T R Pattison Non-Executive Chairman | 2,430 | 2,430 |
| Mr G A Prescott Non-Executive Director | Nil | Nil |
| Mr E G Meek Senior Independent Non-Executive Director* | 11,834 | 11,834 |
| Mr R P A Spiller Non-Executive Director and Investment Manager | 305,671 | 305,671 |
| Mr J C Morton Senior Independent Non-Executive Director (until his retirement on 7 July 2010) | **4,000 | 4,000 |

*Mr E G Meek was appointed as the Senior Independent Director following the retirement of Mr J C Morton on 7 July 2010.

**Number of shares in the Company over which an interest was held as at 7 July 2010.

There were no changes in the Directors' interests in the shares of the Company during the period 6 April 2011 to 24 May 2011. No Director was granted options over any shares in the Company. No Director has a service contract with the Company.

Retirement and Re-election of Directors

The following Directors will retire at the forthcoming AGM, and, being eligible, will be proposed for re-election.

Mr T R Pattison offers himself for re-election in accordance with Principle 3 of the AIC Code as he has served as a Director for more than nine years.

Mr R P A Spiller offers himself for re-election in accordance with Principle 2 of the AIC Code as he is an employee of the Investment Manager, CG Asset Management Limited ('CGAM').

Mr E G Meek offers himself for re-election in accordance with the retirement by rotation provisions contained in the Company's Articles of Association.

After due consideration of the results of the performance evaluation, the Chairman and the Board confirm that they are content that the performance of the Directors seeking re-election continues to be effective and demonstrates commitment to the role, including the necessary commitment of time for Board and Committee meetings and other duties as are required. The Board believes that the re-election of the above named Directors is in the best interests of the Company and its shareholders.

Report of the Directors (continued)

Directors' Meeting Attendance

The number of meetings held during the year from 6 April 2010 to 5 April 2011 and the Directors' attendance is detailed below:

| | Board (7)** | Audit Committee (3) |
|------------------|----------------|---------------------------|
| Mr T R Pattison | 7 | 3 |
| Mr G A Prescott | 4 | 3 |
| Mr E G Meek | 4 | 3 |
| Mr R P A Spiller | 6 | N/A |
| Mr J C Morton* | 3 | 1 |

*Mr J C Morton retired as a Director of the Company on 7 July 2010.

**Three telephone board meetings were held during the year; two to ratify the issuance of shares and one to ratify the amendment of the Company's banking mandate. The attendance of all Directors was not required at these meetings.

All Directors in office at the time attended the 2010 Annual General Meeting.

Substantial Shareholders

At 24 May 2011, the following interests in voting rights had been notified to the Company in accordance with the provisions of the Disclosure and Transparency Rules of the Financial Services Authority:

| | Number of Ordinary Shares | Percentage of Issued Share Capital held |
|-------------------------------------|------------------------------|---|
| Smith & Williamson Holdings Limited | 282,616 | 9.9% |
| Mr R P A Spiller | 207,431 | 7.3% |
| Cazenove Capital Management Limited | 168,791 | 5.9% |
| Mrs D Spiller | 98,240 | 3.4% |

Other Statutory Information

The following information is disclosed in accordance with the Companies Act 2006:

- The Company's share capital comprises Ordinary Shares of 25p each nominal value. The voting rights of the Ordinary Shares on a poll are one vote for each share held. As at 5 April 2011, 2,847,906 Ordinary Shares were in issue (2010: 2,794,906). During the financial year 53,000 Ordinary Shares were issued as follows: On 6 August 2010, 40,000 shares with an aggregate nominal value of £10,000 were issued to JP Morgan Securities Ltd for a total consideration of £1,130,000. The market price of the shares on 6 August 2010, which was the date on which the terms of issue were fixed, was 2,855.0p per share. On 18 March 2011, 11,000 shares with an aggregate nominal value of £2,750 were issued to JP Morgan Securities Ltd for a total consideration of £330,550 and 2,000 shares with an aggregate nominal value of £500 were issued to Winterflood Securities Ltd for a total consideration of £60,100. The market price of the shares on 18 March 2011, which was the date on which the terms of issue were fixed, was 3,002.5p per share. The shares as detailed above were issued to the nominee companies recorded on behalf of various investors.
- In respect of the Company's shares, there are no:
 - (i) restrictions on the transfer of or in respect of the voting rights of the Company's shares;
 - (ii) agreements, known to the Company, between holders of securities regarding the transfer of such shares; and
 - (iii) special rights with regard to control of the Company attaching to any such shares.
- Details of the significant direct or indirect holdings of the Company's shares are shown in the substantial shareholders table above.
- The rules on the appointment and replacement of the Directors are set out in the Company's Articles of Association (the 'Articles'). Any change to the Articles would be governed by the Companies Act 2006.
- Subject to the provisions of the Companies Act 2006, the Articles, and to any directions given by special resolution, the business of the Company shall be managed by the Directors who may exercise all the powers of the Company. The powers shall not be limited by any special power given to the Directors by the Articles and a meeting of the Directors at which a quorum is present may exercise all powers exercisable by the Directors. The Directors' powers to issue and buy-back shares, in force at the year end, are recorded on page 17.
- There are no agreements:
 - (i) to which the Company is a party that might affect its control following a takeover bid, and/or;
 - (ii) between the Company and its Directors concerning compensation for loss of office.

Report of the Directors (continued)

d) Annual General Meeting ('AGM')

The following information is important and requires your immediate attention. If you are in any doubt as to the action you should take, you are recommended to seek advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all your Ordinary Shares in the Company, please send this document, but not the accompanying form of proxy, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser.

The AGM of the Company will be held on Tuesday, 5 July 2011 at 11.00 a.m. at the offices of Smith & Williamson Investment Management Limited, 25 Moorgate, London EC2R 6AY. The formal notice of such is set out on pages 36 to 38. Resolutions relating to the items of special business as detailed below will be proposed at the AGM.

Resolution 9 – Authority to allot shares and Resolution 10 – Authority for the disapplication of pre-emption rights

At the AGM held on 7 July 2010 ('2010 AGM'), the Directors were given the authority until the date of the next AGM to allot up to 1,205,094 Ordinary Shares and to disapply pre-emption rights in respect of up to 10% of these shares. During the financial year, 53,000 Ordinary Shares were allotted in pursuance of these authorities and the Board's informal discount/premium control mechanism.

At this year's AGM, the Directors are seeking authority to allot up to 949,302 Ordinary Shares, in aggregate a nominal value of £237,325.50, representing one third of the issued share capital at the date of this report. The Directors are also seeking to disapply pre-emption rights in respect of the allotment of up to 10% of the issued share capital of the Company (equivalent to 284,790 Ordinary Shares with an aggregate nominal value of £71,197.50 at the date of this report), including any shares which have been bought back for holding as treasury shares.

Whilst recognising that Institutional Investor Guidelines recommend non pre-emptive issues be not more than 5% of issued share capital, the Board recommends a maximum of 10% since it feels this will give added flexibility, and will be more cost effective.

Resolution 11 – Authority to make market purchases of the Company's own shares

At the 2010 AGM, the Directors were given the authority until the date of the next AGM to buy-back up to 418,956 Ordinary Shares (14.99% of the issued share capital at the date of the 2010 AGM). This authority was not exercised during the financial year and so remained in force at 5 April 2011.

At this year's AGM, the Directors are seeking authority to buy-back up to 426,901 Ordinary Shares (14.99% of the issued share capital at the date of this report) for cancellation or holding up to 10% in treasury, for re-sale into the market during more favourable conditions at values equal or at a premium to NAV.

If approved, the powers as detailed above and in the formal notice of the AGM will expire at the 2012 AGM unless previously renewed, varied or revoked by the Company in general meeting. These powers will only be exercised if the Board is of the opinion that it would result in an enhancement to the NAV per share of the Company and therefore have a positive effect on shareholder funds.

The following further item of special business will also be proposed at the AGM:

Resolution 12 – Notice of general meetings

At the Company's 2010 AGM, a resolution was passed to allow the Company, subject to the satisfaction of certain conditions, to call a general meeting other than an AGM on at least 14 clear days' notice (AGMs will continue to be held on at least 21 clear days' notice). Without such shareholder authority, which must be renewed annually, general meetings other than AGMs would need to be held on at least 21 clear days' notice.

The Board considers it prudent to preserve the ability to call general meetings other than AGMs on the shorter notice period of 14 clear days and resolution 12 seeks such approval.

The Board considers all the resolutions detailed in the formal notice to be in the best interests of shareholders as a whole and therefore unanimously recommends to shareholders that they vote in favour of each resolution to be proposed at the AGM.

Independent Auditors and Disclosure of Audit Information

Resolutions to reappoint PricewaterhouseCoopers LLP as Auditors to the Company and authorise the Directors to determine their remuneration will also be proposed at the forthcoming AGM. The Directors in office at the date of this report each confirm that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's Auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditors are aware of that information.

By Order of the Board

TMF Nominees Limited

Company Secretary

24 May 2011

Directors' Remuneration Report

This report is prepared in accordance with Section 421 of the Companies Act 2006. The Company's Auditors are required to report on certain information contained within this report. The Auditors' opinion is included within the Auditors' report set out on page 20. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting ('AGM').

Directors' emoluments for the year (audited)

The Directors who served during the year received remuneration as detailed below and in note 5 to the financial statements on page 27.

| | 2011 £'000 | 2010 £'000 |
|--|---------------|---------------|
| Mr T R Pattison (Chairman of the Board) | 22 | 20 |
| Mr G A Prescott (Chairman of the Audit Committee from 7 July 2010) | 17 | 3 |
| Mr R P A Spiller | 15 | 13 |
| Mr E G Meek | 15 | 13 |
| Mr J C Morton (Director and Chairman of the Audit Committee until 7 July 2010) | 9 | 15 |
| | 78 | 64 |

Consideration of matters relating to Directors' remuneration

As the Board is small, it is considered unnecessarily burdensome to establish a separate Remuneration Committee; the functions of such are therefore carried out by the Board as a whole. Mr R P A Spiller leaves the meeting when issues relating to the fees of the Investment Manager are discussed. The level of Directors' fees is reviewed every year relative to the work involved as well as the fees of the directors of comparable companies.

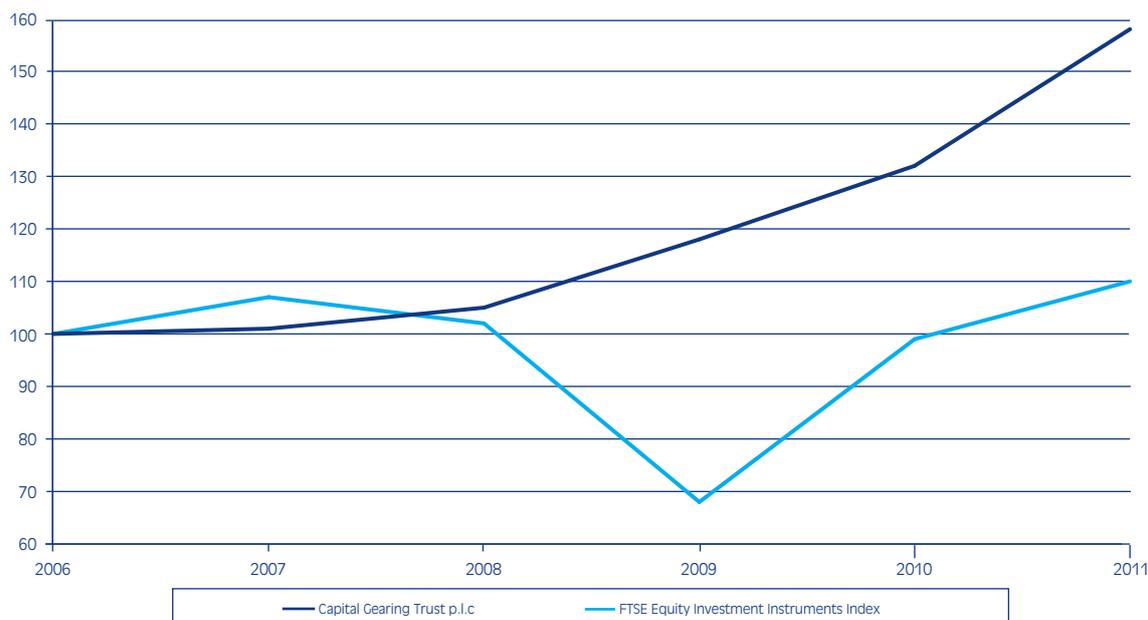
Statement of the Company's policy on Directors' remuneration

It is the Board's policy that none of the Directors has a service contract. Instead the terms of each Director's appointment, including remuneration, are set out in a letter of appointment. The fees payable to the Directors are limited to a total of £100,000 per annum, divided among the Directors in such proportions and in such manner as the Board may determine. The level of remuneration is reviewed annually and amended where appropriate and the policy is for the chairmen of the Board and Audit Committee to be paid a higher fee than the other Directors to reflect the additional responsibilities and time commitment of these roles.

The Company does not operate any type of incentive or pension scheme and therefore no Directors receive bonus payments or pension contributions from the Company or hold options to acquire shares in the Company. Directors are not paid compensation for loss of office, but are entitled to be given 6 months' notice in writing of the termination of their appointment. Each Director is entitled to be repaid all reasonable travel, hotel and other expenses properly incurred by him in or about the performance of his duties as a Director, including any expenses incurred in attending meetings of the Board, any committee of the Board and any general meetings of the Company.

Performance graph

Graphs showing the Company's net asset value compared with the FTSE Equity Investment Instruments Index over the last ten years and over the period from 1982 to date are shown on page 2. A comparison of the Company's share price total return (assuming all dividends are reinvested) to shareholders over the last five years, compared with the FTSE Equity Investment Instruments Index, which reflects the performance of similar companies, is shown below. All figures are rebased to 100 at 5 April 2006.



By Order of the Board

TMF Nominees Limited
Company Secretary
 24 May 2011

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

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the net return of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on the Company's website, www.capitalgearingtrust.com, which is a website maintained by TMF Corporate Secretarial Services Limited. The Directors are responsible for the maintenance and integrity of the Company's corporate website and financial information included within the website. The work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names are listed on page 3 confirm that, to the best of their knowledge:

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

For and on behalf of the Board

Mr T R Pattison
Chairman
24 May 2011

Independent Auditors' Report to the Members of Capital Gearing Trust p.l.c

We have audited the financial statements of Capital Gearing Trust p.l.c for the year ended 5 April 2011 which comprise the Income Statement, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 19, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 5 April 2011 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 9, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Martin Pitt (Senior Statutory Auditor)

for and on behalf of

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Belfast

24 May 2011

Income Statement

for the year ended 5 April 2011

| | Note | Revenue £'000 | Capital £'000 | 2011 Total £'000 | Revenue £'000 | Capital £'000 | 2010 Total £'000 |
|---|------|------------------|------------------|------------------------|------------------|------------------|------------------------|
| Net gains on investments | 9 | – | 5,781 | 5,781 | – | 9,566 | 9,566 |
| Exchange (losses)/gains | 9 | – | (247) | (247) | – | 299 | 299 |
| Investment income | 2 | 1,249 | – | 1,249 | 1,317 | – | 1,317 |
| Gross return | | 1,249 | 5,534 | 6,783 | 1,317 | 9,865 | 11,182 |
| Investment management fee | 3 | (186) | (434) | (620) | (165) | (384) | (549) |
| Transaction costs | | – | (53) | (53) | – | (70) | (70) |
| Other expenses | 4 | (356) | – | (356) | (315) | – | (315) |
| Net return on ordinary activities before tax | | 707 | 5,047 | 5,754 | 837 | 9,411 | 10,248 |
| Tax on ordinary activities | 6 | (148) | 91 | (57) | (171) | 96 | (75) |
| Net return attributable to equity shareholders | 15 | 559 | 5,138 | 5,697 | 666 | 9,507 | 10,173 |
| Return per Ordinary Share | 8 | 19.81p | 182.06p | 201.87p | 23.83p | 340.15p | 363.98p |

The total column of this statement is the Income Statement of the Company. The revenue return and capital return columns are supplementary to this and are prepared under guidance issued by the Association of Investment Companies.

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

Statement of Total Recognised Gains and Losses

for the year ended 5 April 2011

| | 2011 £'000 | 2010 £'000 |
|---|---------------|---------------|
| Net return attributable to equity shareholders | 5,697 | 10,173 |
| Total gains and losses recognised for the year | 5,697 | 10,173 |

The notes on pages 25 to 35 form an integral part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

for the year ended 5 April 2011

| | Note | Called up share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Capital reserve arising on investments held £'000 | Capital reserve arising on investments sold £'000 | Revenue reserve £'000 | Total £'000 |
|---|------|----------------------------------|--------------------------------|-------------------------------------|--|--|--------------------------|----------------|
| Balance at 6 April 2009 | | 699 | 8,114 | 16 | 3,247 | 45,614 | 1,714 | 59,404 |
| Exchange gains on investments | 9 | - | - | - | 214 | 85 | - | 299 |
| Net gains on realisation of investments | 9 | - | - | - | - | 6,063 | - | 6,063 |
| Net increase in unrealised appreciation | 9 | - | - | - | 3,503 | - | - | 3,503 |
| Transfer on disposal of investments | | - | - | - | 3,044 | (3,044) | - | - |
| Transaction costs | 9 | - | - | - | (57) | (13) | - | (70) |
| Costs charged to capital | 3 | - | - | - | - | (384) | - | (384) |
| Tax on costs charged to capital | 6 | - | - | - | - | 96 | - | 96 |
| Net revenue for the year | | - | - | - | - | - | 666 | 666 |
| Total | | 699 | 8,114 | 16 | 9,951 | 48,417 | 2,380 | 69,577 |
| Dividends | 7 | - | - | - | - | - | (615) | (615) |
| Balance at 5 April 2010 | | 699 | 8,114 | 16 | 9,951 | 48,417 | 1,765 | 68,962 |
| Balance at 6 April 2010 | | 699 | 8,114 | 16 | 9,951 | 48,417 | 1,765 | 68,962 |
| Share issues | 12 | 13 | 1,507 | - | - | - | - | 1,520 |
| Exchange (losses)/gains on investments | 9 | - | - | - | (255) | 8 | - | (247) |
| Net gains on realisation of investments | 9 | - | - | - | - | 1,938 | - | 1,938 |
| Net increase in unrealised appreciation | 9 | - | - | - | 3,843 | - | - | 3,843 |
| Transfer on disposal of investments | | - | - | - | (2,810) | 2,810 | - | - |
| Transaction costs | 9 | - | - | - | (43) | (10) | - | (53) |
| Costs charged to capital | 3 | - | - | - | - | (434) | - | (434) |
| Tax on costs charged to capital | 6 | - | - | - | - | 91 | - | 91 |
| Net revenue for the year | | - | - | - | - | - | 559 | 559 |
| Total | | 712 | 9,621 | 16 | 10,686 | 52,820 | 2,324 | 76,179 |
| Dividends | 7 | - | - | - | - | - | (629) | (629) |
| Balance at 5 April 2011 | | 712 | 9,621 | 16 | 10,686 | 52,820 | 1,695 | 75,550 |

The notes on pages 25 to 35 form an integral part of these financial statements.

Balance Sheet

at 5 April 2011

| | Note | 2011 £'000 | 2010 £'000 |
|---|------|----------------|----------------|
| Fixed assets | | | |
| Investments: | | | |
| Listed investments | 9 | 72,440 | 63,462 |
| Current assets | | | |
| Debtors | 10 | 2,571 | 5,322 |
| Cash at bank | | 759 | 402 |
| Creditors: amounts falling due within one year | 11 | 3,330 (220) | 5,724 (224) |
| Net current assets | | 3,110 | 5,500 |
| Net assets | | 75,550 | 68,962 |
| Capital and reserves | | | |
| Called up share capital | 12 | 712 | 699 |
| Share premium account | 13 | 9,621 | 8,114 |
| Capital redemption reserve | 13 | 16 | 16 |
| Capital reserve arising on investments held | 13 | 10,686 | 9,951 |
| Capital reserve arising on investments sold | 13 | 52,820 | 48,417 |
| Revenue reserve | 13 | 1,695 | 1,765 |
| Total equity shareholders' funds | 15 | 75,550 | 68,962 |
| Net asset value per Ordinary Share | 14 | 2,652.8p | 2,467.4p |

Approved by the Board on 24 May 2011 and signed on its behalf by:

Mr T R Pattison
Chairman

The notes on pages 25 to 35 form an integral part of these financial statements.

Company Number: NI 005574

Cash Flow Statement

for the year ended 5 April 2011

| | Note | 2011 £'000 | 2010 £'000 |
|--|------|-----------------|---------------|
| Net cash inflow from operating activities | 16 | 323 | 422 |
| Taxation | | | |
| Foreign tax paid on investment income | | (56) | (64) |
| Corporation tax paid | | – | (78) |
| | | (56) | (142) |
| Capital expenditure and financial investment | | | |
| Payments to acquire investments | | (21,207) | (15,093) |
| Receipts from sale of investments | | 17,710 | 18,976 |
| | | (3,497) | 3,883 |
| Equity dividends paid | 7 | (629) | (615) |
| Management of liquid resources | | | |
| Change in cash held by the custodian awaiting investment | | 2,696 | (3,780) |
| Financing | | | |
| Issue of ordinary share capital | 12 | 1,520 | – |
| Increase/(decrease) in cash | 18 | 357 | (232) |

The notes on pages 25 to 35 form an integral part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

a) Accounting convention

The financial statements have been prepared on a going concern basis in accordance with the Companies Act 2006 and under the historical cost basis of accounting, modified to include revaluation of investments at fair value.

The financial statements have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice ('SORP') issued by the Association of Investment Companies in January 2009. All of the Company's operations are of a continuing nature.

b) Valuation of investments

Listed investments, which in accordance with FRS 26 are classified as fair value through profit or loss, are initially recognised at fair value. After initial recognition these continue to be measured at fair value, which for listed investments is at bid price. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its net realisable value.

Transaction costs are recognised as capital and are included in the capital column of the Income Statement. Transaction costs on purchases of investments are included in capital reserve arising on investments held and transaction costs on disposals of investments are included in capital reserve arising on investments sold. On disposal of investments denominated in foreign currencies, the exchange differences previously taken to capital reserve arising on investments held are transferred to capital reserve arising on investments sold.

Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve arising on investments sold, and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve arising on investments held, as explained in note 1 h) below.

Year end exchange rates are used to translate the value of investments which are denominated in foreign currencies. Exchange differences arising from re-translation of the opening net investments are taken to capital reserve.

c) Dividends

Under FRS 21 final dividends should not be accrued in the financial statements unless they have been approved by shareholders before the balance sheet date. Interim dividends are recognised only when paid. Dividends payable to equity shareholders are recognised in the Reconciliation of Movements in Shareholders' Funds when they have been approved by shareholders in the case of a final dividend, or paid in the case of an interim dividend, and become a liability of the Company.

Special dividends receivable have been taken to capital where relevant circumstances indicate that the dividends are capital in nature.

d) Income

Dividends receivable on listed equity shares are recognised on the ex-dividend date, and the return on zero dividend preference shares is recognised as a capital return.

Dividends receivable on equity shares where no ex-dividend date is quoted are recognised when the Company's right to receive payment is established.

Income from fixed interest securities is recognised as revenue on a time apportionment basis so as to reflect their effective yield.

Income from securities where the return is linked to an inflation index is recognised on a time apportionment basis so as to reflect their effective yield, including the anticipated inflationary increase in their redemption value. The element of the total effective yield that relates to the inflationary increase in their redemption value is considered to represent a capital return, and is included in the Income Statement as such in accordance with the SORP. The amount recognised as a capital return on index linked securities in the year was £359,000 (2010: £449,000).

In accordance with the Company's status as a UK Investment Company under Section 833 of the Companies Act 2006, net capital returns may not be distributed by way of a dividend.

e) Expenses

All expenses are accounted for on an accruals basis and, where applicable, are inclusive of value added tax ('VAT'). Expenses are charged through the revenue account except when expenses are charged to capital reserve arising on investments sold where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect the investment management fees have been allocated 70% to capital reserve arising on investments sold and 30% to revenue, in line with the Board's expected long term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

f) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Notes to the Financial Statements (continued)

1 Accounting policies continued

f) Taxation continued

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

The tax effect of the allocation of expenditure between capital and revenue is reflected in the financial statements using the Company's effective rate of tax for the year.

g) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end.

The results and financial position of the Company are expressed in pounds sterling, which is the functional and presentational currency of the Company. The Directors, having regard to the currency of the Company's share capital and the predominant currency in which the Company operates, have determined the functional currency to be pounds sterling.

h) Capital reserves

Capital reserve arising on investments sold

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- realised exchange differences of a capital nature; and
- expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with the above policies.

Capital reserve arising on investments held

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end; and
- unrealised exchange differences of a capital nature.

2 Investment income

| | 2011 £'000 | 2010 £'000 |
|--|---------------|---------------|
| Income from investments: | | |
| Income from UK bonds | 184 | 271 |
| Income from UK equity and non-equity investments | 193 | 275 |
| Interest from overseas bonds | 870 | 767 |
| | 1,247 | 1,313 |
| Deposit interest | 2 | 4 |
| Total income | 1,249 | 1,317 |

| | 2011 £'000 | 2010 £'000 |
|--------------------------------|---------------|---------------|
| Total income comprises: | | |
| Dividends | 193 | 275 |
| Interest | 1,056 | 1,042 |
| | 1,249 | 1,317 |

| | 2011 £'000 | 2010 £'000 |
|---|---------------|---------------|
| Income from investments comprises: | | |
| Listed in the UK | 377 | 546 |
| Listed overseas | 870 | 767 |
| | 1,247 | 1,313 |

Notes to the Financial Statements (continued)

3 Investment management fee

| | Revenue £'000 | Capital £'000 | 2011 Total £'000 | Revenue £'000 | Capital £'000 | 2010 Total £'000 |
|---------------------------|------------------|------------------|------------------------|------------------|------------------|------------------------|
| Investment management fee | 186 | 434 | 620 | 165 | 384 | 549 |

The Company's Investment Manager CG Asset Management Limited received an annual management fee equal to 0.85% of the gross assets of the Company. At 5 April 2011 £158,714 (2010: £144,195) was payable.

4 Other expenses

| | 2011 £'000 | 2010 £'000 |
|---|---------------|---------------|
| Administrative expenses: | | |
| Portfolio administration | 87 | 76 |
| Fees payable to company auditor for the audit of company accounts | 20 | 20 |
| Fees payable to company auditor for other services: | | |
| Services relating to taxation | 15 | 9 |
| Other services | 3 | 3 |
| Directors' remuneration (note 5) | 78 | 64 |
| Company secretarial and accountancy services | 95 | 91 |
| General expenses | 58 | 52 |
| | 356 | 315 |

The above expenses include irrecoverable VAT where appropriate.

5 Directors' fees

| | 2011 Total £'000 | 2010 Total £'000 |
|--|------------------------|------------------------|
| The fees payable to the Directors were as follows: | | |
| Mr T R Pattison | 22 | 20 |
| Mr G A Prescott | 17 | 3 |
| Mr R P A Spiller | 15 | 13 |
| Mr E G Meek | 15 | 13 |
| Mr J C Morton | 9 | 15 |
| | 78 | 64 |

Mr R P A Spiller's fees are paid directly to his employer. The Company made no pension contributions (2010: £nil) in respect of Directors and no pension benefits are accruing to any Director (2010: £nil).

Mr R P A Spiller received remuneration totalling £59,000 (2010: £55,000) from CG Asset Management Limited in respect of services provided by that company to Capital Gearing Trust p.l.c.

Details of transactions with CG Asset Management Limited, of which Mr R P A Spiller is a director, are disclosed in note 3. There were no other transactions with Directors during the year.

Notes to the Financial Statements (continued)

6 Tax on ordinary activities

| | Revenue £'000 | Capital £'000 | 2011 Total £'000 | Revenue £'000 | Capital £'000 | 2010 Total £'000 |
|--------------------------------------|------------------|------------------|------------------------|------------------|------------------|------------------------|
| Current tax: | | | | | | |
| Corporation tax | (91) | 91 | – | (141) | 96 | (45) |
| Foreign tax | (56) | – | (56) | (18) | – | (18) |
| Adjustment in respect of prior year: | | | | | | |
| Foreign tax | (1) | – | (1) | (12) | – | (12) |
| Total current tax | (148) | 91 | (57) | (171) | 96 | (75) |

The current tax charge is reconciled to the standard rate of Corporation Tax of 20.95% (2010: 28%) by the following factors:

| | Revenue £'000 | Capital £'000 | 2011 Total £'000 | Revenue £'000 | Capital £'000 | 2010 Total £'000 |
|--|------------------|------------------|------------------------|------------------|------------------|------------------------|
| Return on ordinary activities before taxation | 707 | 5,047 | 5,754 | 837 | 9,411 | 10,248 |
| Return on ordinary activities at the standard rate of UK Corporation Tax | 148 | 1,060 | 1,208 | 234 | 2,635 | 2,869 |
| UK franked dividends* | (40) | – | (40) | (77) | – | (77) |
| Capital returns* | – | (1,151) | (1,151) | – | (2,742) | (2,742) |
| Adjustment for reduced rate of tax | – | – | – | (16) | 11 | (5) |
| Foreign tax | 56 | – | 56 | 18 | – | 18 |
| Double tax relief | (17) | – | (17) | – | – | – |
| Under provision in prior year | 1 | – | 1 | 12 | – | 12 |
| Current tax charge for the year | 148 | (91) | 57 | 171 | (96) | 75 |

* these items are not subject to Corporation Tax within an investment trust company.

No deferred tax liability has been recognised on unrealised gains on investments as it is anticipated the Company will retain investment company status in the foreseeable future.

The standard rate for small companies of Corporation Tax in the UK changed from 21% to 20% with effect from 1 April 2011. Accordingly, the Company's profits for this accounting period are taxed at the effective rate of 20.95% and will be taxed at 20% in the future.

7 Dividends

| | 2011 £'000 | 2010 £'000 |
|---|---------------|---------------|
| Ordinary Shares | | |
| 2010 dividend paid 12 July 2010 (22.5p per share) | 629 | – |
| 2009 dividend paid 13 July 2009 (22.0p per share) | – | 615 |

The Directors have recommended to shareholders a final dividend of 18.5 pence per share for the year ended 5 April 2011. If approved, this dividend will be paid to shareholders on 11 July 2011. This dividend is subject to approval by shareholders at the Annual General Meeting and, therefore, in accordance with FRS 21, it has not been included as a liability in these financial statements. The total estimated dividend to be paid is £527,000.

| | 2011 £'000 | 2010 £'000 |
|--|---------------|---------------|
| Revenue available for distribution by way of dividend for the year | 559 | 666 |
| Proposed final dividend of 18.5p for the year ended 5 April 2011 | (527) | (629) |
| Undistributed revenue for purposes of Chapter 4 of Part 24 of the Corporation Tax Act 2010* | 32 | 37 |

* Undistributed revenue comprises approximately 2.6% (2010: 2.8%) of income from investments of £1,247,000 (2010: £1,313,000).

Notes to the Financial Statements (continued)

8 Return per Ordinary Share

The return per Ordinary Share of 201.87p (2010: 363.98p) is based on the total net return after taxation for the financial year of £5,697,000 (2010: £10,173,000) and on 2,822,213 (2010: 2,794,906) Ordinary Shares, being the weighted average number of Ordinary Shares in issue in each year.

Revenue return per Ordinary Share of 19.81p (2010: 23.83p) is based on the net revenue return on ordinary activities after taxation of £559,000 (2010: £666,000) and on 2,822,213 (2010: 2,794,906) Ordinary Shares, being the weighted average number of Ordinary Shares in issue in each year.

Capital return per Ordinary Share of 182.06p (2010: 340.15p) is based on the net capital return for the financial year of £5,138,000 (2010: £9,507,000) and on 2,822,213 (2010: 2,794,906) Ordinary Shares, being the weighted average number of Ordinary Shares in issue in each year.

The Company does not have dilutive securities. Therefore, the basic and diluted returns per share are the same.

9 Listed investments

| | 2011 £'000 | 2010 £'000 |
|--|---------------|---------------|
| Investments comprise – | | |
| Listed investment companies: | | |
| Incorporated in the United Kingdom | 18,316 | 14,094 |
| Incorporated overseas | 5,919 | 4,795 |
| Listed United Kingdom government bonds | 7,235 | 7,790 |
| Listed United Kingdom non-government bonds | 2,860 | 2,179 |
| Listed overseas government bonds | 32,460 | 31,440 |
| Miscellaneous international equities | 5,650 | 3,164 |
| | 72,440 | 63,462 |
| Cost of investments held at 6 April | 53,511 | 54,303 |
| Unrealised appreciation at 6 April | 9,951 | 3,247 |
| Fair value of investments held at 6 April | 63,462 | 57,550 |
| Additions at cost | 21,207 | 15,093 |
| Disposals proceeds | (17,710) | (18,976) |
| Transaction costs | (53) | (70) |
| Exchange (losses)/gains | (247) | 299 |
| Disposals – realised gains | 1,938 | 6,063 |
| Increase in unrealised appreciation | 3,843 | 3,503 |
| Fair value of investments held at 5 April | 72,440 | 63,462 |
| Book cost at 5 April | 61,754 | 53,511 |
| Unrealised appreciation at 5 April | 10,686 | 9,951 |
| | 72,440 | 63,462 |
| Exchange (losses)/gains | (247) | 299 |
| Disposals – realised gains | 1,938 | 6,063 |
| Increase in unrealised appreciation | 3,843 | 3,503 |
| Gains on investments | 5,781 | 9,566 |

The geographical spread of investments is shown on page 6.

10 Debtors

| | 2011 £'000 | 2010 £'000 |
|--|---------------|---------------|
| Cash held by the custodian awaiting investment | 2,151 | 4,847 |
| Prepayments and accrued income | 420 | 474 |
| Taxation recoverable | – | 1 |
| | 2,571 | 5,322 |

Notes to the Financial Statements (continued)

11 Creditors: amounts falling due within one year

| | 2011 £'000 | 2010 £'000 |
|------------------------------|---------------|---------------|
| Accruals and deferred income | 220 | 224 |

12 Called up share capital

| | 2011 £'000 | 2010 £'000 |
|---|---------------|---------------|
| Allotted and fully paid | | |
| At the beginning of the year: 2,794,906 Ordinary Shares (2010: 2,794,906) | 699 | 699 |
| Allotted during the year: 53,000 Ordinary Shares (2010: nil) | 13 | – |
| At the end of the year: 2,847,906 Ordinary Shares (2010: 2,794,906) | 712 | 699 |

The Company allotted 53,000 Ordinary Shares of 25p each in the period for a consideration of £1,520,000 (2010: nil).

13 Reserves

| | Share premium account £'000 | Capital redemption reserve £'000 | Capital reserve arising on investments held £'000 | Capital reserve arising on investments sold £'000 | Revenue reserve £'000 |
|---|--------------------------------------|---|--|--|-----------------------------|
| Balance at 6 April 2010 | 8,114 | 16 | 9,951 | 48,417 | 1,765 |
| Share issues | 1,507 | – | – | – | – |
| Exchange (losses)/gains on investments | – | – | (255) | 8 | – |
| Net gains on realisation of investments | – | – | – | 1,938 | – |
| Net increase in unrealised appreciation | – | – | 3,843 | – | – |
| Transfer on disposal of investments | – | – | (2,810) | 2,810 | – |
| Transaction costs | – | – | (43) | (10) | – |
| Costs charged to capital | – | – | – | (434) | – |
| Tax on costs charged to capital | – | – | – | 91 | – |
| Net revenue for the year | – | – | – | – | 559 |
| Dividends (note 7) | – | – | – | – | (629) |
| Balance at 5 April 2011 | 9,621 | 16 | 10,686 | 52,820 | 1,695 |

The revenue reserve is the only reserve from which dividends can be paid.

14 Net asset value per share

The net asset value per share and the net asset value attributable to each class of share at the year end calculated in accordance with the Articles of Association were as follows:

Net asset value per share attributable to

| | 2011 | 2010 |
|-------------------------|----------|----------|
| Ordinary Shares (basic) | 2,652.8p | 2,467.4p |

Net asset value attributable to

| | 2011 £'000 | 2010 £'000 |
|-------------------------|---------------|---------------|
| Ordinary Shares (basic) | 75,550 | 68,962 |

The movements during the year in the assets attributable to the Ordinary Shares were as follows:

| | Assets attributable to Ordinary Shares £'000 |
|---|--|
| Total net assets attributable at 6 April 2010 | 68,962 |
| Issued share capital | 1,520 |
| Total recognised gains for year | 5,697 |
| Dividends appropriated in the year | (629) |
| Total net assets attributable at 5 April 2011 | 75,550 |

Net asset value per Ordinary Share is based on the net assets, as shown above, and on 2,847,906 (2010: 2,794,906) Ordinary Shares, being the number of Ordinary Shares in issue at the year end.

Notes to the Financial Statements (continued)

15 Reconciliation of movements in shareholders' funds

| | 2011 £'000 | 2010 £'000 |
|-------------------------------------|---------------|---------------|
| Opening equity shareholders' funds | 68,962 | 59,404 |
| Issued share capital | 1,520 | – |
| Total recognised gains for the year | 5,697 | 10,173 |
| Dividends (note 7) | (629) | (615) |
| Closing equity shareholders' funds | 75,550 | 68,962 |

16 Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities

| | 2011 £'000 | 2010 £'000 |
|---|---------------|---------------|
| Net revenue before finance costs and taxation | 707 | 837 |
| Investment management fee charged to capital | (434) | (384) |
| Decrease in creditors | (4) | (16) |
| Decrease/(increase) in prepayments and accrued income | 54 | (15) |
| Net cash inflow from operating activities | 323 | 422 |

17 Analysis of net funds

| | 2011 £'000 | 2010 £'000 |
|--------------|---------------|---------------|
| Cash at bank | 759 | 402 |

18 Reconciliation of net cash flow to movement in net funds

| | 2011 £'000 | 2010 £'000 |
|--|---------------|---------------|
| Net funds at the beginning of the year | 402 | 634 |
| Increase/(decrease) in cash for the year | 357 | (232) |
| Net funds at the end of the year | 759 | 402 |

19 Financial instruments

The Company's financial instruments comprise:

- Investment trust ordinary shares, investment trust capital shares, investment trust zero dividend preference shares, commodity funds and real estate, and fixed and index linked securities that are held in accordance with the Company's investment objective;
- Cash and liquid resources that arise directly from the Company's operations; and
- Debtors and creditors.

The main risks arising from the Company's financial instruments are market price risk, interest rate risk, foreign currency risk and credit risk. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below.

Other debtors and creditors do not carry any interest and are short term in nature and accordingly are stated at their nominal value.

Market price risk

Market price risk arises mainly from uncertainty about the future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements.

The Company invests in the shares of other investment companies. These companies may use borrowings or other means to gear their balance sheets which may result in returns that are more volatile than the markets in which they invest, and the market value of investment company shares may not reflect their underlying assets.

To mitigate these risks the Board's investment strategy is to select investments for their fundamental value. Stock selection is therefore based on disciplined financial, market and sector analysis, with the emphasis on long term investments. An appropriate spread of investments is held in the portfolio in order to reduce both the systemic risk and the risk arising from factors specific to a country or sector. The Investment Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to consider investment strategy. A list of the main investments held by the Company is shown on pages 6 and 7. All investments are stated at bid value, which in the Directors' opinion is equal to fair value.

Notes to the Financial Statements (continued)

19 Financial instruments continued

Market price risk continued

Price risk sensitivity

The following table illustrates the sensitivity of the net return after taxation for the year and the net assets and net asset value per share to an increase or decrease of 5% in market prices. This level of change is considered to be reasonably possible based on an observation of current market conditions. The sensitivity analysis is based on the Company's investments at the balance sheet date with all other variables held constant.

| | 2011 5% increase in market prices £'000 | 2011 5% decrease in market prices £'000 | 2010 5% increase in market prices £'000 | 2010 5% decrease in market prices £'000 |
|--|--|--|--|--|
| Income statement – net return after taxation | | | | |
| Revenue return | (10) | 10 | (9) | 9 |
| Capital return | 3,605 | (3,605) | 3,158 | (3,158) |
| Total return after taxation | 3,595 | (3,595) | 3,149 | (3,149) |
| Net assets | 3,595 | (3,595) | 3,149 | (3,149) |
| Net asset value per share | 126.23p | (126.23)p | 112.67p | (112.67)p |

Interest rate risk

Bond and preference share yields, and as a consequence their prices, are determined by market perception as to the appropriate level of yields given the economic background. Key determinants include economic growth prospects, inflation, the Government's fiscal position, short term interest rates and international market comparisons. The Investment Manager takes all these factors into account when making any investment decisions as well as considering the financial standing of the potential investee company.

Returns from bonds and preference shares are fixed at the time of purchase, as the fixed coupon payments are known, as are the final redemption proceeds. This means that if a bond is held until its redemption date, the total return achieved is unaltered from its purchase date. However, over the life of a bond the market price at any given time will depend on the market environment at that time. Therefore, a bond sold before its redemption date is likely to have a different price to its purchase level and a profit or loss may be incurred.

Interest rate sensitivity

The following table illustrates the sensitivity of the net return after taxation for the year and the net assets and net asset value per share to an increase or decrease of 1% in regard to the Company's monetary financial assets and financial liabilities. The financial assets affected by interest rates are funds held by the custodian on deposit. There are no financial liabilities affected by interest rates. This level of change is considered to be possible. The sensitivity analysis is based on the Company's monetary financial instruments at the balance sheet date with all other variables held constant.

| | 2011 1% increase in market rates £'000 | 2011 1% decrease in market rates £'000 | 2010 1% increase in market rates £'000 | 2010 1% decrease in market rates £'000 |
|--|---|---|---|---|
| Income statement – net return after taxation | | | | |
| Revenue return | 17 | (17) | 38 | (38) |
| Capital return | – | – | – | – |
| Total return after taxation | 17 | (17) | 38 | (38) |
| Net assets | 17 | (17) | 38 | (38) |
| Net asset value per share | 0.60p | (0.60)p | 1.36p | (1.36)p |

Notes to the Financial Statements (continued)

19 Financial instruments continued

The interest rate profile of the Company's assets at 5 April 2011 was as follows:

| | Total (as per Balance Sheet) £'000 | Floating rate £'000 | Index linked £'000 | Other fixed rate £'000 | Financial assets/ (liabilities) on which no interest is paid £'000 | Weighted average interest rate % | Weighted average period for which rate is fixed (years) |
|--|--|---------------------------|--------------------------|---------------------------------|--|--|---|
| Assets | | | | | | | |
| Investment trusts | 24,235 | – | – | – | 24,235 | – | – |
| UK government bonds – index linked | 7,235 | – | 7,235 | – | – | 1.3 | 8.8 |
| UK non-government bonds | 2,860 | – | – | 2,860 | – | 4.0 | 6.6 |
| Overseas government bonds – index linked | 17,450 | – | 17,450 | – | – | 1.8 | 12.8 |
| Overseas government bonds | 15,010 | – | – | 15,010 | – | 3.4 | 15.2 |
| Other equities | 5,650 | – | – | – | 5,650 | – | – |
| Deposits | 2,151 | 2,151 | – | – | – | – | – |
| Invested Funds | | | | | | | |
| Cash at bank | 74,591 | 2,151 | 24,685 | 17,870 | 29,885 | – | – |
| Other debtors | 759 | – | – | – | 759 | – | – |
| | 420 | – | – | – | 420 | – | – |
| Liabilities | | | | | | | |
| Creditors | (220) | – | – | – | (220) | – | – |
| Total net assets | 75,550 | 2,151 | 24,685 | 17,870 | 30,844 | – | – |

The interest rate profile of the Company's assets at 5 April 2010 was as follows:

| | Total (as per Balance Sheet) £'000 | Floating rate £'000 | Index linked £'000 | Other fixed rate £'000 | Financial assets/ (liabilities) on which no interest is paid £'000 | Weighted average interest rate % | Weighted average period for which rate is fixed (years) |
|--|--|---------------------------|--------------------------|---------------------------------|--|--|---|
| Assets | | | | | | | |
| Investment trusts | 18,889 | – | – | – | 18,889 | – | – |
| UK government bonds – index linked | 7,790 | – | 7,790 | – | – | 1.9 | 4.8 |
| UK non-government bonds | 1,728 | – | – | 1,728 | – | 4.3 | 1.9 |
| UK non-government bonds* | 451 | 451 | – | – | – | – | – |
| Overseas government bonds – index linked | 15,041 | – | 15,041 | – | – | 1.8 | 13.4 |
| Overseas government bonds | 16,399 | – | – | 16,399 | – | 3.2 | 13.7 |
| Other equities | 3,164 | – | – | – | 3,164 | – | – |
| Deposits | 4,847 | 4,847 | – | – | – | – | – |
| Invested Funds | | | | | | | |
| Cash at bank | 68,309 | 5,298 | 22,831 | 18,127 | 22,053 | – | – |
| Other debtors | 402 | – | – | – | 402 | – | – |
| | 475 | – | – | – | 475 | – | – |
| Liabilities | | | | | | | |
| Creditors | (224) | – | – | – | (224) | – | – |
| Total net assets | 68,962 | 5,298 | 22,831 | 18,127 | 22,706 | – | – |

*Smith & Williamson Investment Funds

Notes to the Financial Statements (continued)

19 Financial instruments continued

Fair value of financial assets and liabilities

All financial assets and liabilities are either included in the Balance Sheet at fair value or at a reasonable approximation of fair value.

Effective 1 January 2009, the Company adopted the amendment to FRS 29 for financial instruments that are measured in the Balance Sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Company's assets that are measured at fair value through the Income Statement are investments in listed securities and are fair valued under level 1 of the fair value measurement hierarchy. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

Foreign currency risk

The Company's investments in foreign currency securities are subject to the risk of currency fluctuations. The Investment Manager monitors current and forward exchange rate movements in order to mitigate this risk. The Company's investments denominated in foreign currencies are:

| | 2011 Investments £'000 | 2011 Accrued interest £'000 | 2010 Investments £'000 | 2010 Accrued interest £'000 |
|-------------------|------------------------------|-----------------------------------|------------------------------|-----------------------------------|
| Canadian Dollar | 1,256 | 9 | 1,192 | 9 |
| Euro | 10,427 | 239 | 8,038 | 274 |
| US Dollar | 13,979 | 46 | 14,649 | 56 |
| Swedish Krona | 2,376 | 22 | 719 | 6 |
| Swiss Franc | 6,817 | 44 | 8,361 | 56 |
| Australian Dollar | 230 | – | – | – |
| | 35,085 | 360 | 32,959 | 401 |

Foreign currency sensitivity

The following table illustrates the sensitivity of the net return after taxation for the year and the net assets and net asset value per share to an increase or decrease of 5% in the rates of exchange of foreign currencies relative to Sterling. This level of change is considered to be reasonably possible based on an observation of current market conditions. The sensitivity analysis is based on the Company's foreign currency investments at the balance sheet date with all other variables held constant.

| | 2011 5% appreciation of Sterling £'000 | 2011 5% depreciation of Sterling £'000 | 2010 5% appreciation of Sterling £'000 | 2010 5% depreciation of Sterling £'000 |
|--|--|--|--|--|
| Income statement – net return after taxation | | | | |
| Revenue return | (34) | 34 | (30) | 30 |
| Capital return | (1,754) | 1,754 | (1,648) | 1,648 |
| Total return after taxation | (1,788) | 1,788 | (1,678) | 1,678 |
| Net assets | (1,788) | 1,788 | (1,678) | 1,678 |
| Net asset value per share | (62.78)p | 62.78p | (60.04)p | 60.04p |

Liquidity risk

Liquidity risk is not considered to be significant as the Company has no bank loans or other borrowings. All liabilities are payable within 3 months.

Notes to the Financial Statements (continued)

19 Financial instruments continued

Credit risk

In addition to interest rate risk, the Company's investment in bonds, the majority of which are government bonds, is also exposed to credit risk which reflects the ability of a borrower to meet its obligations. Generally, the higher the quality of the issue, the lower the interest rate at which the issuer can borrow money. Issuers of a lower quality will tend to have to pay more to borrow money to compensate the lender for the extra risk taken. Investment transactions are carried out with a number of brokers whose credit standing is reviewed periodically by the Investment Manager. The Investment Manager assesses the risk associated with these investments by prior financial analysis of the issuing companies as part of his normal scrutiny of existing and prospective investments and reports regularly to the Board. Cash is held with a reputable bank with a high quality external credit rating.

A further credit risk is the failure of a counterparty to a transaction to discharge its obligations under that transaction which could result in a loss to the Company. The following table shows the maximum credit risk exposure.

Credit risk exposure

Compared to the Balance Sheet the maximum credit risk exposure is:

| | 2011 Balance sheet £'000 | 2011 Maximum exposure £'000 | 2010 Balance sheet £'000 | 2010 Maximum exposure £'000 |
|---|-----------------------------------|--------------------------------------|-----------------------------------|--------------------------------------|
| Fixed assets – listed investments at fair value through profit and loss | 72,440 | 42,555 | 63,462 | 41,409 |
| Debtors – amounts due from the custodian, dividends and interest receivable | 2,563 | 2,563 | 5,299 | 5,299 |
| Cash at bank | 759 | 759 | 402 | 402 |
| | 75,762 | 45,877 | 69,163 | 47,110 |

Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to maximise the income and capital return to its equity.

The Company's capital at 5 April 2011 of £75,550,000 (2010: £68,962,000) comprises its equity share capital and reserves.

The Board, with the assistance of the Investment Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Investment Manager's views on the market;
- the need to buy back equity shares;
- the need for new issues of equity shares; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

The Company is subject to several externally imposed capital requirements:

- as a public company, the Company must have a minimum share capital of £50,000; and
- in order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet one of the two capital restriction tests imposed on investment companies by company law. These requirements are unchanged since last year, and the Company has complied with them.

20 Related party transactions

Related party transactions with Mr R P A Spiller, a Director of the Company, are disclosed in notes 3 and 5 to the financial statements. There were no other related party transactions.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Forty Eighth Annual General Meeting of the Company will be held at the offices of Smith & Williamson Investment Management Limited, 25 Moorgate, London EC2R 6AY on Tuesday, 5 July 2011 at 11.00 a.m. for the following purposes:

Ordinary Business

1. To receive and consider the Report and Accounts for the year ended 5 April 2011.
2. To approve the Directors' Remuneration Report for the year ended 5 April 2011.
3. To declare a final dividend for the year ended 5 April 2011.
4. To re-elect Mr T R Pattison as a Director of the Company.
5. To re-elect Mr R P A Spiller as a Director of the Company.
6. To re-elect Mr E G Meek as a Director of the Company.
7. To re-appoint PricewaterhouseCoopers LLP as Auditors to the Company, to hold office until the conclusion of the next general meeting at which financial statements are laid before the members.
8. To authorise the Directors to determine the Auditors' remuneration.

Special Business

To consider and, if thought fit, pass the following resolutions which will be proposed as to resolution 9 as an Ordinary Resolution and as to resolutions 10, 11 and 12 as Special Resolutions.

Ordinary Resolution

Authority to allot shares

9. THAT in substitution of all existing authorities the Directors be and are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the 'Act') to exercise all powers of the Company to allot relevant securities (within the meaning of section 551 of the Act), up to a maximum aggregate nominal amount of £237,325.50 (being one third of the issued share capital of the Company at the date of the notice convening the meeting at which this resolution is proposed and representing 949,302 Ordinary Shares of 25p each) provided that such authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2012, unless previously revoked, varied or renewed by the Company in general meeting and provided that the Company shall be entitled to make, prior to the expiry of such authority, an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities pursuant to such offer or agreement as if the authority conferred hereby had not expired.

Special Resolutions

Authority for the disapplication of pre-emption rights

10. THAT in substitution of all existing authorities the Directors be and are hereby empowered pursuant to section 570 of the Companies Act 2006 (the 'Act') to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred on them by resolution 9 above or otherwise as if section 561 of the Act did not apply to any such allotment and be empowered pursuant to section 573 of the Act to sell relevant shares (within the meaning of section 560 of the Act) if, immediately before the sale, such shares are held by the Company as treasury shares (as defined in section 724 of the Act ('treasury shares')), for cash as if section 561 of the Act did not apply to any such sale, provided that this power shall be limited to the allotment of equity securities and the sale of treasury shares, in connection with and pursuant to:

- a) an offer of equity securities open for acceptance for a period fixed by the Board where the equity securities respectively attributable to the interests of holders of Ordinary Shares of 25p each in the Company ('Ordinary Shares') are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares held by them but subject to such exclusions or other arrangements in connection with the issue as the Board may consider necessary, appropriate or expedient to deal with equity securities representing fractional entitlements or to deal with legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange, or any other matter whatsoever; and
- b) (otherwise than pursuant to sub-paragraph a) above) up to an aggregate nominal value of £71,197.50 or, if less, the number representing 10% of the issued share capital of the Company at the date of the meeting at which this resolution is proposed; and

this power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2012, unless previously renewed, varied or revoked by the Company in general meeting and provided that the Company shall be entitled to make, prior to the expiry of such authority, an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry and the Board may allot equity securities or sell treasury shares pursuant to such offer or agreement as if the power conferred hereby had not expired.

Notice of Annual General Meeting (continued)

Authority to make market purchases of the Company's own shares

11. THAT the Company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of section 693 of the Act) of Ordinary Shares of 25p each in the Company ('Ordinary Shares'), provided that:
- a) the maximum aggregate number of Ordinary Shares to be purchased shall be 426,901 or, if less, the number representing 14.99% of the issued share capital of the Company at the date of the meeting at which this resolution is proposed;
 - b) the minimum price which may be paid for an Ordinary Share shall be 25p;
 - c) the maximum price, excluding expenses, which may be paid for an Ordinary Share shall be an amount equal to the higher of (i) 105% of the average of the middle market quotations for an Ordinary Share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which such purchase is made and (ii) the higher of the last independent trade and the highest current independent bid relating to an Ordinary Share on the trading venue where the purchase is carried out;
 - d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2012 unless such authority is renewed prior to such time; and
 - e) the Company may enter into a contract to purchase Ordinary Shares under this authority prior to the expiry of such which will or may be completed or executed wholly or partly after the expiration of such authority.

Notice of general meetings

12. THAT a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.

By Order of the Board

TMF Nominees Limited Company Secretary

Registered Office:
Waterfront Plaza, 8 Laganbank Road
Belfast BT1 3LR
24 May 2011

Location of Annual General Meeting

Smith & Williamson Investment
Management Limited
25 Moorgate
London
EC2R 6AY

at 11.00 a.m. on Tuesday, 5 July 2011

Nearest National Rail Stations: Moorgate, Liverpool Street and Cannon Street

Nearest London Underground Stations: Moorgate – Circle, Metropolitan, Hammersmith & City and Northern Lines
Bank – Central, Northern, Waterloo & City Lines and Docklands Light Railway

Notice of Annual General Meeting (continued)

Notes

1. Members are entitled to attend, speak and vote at the Annual General Meeting (the 'Meeting'). A member entitled to attend, speak and vote at the Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of him/her. The proxy need not be a member of the Company. A member may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to different shares of that member.
2. A form of proxy is enclosed with this notice, together with a pre-paid reply envelope. Completion and return of such form of proxy or any CREST Proxy Instruction (as described in note 8 below) will not prevent a member from subsequently attending the Meeting and voting in person if they so wish.
3. To be valid, the proxy form and any power of attorney or other authority under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the offices of the Company's Registrar (either using the reply envelope provided or delivered by post or by hand to, Capita Registrars (Proxies), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU) not later than 11.00 a.m. on 1 July 2011 (the 'specified time'), or in the case of a poll taken more than 48 hours after it is demanded, not less than 24 hours before the time appointed for the taking of the poll at which the proxy is to be used. No account shall be taken of any part of any day that is not a working day.
4. A person who is not a member of the Company, but has been nominated by a member of the Company (the 'relevant member') under section 146 of the Companies Act 2006 to enjoy information rights (the 'nominated person'), does not have a right to appoint any proxies under note 1 above. A nominated person may have a right under an agreement with the relevant member to be appointed or to have somebody else appointed as a proxy for the Meeting. If a nominated person does not have such a right, or has such a right and does not wish to exercise it, he may have a right under an agreement with the relevant member to give instructions as to the exercise of voting rights. It is important to remember that a nominated person's main contact in terms of their investment remains as the relevant member (or perhaps the custodian or broker who administers the investment) and a nominated person should continue to contact them (and not the Company) regarding any changes or queries relating to their personal details and holding (including any administration thereof). The only exception to this is where the Company writes to a nominated person directly for a response.
5. In the case of joint holders the vote of the senior who tenders the vote shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.
6. The Company, pursuant to Section 360B of the Companies Act 2006 and to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members detailed in the Register of Members at the specified time shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of Members after such time shall be disregarded in determining the rights of any person to attend and vote at the Meeting. If the Meeting is adjourned to a time not more than 48 hours after the time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote. If however the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's Register of Members at the time which is 48 hours prior to the time fixed for such adjourned meeting.
7. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual (available via www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID: RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of the receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
9. Any member attending the Meeting has the right to ask questions. The Company must cause to be answered any such questions relating to the business being dealt with at the Meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.
10. Resolutions 1 to 9 are proposed as ordinary resolutions, which, to be passed, require more than half of the votes cast to be in favour of the resolution. Resolutions 10 to 12 are proposed as special resolutions, which, to be passed, require at least three-quarters of the votes cast to be in favour of the resolution.
11. As at 24 May 2011 (being the last practicable date prior to the publication of this document) the total number of Ordinary Shares of 25p each in issue and the total number of voting rights was 2,847,906.
12. Biographical details of the Directors seeking re-election can be found at page 3 of the Report and Accounts.
13. Copies of the letters of appointment for the non-executive Directors and the Articles of Association will be available for inspection at the Company's registered office and the office of the Company Secretary, and also at the office of TMF Management (UK) Limited, Pellipar House, 1st Floor, 9 Cloak Lane, London EC4R 2RU, during usual business hours on any weekday (public holidays excluded) from the date of this notice until the close of the Meeting and will also be available for inspection at the Meeting from 10.30 a.m. until the close of the Meeting.
14. A copy of this notice, and other information required by Section 311A of the Companies Act 2006, can be found at www.capitalgearingtrust.com.

Shareholder Information

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| Financial Reporting | Copies of the Company's Annual and Half Year Reports and Interim Management Statements may be obtained from the Company Secretary and electronic copies can be accessed on the Company's website www.capitalgearingtrust.com | |
| Contacting the Board | Any shareholders wishing to communicate directly with the Board should do so via the Company Secretary | |
| Capital Gains Tax | As at 31 March 1982 the adjusted value for Capital Gains Tax purposes of the 25p Ordinary Shares was 21.25p | |
| Financial Calendar (guide) | Annual Results | May |
| | Annual General Meeting | July |
| | Dividend Payment Date | July |
| | Half-Year Report | November |
| | Interim Management Statements | June-August & December-February |
| Frequency of NAV Publication | Monthly | |
| How to Invest | Via your bank, stockbroker or other financial adviser | |
| Sources of Further Information | Company's Website | www.capitalgearingtrust.com |
| | Financial Times | www.ft.com |
| | AIC | www.theaic.co.uk |
| Share Identification Codes | SEDOL: | 0173861 |
| | ISIN: | GB0001738615 |
| | BLOOMBERG: | CGT:LN |
| | FT: | CGT:LSE |
| Substantial Shareholdings | The Disclosure and Transparency Rules require shareholders of the Company to simultaneously inform the Company and the Financial Services Authority (the 'FSA') of changes to major holdings in the Company's shares within two trading days of the change For further information, please visit the FSA's website: www.fsa.gov.uk/pages/doing/ukla/company/notifications/index.shtml | |
| Nominee Share Code | The Company will arrange for copies of shareholder documents to be made available on request to interested parties and operators of nominee accounts | |
| Disability Act | Copies of this and other documents issued by the Company can be made available in a variety of formats, including Braille, audio type or larger type as appropriate. You can contact the Registrar to the Company, Capita Registrars, which has installed telephones to allow speech and hearing-impaired people who have their own telephone to contact them directly without the need for an intermediate operator. For this service please call 020 8639 2062. Specially trained operators are available during normal business hours to answer your queries. Alternatively, if you prefer to go through a 'typetalk' operator (provided by the RNID) you should dial 18001 followed by the number you wish to dial | |

Directory

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| Registered Office | Waterfront Plaza, 8 Laganbank Road, Belfast BT1 3LR |
| Registered Number | NI 005574 |
| Company Secretary | TMF Nominees Limited 400 Capability Green, Luton LU1 3AE Telephone: 01582 439200 Fax: 01582 439207 E-mail: company.secretary@capitalgearingtrust.com |
| Registrar | Capita Registrars The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU |
| Shareholder Services | Capita Registrars The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU Telephone: 0871 664 0300* From outside the UK: +44 20 8639 3399 Fax: 020 8639 2342 E-mail: ssd@capitaregistrars.com Website: www.capitaregistrars.com *Calls from BT landlines cost 10p/minute plus network extras, calls from other networks and mobiles may vary. Lines are open 8.30 a.m. - 5.30 p.m., Monday-Friday |
| Investment Manager | CG Asset Management Limited 25 Moorgate, London EC2R 6AY |
| Custodian & Administrator | Smith & Williamson Investment Management Limited 25 Moorgate, London EC2R 6AY |
| Bankers | Northern Bank Limited Donegall Square West, Belfast BT1 6JS |
| Auditors | PricewaterhouseCoopers LLP Waterfront Plaza, 8 Laganbank Road, Belfast BT1 3LR |
| Corporate Stockbrokers | JP Morgan Cazenove 20 Moorgate, London EC2R 6DA |

Shareholder Analysis

| As at 5 April: | 2011 Number of shares | 2011 % of Issued capital | 2010 Number of shares | 2010 % of Issued capital |
|---------------------------|-----------------------------|-----------------------------------|-----------------------------|-----------------------------------|
| Nominee Companies | 2,105,877 | 73.9 | 2,031,196 | 72.7 |
| Private Shareholders | 714,327 | 25.1 | 731,908 | 26.2 |
| Banks and Other Companies | 27,702 | 1.0 | 31,802 | 1.1 |
| | 2,847,906 | 100 | 2,794,906 | 100 |

Notes:

Capital Gearing Trust p.l.c

Waterfront Plaza
8 Laganbank Road
Belfast, BT1 3LR

www.capitalgearingtrust.com