CAPITAL GEARING TRUST P.L.C

Annual Report and Accounts

For the year ended 5 April 2012

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 2012, 2,919,906 shares were in issue (5 April 2011: 2,847,906). Each Ordinary Share has one vote.

- **Investment Management, Custodian and Portfolio Administration**
  Investment management is carried out by CG Asset Management Limited under an agreement dated 27 April 2001. Custodial services are carried out by Northern Trust Company Limited under an agreement dated 22 September 2011. Portfolio administration is carried out by Northern Trust Global Services Limited under an agreement dated 23 September 2011.

- **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 Friday, 13 July 2012.

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

aic
The Association of Investment Companies

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

Contents

Financial Highlights

	5 April 2012	5 April 2011	% Change
Share Price	3,015.0p	3,115.0p	-3.2
Net Asset Value per Share	2,898.6p	2,652.8p	+9.3
Premium	4.0%	17.4%	–
Shareholders' Funds	£84.6m	£75.6m	+11.9
Market Capitalisation	£88.0m	£88.7m	-0.8
Ongoing Charges Percentage*	1.31%	1.34%	–
Dividend per Share:			
Ordinary	15.75p	15.5p	+1.6
Special	2.75p	3.0p	-8
	18.5p	18.5p	–

* Ongoing charges calculation prepared in accordance with the AIC's recommended methodology

Performance

Performance in the 10 years to 2012

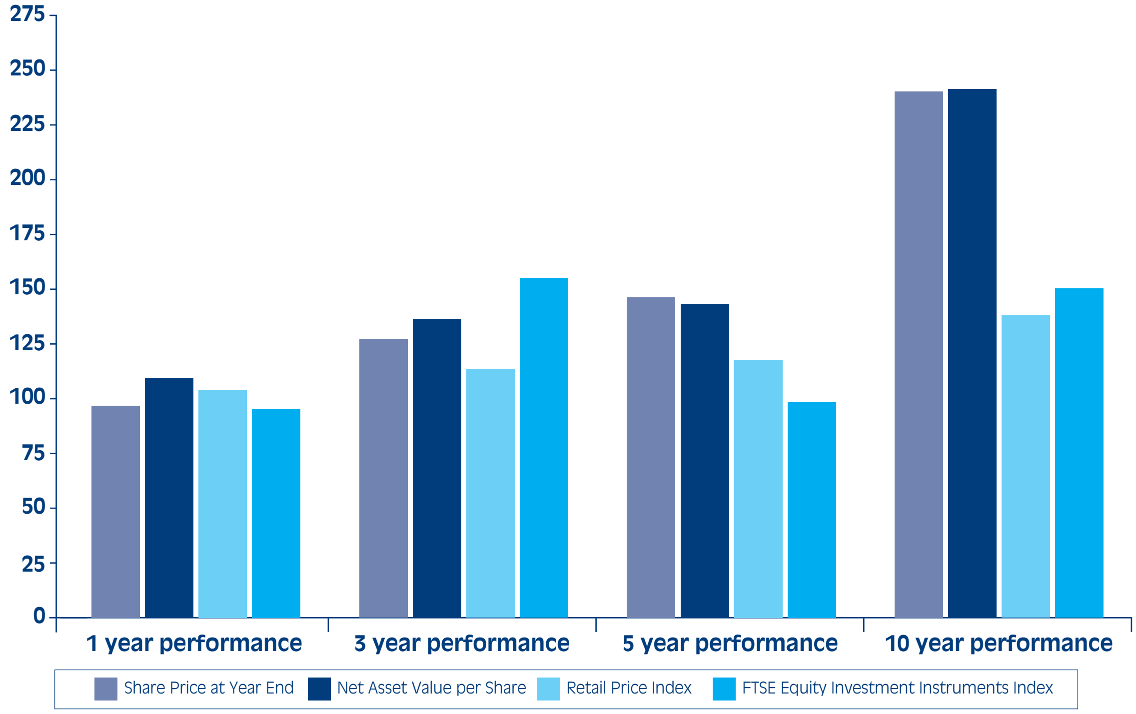
5 April	Net assets £'000	NAV per 25p Share p	Appreciation on previous year %	Cumulative appreciation from 5 April 2002 %	FTSE Equity Investment Instruments Index: Index	FTSE Equity Investment Instruments Index: Appreciation on previous year %	FTSE Equity Investment Instruments Index: Cumulative appreciation from 5 April 2002 %
2003	31,368	1,232.1	3	3	2,640.5	(33)	(33)
2004	40,656	1,475.8	20	23	3,588.5	36	(9)
2005	46,612	1,692.0	15	41	4,052.0	13	3
2006	54,136	1,937.0	14	61	5,651.1	39	43
2007	56,576	2,024.2	5	69	6,032.7	7	53
2008	59,432	2,126.4	5	77	5,765.2	(4)	46
2009	59,404	2,125.4	–	77	3,824.2	(34)	(3)
2010	68,962	2,467.4	16	106	5,592.2	46	42
2011	75,550	2,652.8	8	121	6,230.4	11	58
2012	84,637	2,898.6	9	141	5,931.8	(5)	50

The net assets and net asset value ('NAV') per share for 2003 to 2005 have been restated for the changes in accounting policy in 2006.

Performance Graphs

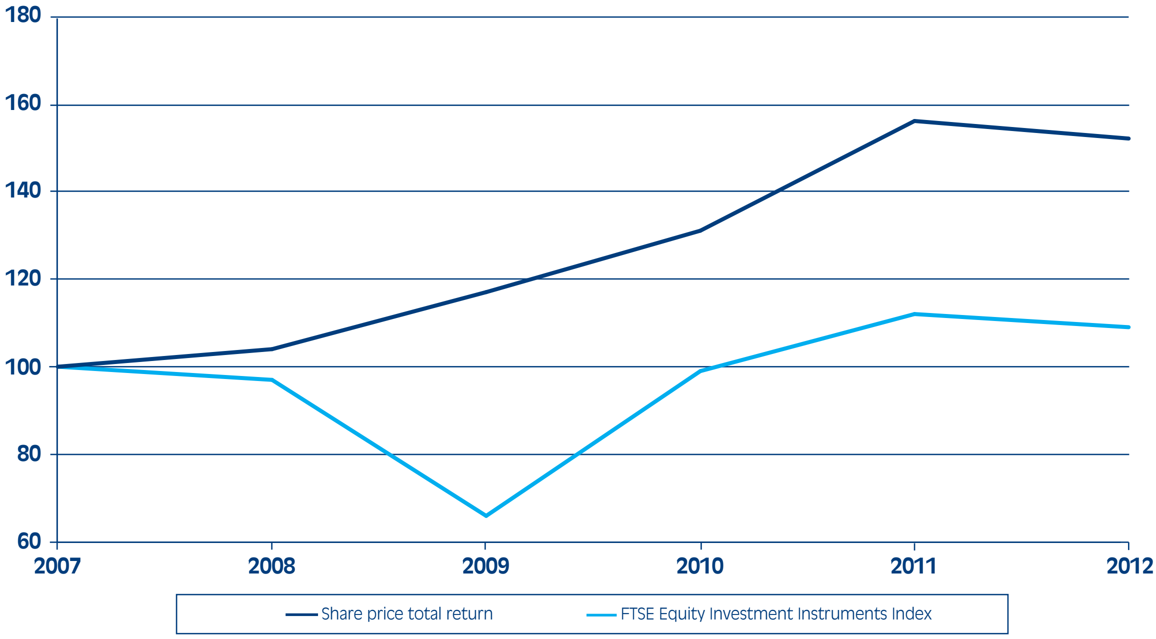
Performance over the last 10 Years

The graphs below show the performance of the Company's net asset value per share and share price against the FTSE Equity Investment Instruments Index and the Retail Price Index over 1, 3, 5 and 10 years to 5 April 2012. All figures are rebased to 100 at the start of the measurement period.



Share price total return performance 2007 to 2012

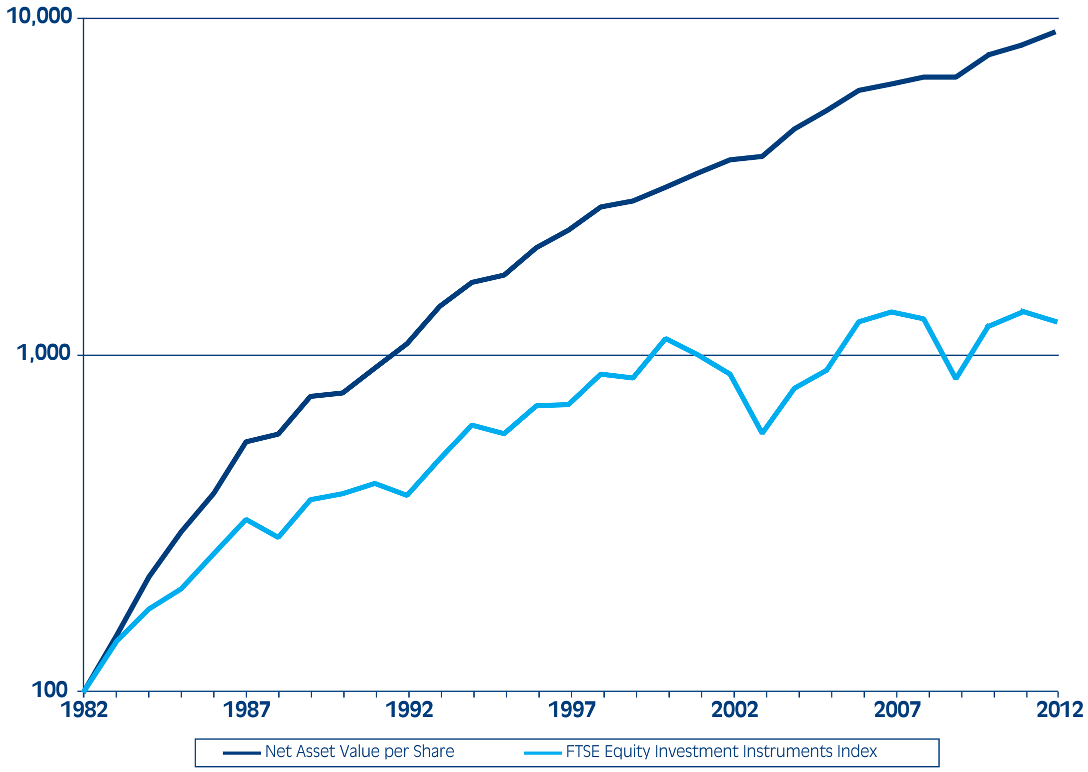
Based on mid-market prices, the graph below shows the total return to investors over the past five years (assuming all dividends received were reinvested without transaction costs), compared with the total return on the FTSE Equity Investment Instruments Index. Each measure is rebased to 100 in 2007.



Performance Graphs (continued)

Net asset value performance 1982 to 2012

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's 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 (61) 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 40 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 (67)
Appointed a Director in 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 Chief Executive of the Ecclesiastical Insurance Group. 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 a trustee of M&G Charibond and Charifund. Mr Prescott is also a Member of the Court and of the Finance & Investment Committee of the Worshipful Company of Coopers.

Mr R P A Spiller MA (Oxon), FCSI (64)
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 (64)
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 and of King's College Hospital NHS Foundation Trust.

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 £1.6 billion. The portfolios are run on a long only basis with a low risk style focusing on achieving absolute returns.

Custodian and Administrator

Northern Trust
Northern Trust Company Limited was appointed by the Board on 22 September 2011 to provide custodial services in relation to the portfolio and Northern Trust Global Services Limited was appointed by the Board on 23 September 2011 to provide administrative services in relation to the portfolio. Previously, custodial and administrative services had been provided by Smith & Williamson Investment Management Limited. Founded in 1889, Northern Trust is a leading asset manager and asset servicer to institutional and private clients worldwide.

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 4,000 professionals working from over 100 offices in 83 countries.

Chairman's Statement

Overview
In the year to 5 April 2012 the net asset value per share increased by 9.3% to 2,898.6p. In what has been a difficult year for many investors, I am pleased to report that the stated investment objective of achieving capital growth in absolute terms has 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 fell by 4.8% and 4.5% respectively. Reflecting investors' general aversion to risk, low prevailing interest rates and the impact of the Bank of England's quantitative easing policy, Gilts performed well over the year with the FTSE Government All stocks Index rising 10.8%.

Earnings per share for the period amounted to 18.8p compared to 19.8p last year. This again reflects the reduced income in the continuing lower interest rate environment, with income generation remaining of lesser importance for the trust than the principle objective of capital preservation and growth.

Asset allocation continues to reflect a defensive stance aimed at preserving the capital value in real terms and by doing so, generating a positive absolute return for shareholders. As at the year end, fixed interest, index linked securities and cash represented 60.7% of total assets (2011: 59.9%) with a further 13.9% held in zero dividend preference shares (2011: 13.3%).

Dividend
Last year, a total distribution of 18.5p was paid. This was made up of 15.5p plus a special dividend of 3.0p. 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 15.75p plus a special dividend of 2.75p. 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, the AGM will be held in London at the offices of Smith & Williamson Investment Management Limited on Friday, 13 July 2012 at 11.00 a.m. The Notice convening the forty ninth 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 reported in our Half-Year Financial Report, 47,000 Ordinary Shares were issued at a price of £31.385 on 10 June 2011 and a further 25,000 Ordinary Shares were issued at a price of £31.37 on 20 June 2011 (both prices representing a 15% premium to the prevailing net asset value).

The Board
This year Mr R P A Spiller and I will retire at the AGM and offer ourselves for re-election in accordance with the guidelines for good practice set out in the AIC Code of Corporate Governance and the UK Corporate Governance Code. Further details in respect of each Director's retirement, evaluation and re-election can be found on page 16.

Regulatory Changes
The principal piece of legislation on the horizon with the greatest potential impact on the Company remains the Alternative Investment Fund Managers' ('AIFM') Directive. As referenced in last year's report, the Directive came into force in 2011 and the work of transposing the rules into UK legislation continues. Under the current timetable the Directive must be implemented into national legislation by July 2013 and companies would then have until July 2014 to obtain the relevant authorisations.

The potential impact on the Company will depend on a number factors, including whether it is able to take advantage of the lighter touch regime for smaller investment companies and also whether the Company chooses itself or the investment manager to act as the 'manager' for the purposes of the Directive. The Company continues to monitor, with the assistance of the AIC, developments on this and will seek to comply with the final regulations, but do so in a way that is the most cost effective in the interests of all shareholders.

On a positive note, the Retail Distribution Review ('RDR') will come into effect on 31 December 2012. The possible beneficial impact of RDR for the Company includes raising awareness of the investment companies sector and potential increased demand for investment trust shares from financial advisors. Also, the eventual introduction of investment companies onto the major adviser platforms will make it easier for financial advisers to access the sector. As both an investment company in its own right and an investor in other closed ended investment companies, the Company welcomes these developments.

Outlook
With the prospect of low, slow growth in the developed economies and rising inflationary pressures, the investment background remains difficult. Markets are accordingly likely to remain unsettled and therefore quite volatile for some while. On a risk reward basis, maintaining a defensive investment stance still appears to be an appropriate investment strategy, at least until valuations of risk assets become more compelling.

Producing a consistent absolute return for shareholders is our ongoing aim and a record of positive returns over the last 27 years is testimony to the effectiveness of past investment strategies. We will continue to focus our efforts on meeting this objective in this and future years.

Mr T R Pattison
28 May 2012

Investment Manager's Report

Review

Over the year the net asset value increased by 9.3%, close to its all time high, consistent with the absolute return objective. The FTSE All-Share decreased by 4.5% in capital terms; however, the relatively modest decline hid marked volatility within the period. During the first half, risk assets fell sharply as the sovereign debt crisis in Europe escalated at the same time as the debate around the extension of the US public debt ceiling revealed the political paralysis regarding the fiscal deficit. It was only after the elevation of Mario Draghi to the Presidency of the European Central Bank ('ECB') and the massive liquidity injections associated with the Long Term Repurchase Operation ('LTRO') that risk markets reversed and rallied strongly into the fiscal year end.

The Company's portfolio was broadly spread and defensively positioned over the period; as a result its performance displayed a low correlation to the equity markets. The largest weighting within the portfolio was to index linked bonds. These performed strongly in most jurisdictions as real yields fell in the face of financial repression programmes. Whilst inflation was not excessive, it remained stubbornly above central bank targets and almost universally above short term interest rates, whilst quantitative easing programmes drove down nominal yields at the long end of the curve. The gains on US Treasury Index Linked Securities, the largest holding in the portfolio, benefited from a 2.5% strengthening of the Dollar. Over the medium term we anticipate further gains from the strengthening of the real Dollar exchange rate relative to Sterling.

The German and Swiss nominal bonds performed exceptionally strongly in the first half of the year. This led to profit taking in the German Bund position, moving the weighting from c.10% of the portfolio at the start of the year to c.1% at the end. Whilst there could still be currency gains for Bund holders from the likely change of membership of the Euro, this must be balanced against the near term risk of increased money printing by the ECB or German credit quality being undermined by last ditch efforts to save the Euro, e.g the issuance of a Eurobond. As yields fell sharply during the year so did the risk return balance of owning Bunds. The proceeds were largely reinvested in US and Swedish index linked bonds and well covered zero dividend preference shares ('ZDP').

The Company's investment trust holdings performed satisfactorily relative to the weak equity markets, although in absolute terms delivered meagre returns. Selective additions were made in Japanese investment trusts, where underlying equity valuations look attractive. Other additions were largely specialist in nature, normally combining material discounts with high likelihood or certainty of liquidation, including Shape Capital and Private Equity Investor. Profits were taken in trusts which had been re-rated, including Strategic Equity Capital and Montanaro European Smaller Companies Investment Trust and realisations were received on partial liquidation of Active Capital Trust and Alternative Investment Trust at satisfactory uplifts to initial investment levels. The announcement of the liquidation of one of our larger holdings, SR European Investment Trust, was made just prior to the year end and led to a material narrowing of the discount. ZDP and convertible debt holdings increased, through a combination of strong organic performance and subscriptions to new issues, including JP Morgan Private Equity ZDP and City Natural Resources Convertible.

Outlook

Equity markets have rallied as liquidity has flowed liberally from central banks; however, the underlying imbalances remain severe and unaddressed. Some debt has been paid down and more written off, but debt ratios in the Anglo-Saxon countries are still far above sustainable levels. Real interest rates are negligible everywhere as financial repression takes hold. Total assets managed by hedge funds have risen to record levels; their growing popularity despite modest recent returns and unattractive fee structures speaks of investor desperation, even of despair.

The last year has seen the historically more rigorous central banks of Switzerland, Japan and the Eurozone join their Anglo-Saxon peers in printing money, or in the case of the ECB, quasi-printing. As a result, the balance of probability of a deflationary versus an inflationary outcome has moved decisively towards the latter. Of course, the volatility in commodity prices could easily provide temporary downward pressure to consumer prices, but that would not change the final outcome, particularly if it elicited further quantitative easing. It seems sensible therefore to allocate a large part of the portfolio to index linked government bonds, by far the best protection against high inflation. On the other hand, the exposure to conventional government bonds has been reduced drastically and at the time of writing is now restricted to Switzerland. There is a danger of a steeper yield curve in those countries that have been distorting the curve with monetary policy, quite apart from the negative influence of higher inflation on nominal bonds.

With growth prospects in all the advanced countries looking moderate at best and negative in the Eurozone, corporate profits are being sustained by growth in China (especially through commodity prices) and by the large fiscal deficits that still prevail in the US, UK and much of Europe. As the latter are reduced by austerity now in Europe and presumably (hopefully) in the US in 2013, much depends on China continuing to grow. Forecasting growth there is difficult; numbers are unreliable. However, with export markets weak, investment at unsustainable levels, a property bubble and now signs of slowing household consumption, it would not be surprising if the downturn is more severe than the consensus assumes. Against that background, the expectation of analysts that corporate profit margins, already at record levels, will expand further seems brave. That is not a forecast that equities will decline, merely that risk is high.

There are still opportunities to make money from special situations in the world of investment trusts. In addition, Sterling looks quite overvalued against the Dollar and the Swedish Krona and arguably against the currency of Germany if that were separated from southern Europe. It is too early to worry about domestic political risk, but in a year the prospects for the next UK election will be influencing the currency markets and may prove a catalyst for weaker Sterling if the future of the coalition government looks uncertain.

More generally though, the focus over the coming year is the preservation of the real value of capital, after tax and inflation, rather than trying to make the dramatic returns that have been made at times in the past. Those sorts of opportunities will return and it is important to be in a position to take advantage of them when they do.

Mr R P A Spiller
28 May 2012

Portfolio Analysis

Distribution of investment funds of £84,510,000 (2011: £74,591,000)

	UK %	North America %	Europe %	Elsewhere %	**2012 Total %**	2011 Total %
Investment Trust Assets:						
Ordinary shares	12.7	2.7	3.1	6.9	**25.4**	26.8
Zero dividend preference shares	13.9	–	–	–	**13.9**	13.3
Other Assets:						
Index linked	7.8	24.2	12.9	2.0	**46.9**	33.1
Fixed interest	4.4	–	6.9	–	**11.3**	23.9
Cash	2.5	–	–	–	**2.5**	2.9
	41.3	26.9	22.9	8.9	**100**	100

Investments of the Company – Market value greater than £500,000 as at 5 April 2012

	2012 £'000	2011 £'000
Investment Trust Ordinary Shares:		
North Atlantic Smaller Companies	**2,244**	2,183
ETFS Metal Securities (physical gold)	**1,823**	1,573
Advance Developing Markets	**1,575**	672
Mithras Investment Trust	**1,110**	1,143
Prospect Japan Fund	**1,055**	548
Renewable Energy Generation	**951**	605
Private Equity Investor	**938**	493
TR Property Investment Trust Sigma	**804**	1,059
Jupiter Green Investment Trust	**786**	507
Investors in Global Real Estate	**733**	176
Signet Global Fixed Income Strategies	**732**	–
SR European Investment Trust	**699**	806
Atlantis Japan Growth Fund	**641**	418
Strategic Equity Capital	**632**	504
London & St Lawrence Investment Company	**612**	791
Other: 40 investments (2011: 36 investments)	**6,178**	8,501
	21,513	19,979

	2012 £'000	2011 £'000
Investment Trust Zero Dividend Preference Shares:		
EW&PO Finance	**2,014**	1,770
M&G High Income Investment Trust	**1,378**	960
Utilico Finance 2012	**1,363**	1,777
Aberforth Geared Income Trust	**1,160**	371
Electra Private Equity	**1,060**	486
F&C Private Equity	**786**	580
Utilico Finance 2016	**706**	616
Jupiter Second Split Trust	**635**	589
Premier Energy & Water Trust	**627**	578
JP Morgan Income & Capital Trust	**559**	60
JP Morgan Private Equity	**555**	–
Other: 5 investments (2011: 5 investments)	**867**	2,119
	11,710	9,906

Portfolio Analysis (continued)

Investments of the Company – Market value greater than £500,000 as at 5 April 2012 continued

	2012 £'000	2011 £'000
Index Linked Securities:		
USA Treasury 1.75% 2028	**4,740**	3,852
USA Treasury 2.0% 2026	**4,406**	2,199
UK Treasury 1.25% 2027	**3,881**	1,781
USA Treasury 1.375% 2018	**3,342**	2,954
Sweden (Kingdom of) 3.5% 2028	**3,230**	1,596
UK Treasury 0.125% 2029	**2,743**	–
Sweden (Kingdom of) 0.5% 2017	**2,627**	–
USA Treasury 0.625% 2021	**2,541**	–
Germany (Federal Republic) 0.1% 2023	**1,699**	–
Japan (Govt of) 1.4% 2018	**1,669**	–
France (Govt of) 3.4% 2029	**1,548**	–
USA Treasury 3.625% 2028	**1,310**	1,083
Canada (Govt of) 4.0% 2031	**1,141**	1,256
USA Treasury 2.375% 2027	**1,051**	–
Germany (Federal Republic) 1.75% 2020	**976**	2,110
USA Treasury 1.125% 2021	**920**	–
Sweden (Kingdom of) 4.0% 2020	**792**	780
USA Treasury 1.375% 2020	**760**	–
Other investments: 2 investments (2011: 4 investments)	**276**	7,074
	39,652	24,685
Fixed Interest Securities:		
Switzerland (Govt of) 3.0% 2018	**3,950**	3,599
Germany (Federal Republic) 4.75% 2028	**1,051**	2,900
The Cayenne Trust 3.25% Convertible Unsecured Loan Stock 2016	**784**	824
City Natural Resources 3.5% Convertible Unsecured Loan Stock 2018	**728**	–
SVG Capital 8.25% Convertible 2016	**606**	–
Other investments: 8 investments (2011: 12 investments)	**2,424**	10,547
	9,543	17,870
Total investments	**82,418**	72,440
Cash held by the custodian awaiting investment	**2,092**	2,151
Total investment funds	**84,510**	74,591

A full portfolio listing as at 5 April 2012 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 2012.

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 2011; 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 32 to 36. Other risks are identified and managed by the Company's internal control system, which is summarised on page 15.

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 (2011: 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 2012 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.

Graphs showing the Company's NAV per share compared with the FTSE Equity Investment Instruments Index over one, three, five and ten years and over the period from 1982 are shown on pages 2 and 3 respectively. A comparison of the Company's share price total return over the last five years with the FTSE Equity Investment Instruments Index, which reflects the performance of similar companies, is shown on page 2.

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 17.4% compared with 4.0% at the year end.

- Ongoing charges percentage, calculated using the methodology recommended by the AIC, which enables the Board to measure the control of costs and help in meeting the dividend payment objective, was 1.31% for the year to 5 April 2012 (2011: 1.34%).

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 long term 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 is 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 2012 the net assets per 25p Ordinary Share of the Company amounted to 2,898.6p, as compared with a figure of 2,652.8p as at 5 April 2011.

Results and Dividend

The revenue return for the financial year was £547,000 (2011: £559,000).

The Directors recommend the payment of a dividend of 18.5p per Ordinary Share for the year ended 5 April 2012, made up of 15.75p plus a special dividend of 2.75p (2011: a total of 18.5p, made up of 15.5p plus a special dividend of 3.0p) amounting to £540,000 (2011: £527,000) for approval by shareholders at the forthcoming Annual General Meeting. The dividend will be payable on 19 July 2012 to shareholders on the Register of Members on 8 June 2012, the associated ex-dividend date being 6 June 2012. 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 2012 financial statements comprises the 2011 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 61 days (2011: 67 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.

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 28. 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 10. 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 on 23 May 2012, along with the results of 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') provided custodial and administrative services in relation to the portfolio until 30 September 2011. S&W received an annual portfolio management fee of 0.1% based on quarterly portfolio valuations. Additionally, S&W received an administration fee of £12.50 per trade (£50.00 for overseas stocks) plus 0.125% commission on the full consideration. Northern Trust Company Limited was appointed on 22 September 2011 to provide custodial services in relation to the portfolio. Under the terms of this agreement, Northern Trust Company Limited receives a safekeeping fee and transaction fees which vary by market, subject to a minimum fee of £12,000 per annum. Northern Trust Global Services Limited was appointed to provide administrative services in relation to the portfolio on 23 September 2011. Under the terms of this agreement, Northern Trust Global Services Limited receives a fee of 0.06% per month of the gross assets, subject to a minimum fee of £3,500 per month. Termination of the custody agreement requires 1 months written notice and termination of the administration agreement requires 3 months written notice.

Details of the fees paid during the year, in aggregate, to S&W, Northern Trust Company Limited and Northern Trust Global Services Limited are recorded in note 4 to the financial statements on page 28.

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 28.

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 the UK Corporate Governance 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 UK Corporate Governance 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 UK Corporate Governance Code at www.frc.org.uk.

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 fifth edition of the AIC Code, endorsed by the Financial Reporting Council ('FRC') in September 2010 and issued to members in October 2010, is applicable to the year under review.

Report of the Directors (continued)

The following table demonstrates how the principles of the 2010 AIC Code have been applied and explains those recommendations which were not complied with during the year.

The UK Corporate Governance 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 as explained in the UK Corporate Governance 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 23 May 2012. 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.
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 UK Corporate Governance 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 submitted for re-election at regular intervals. Nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance.	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 16.
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 4 and details of their interests in shares and meeting attendance can be found on pages 16 and 17, respectively. The Directors' Remuneration Report is set out on page 19. 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, length of service and knowledge of the Company.	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.

Principle	Company Compliance
7. The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	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. Following completion and summarising by the Company Secretary, the Board as a whole considers the evaluation results and discusses areas for improvement or change. The performance evaluation as detailed above was carried out in May 2012 in respect of the year ended 5 April 2012. No material issues were identified from this review.
8. Director remuneration should reflect their duties, responsibilities and the value of their time spent.	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 19.
9. The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the annual report.	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.
10. Directors should be offered relevant training and induction.	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. In addition, each of the Directors is encouraged to seek ongoing training opportunities, both in relation to their office with the Company and otherwise. A log of training and development events attended by Directors is maintained by the Company Secretary and reviewed regularly by the Chairman to ensure that each of the Directors is undertaking appropriate activity in this regard. 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.
11. The chairman (and the board) should be brought into the process of structuring a new launch at an early stage.	Not applicable to the Company at present.

Board Meetings and the Relationship with the Manager

12. Boards and managers should operate in a supportive, co-operative and open environment.	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 17.
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.	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. 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. 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. 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.

Report of the Directors (continued)

Principle	Company Compliance
14. Boards should give sufficient attention to overall strategy.	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.
15. The board should regularly review both the performance of, and contractual arrangements with, the manager (or executives of a self-managed company).	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. 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 11.
16. The board should agree policies with the manager covering key operational issues.	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. 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. 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.
17. Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.	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, 72,000 shares were issued at a premium to net asset value. Further details can be found under the 'Other Statutory Information' section on page 17.
18. The board should monitor and evaluate other service providers.	The Board has engaged external firms to undertake the secretarial, accounting, registration and custodial activities of the Company, and has delegated authority to them. 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. As a result of this review in 2011, the Board decided to change its registrar from Capita to Computershare. This change was made primarily for reasons of cost and the transition was effected on 6 January 2012. Also in 2011, the custodian and portfolio administrator changed from Smith & Williamson Investment Management Limited ('S&W') to Northern Trust Company Limited and Northern Trust Global Services Limited, respectively. This change had been necessitated by changes in staff and procedures at S&W which meant that they were no longer able to provide the full range of services required by the Company. At the time of the respective appointments, a review of potential providers was undertaken and the firms engaged were chosen on the basis of quality of services and value for money in the interests of the Company and shareholders as a whole.

Shareholder Communications

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.	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. 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. Shareholders and others may contact the Company and/or its service providers via the Company's website, www.capitalgearingtrust.com. 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.

Report of the Directors (continued)

Principle	Company Compliance
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.	The Board is directly involved in and responsible for communications on major corporate issues.
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.	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. 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. The Board voluntary publishes via a regulatory information service a monthly portfolio update, in addition to the required quarterly portfolio update as it is considered to be a useful update for shareholders and others taking an interest in the Company.

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 periodically. 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 UK Corporate Governance 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. 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 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 Code and UK Corporate Governance Code

Subject to the exceptions explained in the foregoing table and paragraphs, during the financial year the Company has complied with the recommendations of the 2010 AIC Code and the relevant provisions of the UK Corporate Governance 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 4.

	Ordinary shares of 25p each	
	5 April 2012	5 April 2011
Mr T R Pattison Non-Executive Chairman	**2,430**	2,430
Mr G A Prescott Non-Executive Director	**200**	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

*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 2012 to 28 May 2012. 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').

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 2011 to 5 April 2012 and the Directors' attendance is detailed below.

	Board (6)*	Audit Committee (3)
Mr T R Pattison	6	3
Mr G A Prescott	4	3
Mr E G Meek	4	3
Mr R P A Spiller	6	N/A

*Two telephone board meetings were held during the year to approve the issuance of shares. The attendance of all Directors was not required at these meetings.

All Directors attended the 2011 Annual General Meeting.

Substantial Shareholders

At 28 May 2012, 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	9.7%
Mr R P A Spiller	207,431	7.1%
Cazenove Capital Management Limited	168,791	5.8%
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 2012, 2,919,906 Ordinary Shares were in issue (2011: 2,847,906). During the financial year 72,000 Ordinary Shares were issued as follows: On 10 June 2011, 47,000 shares with an aggregate nominal value of £11,750 were issued to Cost Nominees Limited for a total consideration of £1,475,095. The market price of the shares on 10 June 2011, which was the date on which the terms of issue were fixed, was 3,115.0p per share. On 20 June 2011, 25,000 shares with an aggregate nominal value of £6,250 were issued to Winterflood Securities Limited for a total consideration of £784,250. The market price of the shares on 20 June 2011, which was the date on which the terms of issue were fixed, was 3,085.0p 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 18.
- 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 Friday, 13 July 2012 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 37 to 39. Resolutions relating to the items of special business as detailed below will be proposed at the AGM.

Resolution 8 – Authority to allot shares and Resolution 9 – Authority for the disapplication of pre-emption rights

At the AGM held on 5 July 2011 ('2011 AGM'), the Directors were given the authority until the date of the next AGM to allot up to 949,302 Ordinary Shares and to disapply pre-emption rights in respect of up to 10% of these shares. During the financial year, 72,000 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 973,302 Ordinary Shares, in aggregate a nominal value of £243,325.50, 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 291,990 Ordinary Shares at the date of this report with an aggregate nominal value of £72,997.50) 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 10 – Authority to make market purchases of the Company's own shares

At the 2011 AGM, the Directors were given the authority until the date of the next AGM to buy-back up to 426,901 Ordinary Shares (14.99% of the issued share capital at the date of the 2011 AGM). This authority was not exercised during the financial year and so remained in force at 5 April 2012.

At this year's AGM, the Directors are seeking authority to buy-back up to 437,693 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 2013 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 11 – Notice of general meetings

At the Company's 2011 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 11 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
28 May 2012

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 21. 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 28.

	2012 £'000	2011 £'000
Mr T R Pattison (Chairman of the Board)	**23**	22
Mr G A Prescott (Chairman of the Audit Committee from 7 July 2010)	**18**	17
Mr R P A Spiller	**16**	15
Mr E G Meek	**16**	15
Mr J C Morton (Director and Chairman of the Audit Committee until 7 July 2010)	**–**	9
	73	78

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 graphs

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 pages 2 and 3, respectively. A graph comparing the Company's share price total return (assuming all dividends are reinvested) to shareholders over the last five years, with the FTSE Equity Investment Instruments Index, which reflects the performance of similar companies, is shown on page 2.

By Order of the Board

TMF Nominees Limited
Company Secretary
28 May 2012

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 4 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
28 May 2012

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 2012 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 20, 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 2012 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 10, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Kevin MacAllister (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
28 May 2012

Income Statement

for the year ended 5 April 2012

	Note	**Revenue £'000**	**Capital £'000**	**2012 Total £'000**	Revenue £'000	Capital £'000	2011 Total £'000
Net gains on investments	9	**–**	**7,206**	**7,206**	–	5,781	5,781
Exchange losses	9	**–**	**(7)**	**(7)**	–	(247)	(247)
Investment income	2	**1,325**	**–**	**1,325**	1,249	–	1,249
Gross return		**1,325**	**7,199**	**8,524**	1,249	5,534	6,783
Investment management fee	3	**(282)**	**(422)**	**(704)**	(186)	(434)	(620)
Transaction costs		**–**	**(53)**	**(53)**	–	(53)	(53)
Other expenses	4	**(371)**	**–**	**(371)**	(356)	–	(356)
Net return on ordinary activities before tax		**672**	**6,724**	**7,396**	707	5,047	5,754
Tax on ordinary activities	6	**(125)**	**84**	**(41)**	(148)	91	(57)
Net return attributable to equity shareholders	15	**547**	**6,808**	**7,355**	559	5,138	5,697
Return per Ordinary Share	8	**18.82p**	**234.24p**	**253.06p**	19.81p	182.06p	201.87p

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 2012

	2012 £'000	2011 £'000
Net return attributable to equity shareholders	**7,355**	5,697
Total gains and losses recognised for the year	**7,355**	5,697

The notes on pages 26 to 36 form an integral part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

for the year ended 5 April 2012

	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 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
Balance at 6 April 2011		712	9,621	16	10,686	52,820	1,695	75,550
Share issues	12	18	2,241	–	–	–	–	2,259
Exchange gains/(losses) on investments	9	–	–	–	12	(19)	–	(7)
Net gains on realisation of investments	9	–	–	–	–	8,386	–	8,386
Net decrease in unrealised appreciation	9	–	–	–	(1,180)	–	–	(1,180)
Transfer on disposal of investments		–	–	–	(2,037)	2,037	–	–
Transaction costs	9	–	–	–	(39)	(14)	–	(53)
Costs charged to capital	3	–	–	–	–	(422)	–	(422)
Tax on costs charged to capital	6	–	–	–	–	84	–	84
Net revenue for the year		–	–	–	–	–	547	547
Total		730	11,862	16	7,442	62,872	2,242	85,164
Dividends	7	–	–	–	–	–	(527)	(527)
Balance at 5 April 2012		730	11,862	16	7,442	62,872	1,715	84,637

The notes on pages 26 to 36 form an integral part of these financial statements.

Balance Sheet

at 5 April 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Investments:			
Listed investments	9	**82,418**	72,440
Current assets			
Debtors	10	**2,426**	2,571
Cash at bank		**27**	759
		2,453	3,330
Creditors: amounts falling due within one year	11	**(234)**	(220)
Net current assets		**2,219**	3,110
Net assets		**84,637**	75,550
Capital and reserves			
Called up share capital	12	**730**	712
Share premium account	13	**11,862**	9,621
Capital redemption reserve	13	**16**	16
Capital reserve arising on investments held	13	**7,442**	10,686
Capital reserve arising on investments sold	13	**62,872**	52,820
Revenue reserve	13	**1,715**	1,695
Total equity shareholders' funds	15	**84,637**	75,550
Net asset value per Ordinary Share	14	**2,898.6p**	2,652.8p

Approved by the Board on 28 May 2012 and signed on its behalf by:

Mr T R Pattison
Chairman

The notes on pages 26 to 36 form an integral part of these financial statements.

Company Number: NI 005574

Cash Flow Statement

for the year ended 5 April 2012

	Note	2012 £'000	2011 £'000
Net cash inflow from operating activities	16	**350**	323
Taxation			
Foreign tax paid on investment income		**(41)**	(56)
Capital expenditure and financial investment			
Payments to acquire investments		**(35,239)**	(21,207)
Receipts from sale of investments		**32,407**	17,710
		(2,832)	(3,497)
Equity dividends paid	7	**(527)**	(629)
Management of liquid resources			
Change in cash held by the custodian awaiting investment		**59**	2,696
Financing			
Issue of ordinary share capital	12	**2,259**	1,520
(Decrease)/increase in cash	18	**(732)**	357

The notes on pages 26 to 36 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 £466,000 (2011: £359,000).

Under the current Articles of Association of the Company, 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. Following a review of the allocation of the investment management fees, with effect from 6 April 2011, the investment management fees have been allocated 60% (2011: 70%) to capital reserve arising on investments sold and 40% (2011: 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

	2012 £'000	2011 £'000
Income from investments:		
Income from UK bonds	**208**	184
Income from UK equity and non-equity investments	**277**	193
Interest from overseas bonds	**838**	870
	1,323	1,247
Deposit interest	**2**	2
Total income	**1,325**	1,249

	2012 £'000	2011 £'000
Total income comprises:		
Dividends	**277**	193
Interest	**1,048**	1,056
	1,325	1,249

	2012 £'000	2011 £'000
Income from investments comprises:		
Listed in the UK	**485**	377
Listed overseas	**838**	870
	1,323	1,247

Notes to the Financial Statements (continued)

3 Investment management fee

	Revenue £'000	Capital £'000	2012 Total £'000	Revenue £'000	Capital £'000	2011 Total £'000
Investment management fee	**282**	**422**	**704**	186	434	620

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 2012 £179,516 (2011: £158,714) was payable. The percentage allocation of the investment management fee charged to capital and revenue was changed from 70:30 to 60:40 with effect from 6 April 2011 as explained further in note 1(e) on page 26.

4 Other expenses

	2012 £'000	2011 £'000
Administrative expenses:		
Portfolio administration	**82**	87
Fees payable to company auditor for the audit of company accounts	**16**	20
Fees payable to company auditor for other services:		
Services relating to taxation	**16**	15
Other services	**4**	3
Directors' remuneration (note 5)	**73**	78
Company secretarial and accountancy services	**95**	95
General expenses	**85**	58
	371	356

The above expenses include irrecoverable VAT where appropriate.

5 Directors' fees

	2012 Total £'000	2011 Total £'000
The fees payable to the Directors were as follows:		
Mr T R Pattison	**23**	22
Mr G A Prescott	**18**	17
Mr R P A Spiller	**16**	15
Mr E G Meek	**16**	15
Mr J C Morton	**–**	9
	73	78

Mr R P A Spiller's fees are paid directly to his employer. The Company made no pension contributions (2011: £nil) in respect of Directors and no pension benefits are accruing to any Director (2011: £nil).

Mr R P A Spiller received remuneration totalling £91,000 (2011: £59,000) 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 and with Mr R P A Spiller directly, are disclosed in notes 3 and 20. 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	2012 Total £'000	Revenue £'000	Capital £'000	2011 Total £'000
Current tax:						
Corporation tax	**(84)**	**84**	**–**	(91)	91	–
Foreign tax	**(41)**	**–**	**(41)**	(56)	–	(56)
Adjustment in respect of prior year:						
Foreign tax	**–**	**–**	**–**	(1)	–	(1)
Total current tax	**(125)**	**84**	**(41)**	(148)	91	(57)

The current tax charge is reconciled to the standard rate of Corporation Tax of 20% (2011: 20.95%) by the following factors:

	Revenue £'000	Capital £'000	2012 Total £'000	Revenue £'000	Capital £'000	2011 Total £'000
Return on ordinary activities before taxation	**672**	**6,724**	**7,396**	707	5,047	5,754
Return on ordinary activities at the standard rate of UK Corporation Tax	**134**	**1,345**	**1,479**	148	1,060	1,208
UK franked dividends*	**(55)**	**–**	**(55)**	(40)	–	(40)
Capital returns*	**–**	**(1,429)**	**(1,429)**	–	(1,151)	(1,151)
Unrelieved loss for the year	**5**	**–**	**5**	–	–	–
Foreign tax	**41**	**–**	**41**	56	–	56
Double tax relief	**–**	**–**	**–**	(17)	–	(17)
Under provision in prior year	**–**	**–**	**–**	1	–	1
Current tax charge for the year	**125**	**(84)**	**41**	148	(91)	57

* 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.

7 Dividends

	2012 £'000	2011 £'000
Ordinary Shares		
2011 dividend paid 11 July 2011 (18.5p per share)	**527**	–
2010 dividend paid 12 July 2010 (22.5p per share)	**–**	629

The Directors have recommended to shareholders a final dividend of 18.5 pence per share for the year ended 5 April 2012. If approved, this dividend will be paid to shareholders on 19 July 2012. 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 £540,000.

	2012 £'000	2011 £'000
Revenue available for distribution by way of dividend for the year	**547**	559
Proposed final dividend of 18.5p for the year ended 5 April 2012	**(540)**	(527)
Undistributed revenue for purposes of Chapter 4 of Part 24 of the Corporation Tax Act 2010*	**7**	32

* Undistributed revenue comprises approximately 0.5% (2011: 2.6%) of income from investments of £1,323,000 (2011: £1,247,000).

Notes to the Financial Statements (continued)

8 Return per Ordinary Share
The return per Ordinary Share of 253.06p (2011: 201.87p) is based on the total net return after taxation for the financial year of £7,355,000 (2011: £5,697,000) and on 2,906,436 (2011: 2,822,213) Ordinary Shares, being the weighted average number of Ordinary Shares in issue in each year.

Revenue return per Ordinary Share of 18.82p (2011: 19.81p) is based on the net revenue return on ordinary activities after taxation of £547,000 (2011: £559,000) and on 2,906,436 (2011: 2,822,213) Ordinary Shares, being the weighted average number of Ordinary Shares in issue in each year.

Capital return per Ordinary Share of 234.24p (2011: 182.06p) is based on the net capital return for the financial year of £6,808,000 (2011: £5,138,000) and on 2,906,436 (2011: 2,822,213) 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

	2012 £'000	2011 £'000
Investments comprise –		
Listed investment companies:		
Incorporated in the United Kingdom	**22,493**	18,316
Incorporated overseas	**4,928**	5,919
Listed United Kingdom government bonds	**6,624**	7,235
Listed United Kingdom non-government bonds	**3,743**	2,860
Listed overseas government bonds	**38,828**	32,460
Miscellaneous international equities	**5,802**	5,650
	82,418	72,440
Cost of investments held at 6 April	**61,754**	53,511
Unrealised appreciation at 6 April	**10,686**	9,951
Fair value of investments held at 6 April	**72,440**	63,462
Additions at cost	**35,239**	21,207
Disposals proceeds	**(32,407)**	(17,710)
Transaction costs	**(53)**	(53)
Exchange losses	**(7)**	(247)
Disposals – realised gains	**8,386**	1,938
(Decrease)/increase in unrealised appreciation	**(1,180)**	3,843
Fair value of investments held at 5 April	**82,418**	72,440
Book cost at 5 April	**74,976**	61,754
Unrealised appreciation at 5 April	**7,442**	10,686
	82,418	72,440
Exchange losses	**(7)**	(247)
Disposals – realised gains	**8,386**	1,938
(Decrease)/increase in unrealised appreciation	**(1,180)**	3,843
Gains on investments	**7,206**	5,781

The geographical spread of investments is shown on page 7.

10 Debtors

	2012 £'000	2011 £'000
Cash held by the custodian awaiting investment	**2,092**	2,151
Prepayments and accrued income	**334**	420
	2,426	2,571

Notes to the Financial Statements (continued)

11 Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Accruals and deferred income	**234**	220

12 Called up share capital

	2012 £'000	2011 £'000
Allotted and fully paid		
At the beginning of the year: 2,847,906 Ordinary Shares (2011: 2,794,906)	**712**	699
Allotted during the year: 72,000 Ordinary Shares (2011: 53,000)	**18**	13
At the end of the year: 2,919,906 Ordinary Shares (2011: 2,847,906)	**730**	712

The Company allotted 72,000 Ordinary Shares of 25p each in the year (2011: 53,000) for a consideration of £2,259,000 (2011: £1,520,000).

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 2011	9,621	16	10,686	52,820	1,695
Share issues	2,241	–	–	–	–
Exchange gains/(losses) on investments	–	–	12	(19)	–
Net gains on realisation of investments	–	–	–	8,386	–
Net decrease in unrealised appreciation	–	–	(1,180)	–	–
Transfer on disposal of investments	–	–	(2,037)	2,037	–
Transaction costs	–	–	(39)	(14)	–
Costs charged to capital	–	–	–	(422)	–
Tax on costs charged to capital	–	–	–	84	–
Net revenue for the year	–	–	–	–	547
Dividends (note 7)	–	–	–	–	(527)
Balance at 5 April 2012	11,862	16	7,442	62,872	1,715

Under the current Articles of Association of the Company, 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

	2012	2011
Ordinary Shares (basic)	**2,898.6p**	2,652.8p

Net asset value attributable to

	2012 £'000	2011 £'000
Ordinary Shares (basic)	**84,637**	75,550

The movements during the year in the assets attributable to the Ordinary Shares are detailed in note 15 on page 32.

Net asset value per Ordinary Share is based on the net assets, as shown above, and on 2,919,906 (2011: 2,847,906) 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

	2012 £'000	2011 £'000
Opening equity shareholders' funds	**75,550**	68,962
Issued share capital	**2,259**	1,520
Total recognised gains for the year	**7,355**	5,697
Dividends (Note 7)	**(527)**	(629)
Closing equity shareholders' funds	**84,637**	75,550

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

	2012 £'000	2011 £'000
Net revenue before finance costs and taxation	**672**	707
Investment management fee charged to capital	**(422)**	(434)
Increase/(decrease) in creditors	**14**	(4)
Decrease in prepayments and accrued income	**86**	54
Net cash inflow from operating activities	**350**	323

17 Analysis of net funds

	2012 £'000	2011 £'000
Cash at bank	**27**	759

18 Reconciliation of net cash flow to movement in net funds

	2012 £'000	2011 £'000
Net funds at the beginning of the year	**759**	402
(Decrease)/ increase in cash for the year	**(732)**	357
Net funds at the end of the year	**27**	759

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 (excluding prepayments and deferred income).

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 7 and 8. 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.

	2012 5% increase in market prices £'000	**2012 5% decrease in market prices £'000**	2011 5% increase in market prices £'000	2011 5% decrease in market prices £'000
Income statement – net return after taxation				
Revenue return	**(14)**	**14**	(10)	10
Capital return	**4,104**	**(4,104)**	3,605	(3,605)
Total return after taxation	**4,090**	**(4,090)**	3,595	(3,595)
Net assets	**4,090**	**(4,090)**	3,595	(3,595)
Net asset value per share	**140.07p**	**(140.07)p**	126.23p	(126.23)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.

	2012 1% increase in market rates £'000	**2012 1% decrease in market rates £'000**	2011 1% increase in market rates £'000	2011 1% decrease in market rates £'000
Income statement – net return after taxation				
Revenue return	**17**	**(17)**	17	(17)
Capital return	**–**	**–**	–	–
Total return after taxation	**17**	**(17)**	17	(17)
Net assets	**17**	**(17)**	17	(17)
Net asset value per share	**0.58p**	**(0.58)p**	0.60p	(0.60)p

19 Financial instruments continued

The interest rate profile of the Company's assets at 5 April 2012 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	27,421	–	–	–	27,421	–	–
UK government bonds – index linked	6,624	–	6,624	–	–	0.6	16.2
UK non-government bonds	3,743	–	–	3,743	–	3.4	6.0
Overseas government bonds – index linked	33,028	–	33,028	–	–	1.2	11.9
Overseas government bonds	5,800	–	–	5,800	–	2.9	8.8
Other equities	5,802	–	—	–	5,802	–	–
Deposits	2,092	2,092	–	–	–	–	–
Invested Funds	84,510	2,092	39,652	9,543	33,223	–	–
Cash at bank	27	–	–	–	27	–	–
Other debtors	334	–	–	–	334	–	–
Liabilities							
Creditors	(234)	–	–	–	(234)	–	–
Total net assets	84,637	2,092	39,652	9,543	33,350	–	–

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	74,591	2,151	24,685	17,870	29,885	–	–
Cash at bank	759	–	–	–	759	–	–
Other debtors	420	–	–	–	420	–	–
Liabilities							
Creditors	(220)	–	–	–	(220)	–	–
Total net assets	75,550	2,151	24,685	17,870	30,844	–	–

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:

	2012 Investments £'000	2012 Accrued interest £'000	2011 Investments £'000	2011 Accrued interest £'000
Canadian Dollar	1,140	9	1,256	9
Euro	5,274	70	10,427	239
US Dollar	22,249	65	13,979	46
Swedish Krona	6,649	44	2,376	22
Swiss Franc	4,932	29	6,817	44
Australian Dollar	271	–	230	–
Japanese Yen	1,669	7	–	–
	42,184	224	35,085	360

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.

	2012 5% appreciation of Sterling £'000	2012 5% depreciation of Sterling £'000	2011 5% appreciation of Sterling £'000	2011 5% depreciation of Sterling £'000
Income statement – net return after taxation				
Revenue return	(34)	34	(34)	34
Capital return	(2,122)	2,122	(1,754)	1,754
Total return after taxation	(2,156)	2,156	(1,788)	1,788
Net assets	(2,156)	2,156	(1,788)	1,788
Net asset value per share	(73.84)p	73.84p	(62.78)p	62.78p

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.

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:

	2012 Balance sheet £'000	**2012 Maximum exposure £'000**	2011 Balance sheet £'000	2011 Maximum exposure £'000
Fixed assets – listed investments at fair value through profit and loss	**82,418**	**49,195**	72,440	42,555
Debtors – amounts due from the custodian, dividends and interest receivable	**2,417**	**2,417**	2,563	2,563
Cash at bank	**27**	**27**	759	759
	84,862	**51,639**	75,762	45,877

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 2012 of £84,637,000 (2011: £75,550,000) 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 in respect of the year ended 5 April 2012, 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. In addition, Mr R P A Spiller purchased investments at market value from the Company for £243,000 and the Company's Investment Manager, CG Asset Management Limited, of which Mr R P A Spiller is a director, purchased investments at market value from the Company for £349,000. Both transactions took place with the prior approval of the Chairman.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Forty Ninth Annual General Meeting of the Company will be held at the offices of Smith & Williamson Investment Management Limited, 25 Moorgate, London EC2R 6AY on Friday, 13 July 2012 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 2012.

2. To approve the Directors' Remuneration Report for the year ended 5 April 2012.

3. To declare a final dividend for the year ended 5 April 2012.

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-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.

7. 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 8 as an Ordinary Resolution and as to resolutions 9, 10 and 11 as Special Resolutions.

Ordinary Resolution

Authority to allot shares

8. 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 £243,325.50 (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 973,302 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 2013, 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

9. 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 8 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 £72,997.50 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 2013, 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

10. 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 437,693 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 2013 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

11. 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
28 May 2012

Location of Annual General Meeting

Smith & Williamson Investment Management Limited 25 Moorgate London EC2R 6AY	at 11.00 a.m. on Friday, 13 July 2012
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 the 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, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY not later than 11.00 a.m. on 11 July 2012 (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: 3RA50) 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 8 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 9 to 11 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 28 May 2012 (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 2,919,906.
12. Biographical details of the Directors seeking re-election can be found at page 4 of the Report and Accounts.
13. Copies of the letters of appointment for the non-executive Directors 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, 5th Floor, 6 St. Andrew Street, London EC4A 3AE, 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

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	Weekly
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

Access for the hard of hearing to the services of the Registrar to the Company, Computershare Investor Services PLC, is provided by their contact centre's text phone service on 0870 702 0005. 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

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	Computershare Investor Services PLC The Pavilions, Bridgwater Road, Bristol BS13 8AE
Shareholder Services	Computershare Investor Services PLC The Pavilions, Bridgwater Road, Bristol BS13 8AE Contact telephone number: 0870 873 5864 Phonelines are open from 8.30 a.m. to 5.30 p.m., Monday to Friday
Investment Manager	CG Asset Management Limited 25 Moorgate, London EC2R 6AY
Custodian & Administrator	Northern Trust 50 Bank Street, Canary Wharf, London E14 5NT
Bankers	Northern Bank Limited Donegall Square West, Belfast BT1 6JS
Independent 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:	**2012 Number of shares**	**2012 % of Issued capital**	2011 Number of shares	2011 % of Issued capital
Nominee Companies	**2,191,743**	**75.1**	2,105,877	73.9
Private Shareholders	**701,687**	**24.0**	714,327	25.1
Banks and Other Companies	**26,476**	**0.9**	27,702	1.0
	2,919,906	**100**	2,847,906	100

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www.capitalgearingtrust.com