Interim report 2005

Six months to 30 September 2005

CALEDONIA INVESTMENTS

Performance driven

Caledonia is a self-managed investment trust that actively manages a focused portfolio of significant stakes in companies and situations where it believes there to be good opportunities for building value.

Caledonia's objective is consistently to achieve a long term shareholder return in excess of the FTSE All-Share Total Return while maintaining a progressive annual dividend.

Contents

Highlights

- Outperformance against benchmarks of 131% and 153% over five and ten years
- 2.5% outperformance of NAV per share against FTSE All-Share over the six months
- Company total return for the six months of £150m or 237p per share
- 4.6% increase in interim dividend to 9.1p
- Narrowing of share price discount to NAV from 11% to 7% over the six months

Performance

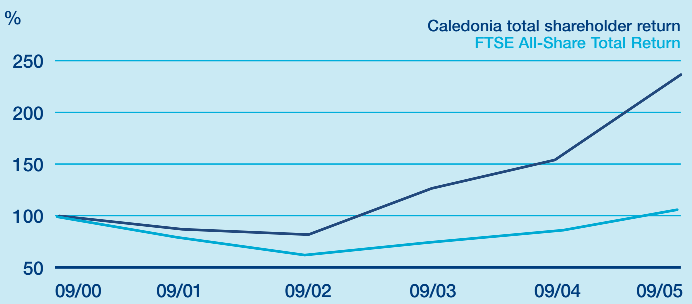
	10 year %	5 year %	1 year %
Share price total return	268.2	137.1	53.2
FTSE All-Share Total Return	115.5	5.8	24.9
Total return outperformance	152.7	131.3	28.3

Results summary

	30 Sep 2005	31 Mar 2005	Change %
Total shareholders' funds	£1,115.8m	£978.3m	14.1
Net asset value per share	1762p	1543p	14.2
Share price	1633p	1367p	19.5
Discount	7.3%	11.4%	36.0
FTSE All-Share index	2745.8	2457.7	11.7
Interim dividend per share	9.1p	8.7p	4.6
Final dividend per share	–	19.5p	

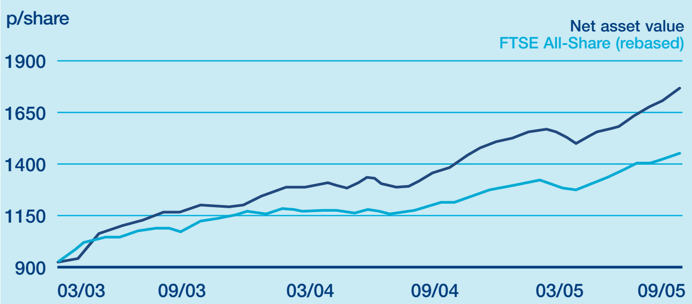
Results are based on the company balance sheet as restated and presented under IFRS.

Total shareholder return growth over five years



Source: FTSE/Datastream

Net asset values since investment trust conversion



Chairman's statement

Our net assets per share have again outperformed the FTSE All-Share over the six months and continue to show handsome comparisons with our benchmarks.

Results

The first half of our third year as an investment trust company has again shown outperformance in the growth of our net assets per share compared with the FTSE All-Share index. The improvement of 14.2% to 1762p, compared with an uplift in the index of 11.7%, speaks for itself and represents the fifth consecutive six monthly period of outperformance since we became an investment trust. Our longer term total return performance over five and ten years continues to show handsome comparisons with our benchmarks, as detailed by Tim Ingram in his chief executive's report.

Dividends

The directors have declared an increased interim dividend of 9.1p per share, representing an uplift of 4.6%. This increase is in line with our policy of maintaining a progressive annual dividend.

Share price

The discount of our share price to the corresponding net assets per share has continued to narrow over the period under review, reducing from 11.4% to 7.3%. I would again remind shareholders that our share price is ultimately not within our control, but we have made determined efforts to widen the appeal of our shares, particularly to retail investors.

Portfolio

Our portfolio continues to reflect our longer term approach to investment and the importance which we attach to the quality of investee management teams and our ability to work closely with them. The period under review, and since, has seen an eagerness by some to pay high prices for assets and businesses and this has led to some worthwhile disposals for us. Such high values however are not so conducive to making investments and, although we continue to see an interesting flow of opportunities, we remain determined not to overpay. As a result, our liquidity has increased markedly over the six months from £40m to £82m, notwithstanding that we have invested some £57m during the six month period. Since the end of the half year, our liquidity has again increased significantly as a result of further realisations.

Details of the changes in our portfolio are given in the chief executive's report and include a further reduction of our holding in Kerzner International and, since the end of the period, the realisation of Paladin Resources and Sterling Hydraulics. Paladin is by far the largest of the realisations, which should generate some £108m in cash, giving an expected internal rate of return in excess of 40%. Our largest new investment comprised £18m for a 22% stake in Satellite Information Services, a distributor of media to betting offices. We believe the prospects in India and China offer good scope for economic growth and we have modestly increased our interests in the former and have made our first small direct investment in the latter.

Outlook

Stock market values have continued to grow over the past six months, notwithstanding the substantial increase in the price of oil. In the past, such increases have impacted markets unfavourably, but this time, because such increases, when taken over the longer term, have not outrun inflation, markets have not so far been adversely affected. Other factors, such as the blatant unwillingness of European governments to foster more open and competitive economies, cause us greater worry and we are not therefore concerned about our present strong liquid position. Rather, this gives us the strength to continue making investments according to our well proven investment strategy which is not overly dependent on stages in the economic cycle.

Peter Buckley
Chairman

Chief executive's report

Over the six months we have successfully realised a number of investments and continue to see a strong flow of good business opportunities, where our long term approach is valued and can create outperformance.

Markets

The six months to 30 September 2005 initially saw some strong gains in equity markets. Although price multiples are not particularly excessive, the influence of significantly higher oil prices and faltering consumer spending – with very high levels of consumer debt – are likely to have some effect on markets. Although we take a long term view on our investments, we have nonetheless been increasing liquidity and our cash position over the six months has grown from £40m (4.0%) to £82m (7.3%). In the two months since the end of September, our cash position has substantially increased as a result of further investment sales. As explained in the chairman's statement, this strong cash position does not so much arise from our taking a deliberate view to become more liquid, but is more the result of a good period for realisations while also a period where it has been more difficult to find good new investments at attractive price levels.

Performance

Our five year total shareholder return ('TSR') to 30 September 2005 was 137%, while the FTSE All-Share Total Return was just 6%. Over the ten year period, our TSR of 268% contrasts well with the 115% total return of the FTSE All-Share. Our TSR performance puts us easily into the top quartile of global growth investment trusts for both the five and ten year periods.

Since our conversion to investment trust status on 1 April 2003, our published net asset value ('NAV') per share has increased by 94% to 1762p, representing an outperformance of 36% over this 30-month period when compared with the FTSE All-Share index. As explained more fully in the finance director's report, our NAV per share figure at 30 September 2005 has been prepared for the first time on an International Financial Reporting Standards basis, which has had the effect of reducing the reported NAV per share by 10p (0.6%) compared with the figure calculated in accordance with UK Generally Accepted Accounting Practice.

Share price discount

Although our efforts are essentially concentrated on growing NAV per share while maintaining our progressive dividend policy, we have continued to implement measures that can have a beneficial effect on narrowing the discount of our share price to NAV per share. These initiatives have included broadening the awareness of our shares among retail investors, whom we believe to have long term aspirations congruent with our own objectives. The percentage of our shareholder register owned by private shareholders continues steadily to increase.

In line with these initiatives, our share price discount has continued to narrow from 11.4% at 31 March 2005 to 7.3% at 30 September 2005.

Activity

In the first six months of our financial year, we have made £57m of new and follow-on investments. Nearly half of these were new investments and included £18.0m for a 22% stake in Satellite Information Services, a UK unquoted company specialising in the distribution of media to licensed betting offices. Follow-on investments included a further £8.2m in Alok Industries, an Indian listed textile manufacturing company, bringing the total cost of our investment in Alok to £11.4m for a 10.6% holding.

Over the same period we realised £111m of investments. These included £24.9m from our share in the sale of assets of General Practice Group, which builds and owns doctors' surgeries in the UK, £22.5m from a sale of part of our holding in Kerzner International, the US listed resorts developer and operator, and £20.4m from the sale of our entire shareholding in F&C Asset Management, the UK quoted fund manager.

Since the end of our half year, we announced the sale of 25m shares in the oil and gas company, Paladin Resources, to Talisman Energy Resources for 355p per share, producing £88.7m in cash, and that we have given an undertaking to accept Talisman's agreed public offer for Paladin at 355p per share in respect of our remaining 5.5m shares, which has now gone unconditional. We agreed to the outright sale of the 25m shares to enable the public offer to proceed following recommendations from Paladin's management, whom we have backed for many years. We also, in October, announced the sale of Sterling Hydraulics, a division of our wholly owned subsidiary, Sterling Industries, for £33.2m in cash. In addition, in October, we received £10.7m in cash from our share in the sale of MORI, the market research company.

Given our increasing liquidity during the first half of our financial year, we reduced our committed term bank facilities to £10m, and in October cancelled these altogether, while retaining our £10m overdraft facility for operational reasons.

The future

We continue to see a strong flow of good business opportunities where our long term active approach is valued and can create outperformance. We are, however, cautious in our evaluation of such opportunities and our present expectations are that we are likely to remain significantly liquid for at least the next twelve months.

Tim Ingram
Chief executive

Finance director's report

Following substantial realisations during the period and since, committed bank facilities have been cancelled and there has been a focus on optimising returns from increased liquidity. International Financial Reporting Standards have been adopted for the first time.

The chairman's statement and the chief executive's report contain information on the company's performance during the period under review. This report addresses the effect of adopting International Financial Reporting Standards ('IFRS') for the first time, our investment valuation policy and discusses the cash position of the company.

International Financial Reporting Standards

European Union regulation requires the next annual consolidated financial statements of the company, for the year ending 31 March 2006, to be prepared in accordance with IFRS.

These interim accounts have been prepared in accordance with IFRS for the first time. The overall effect as at 30 September 2005 has been to reduce the reported net asset value ('NAV') per share by 10p to 1762p, compared with the NAV per share that would have been reported under UK Generally Accepted Accounting Practice ('UK GAAP'). The key elements affecting the preparation of our September 2005 results are as follows:

- The requirement under IAS 39 'Financial Instruments: Recognition and Measurement' to value quoted investments at bid price. We previously reported quoted investments at mid-market price under UK GAAP.
- The requirement under IFRS 2 'Share-based Payment' to expense the fair value of share options granted over the vesting period. There was no such requirement under UK GAAP.

Valuation policy

Investments have been valued by the directors in compliance with the principles of the International Private Equity and Venture Capital Valuation Guidelines.

It should be noted that actual proceeds from the disposal of any individual investment from the portfolio will inevitably depend upon market and economic conditions prevailing at the time.

Unquoted investments

Unquoted investments are stated at amounts considered by the directors to be a reasonable assessment of their fair value, subject to the requirement to apply a degree of caution in making the necessary estimates. Fair value is the amount at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Investments are valued at cost for a limited period after the date of acquisition.

The earnings multiple method is used for investments in established businesses with an identifiable stream of continuing earnings that can be considered to be maintainable. Profits before interest and tax of the current year will normally be used and adjusted to a maintainable basis, taxed at the full corporation tax rate and multiplied by an appropriate and reasonable earnings multiple.

Where a company is loss-making, or the value is derived mainly from the underlying value of its assets rather than its earnings, the valuation may be calculated with regard to the underlying net assets. Where there has been a subsequent recent investment by a third party that is deemed to be at arm's length, this may be used as the basis of valuation. In cases where an exit is actively being sought, any offers from potential purchasers would be relevant in assessing the valuation of an investment and are taken into account in arriving at the valuation.

Where appropriate, a marketability discount, in the range of 10% to 30%, may be applied to the investment valuation, based on the likely timing of an exit, the influence over that exit, the risk of achieving conditions precedent to that exit and general market conditions.

In arriving at the value of an investment, the percentage ownership is calculated after taking into account any dilution through outstanding warrants, options and performance related mechanisms.

Quoted investments

Quoted investments are valued at bid price or the conventions of the market on which they are quoted subject, if appropriate, to marketability discounts where formal restrictions on trading exist.

Cash flow and gearing

The company's activities in the six months to 30 September 2005 resulted in net funds rising from £39.6m to £82.3m. In consequence of this increased liquidity, we reduced the quantum of our committed bank facilities during the period from £70m to £10m and, following additional liquidity events after the period end, have cancelled the remainder whilst retaining an overdraft facility of £10m. We have placed all but £40m of the funds on term deposit with investment grade banks, the balance being placed in money market funds where we believe that enhanced returns should be available at acceptable levels of risk.

Jonathan Cartwright

Jonathan Cartwright
Finance director

Investment review

Financial

Close Brothers
valuation: £149.5m; holding: 12.4%
Close Brothers is the largest independent quoted merchant bank in the UK and Caledonia has been a supportive shareholder for nineteen years. The success of this investment, due in no small part to its sound management, has resulted in it remaining our largest investment by value at 30 September 2005, notwithstanding that, in 1998 and 2004, we realised proceeds aggregating to some £104m.

For its year to 31 July 2005, Close Brothers reported another set of good results. Earnings before tax and goodwill amortisation rose by 11% despite quite difficult trading conditions, yielding a return on shareholders' funds amounting to 26%. The contribution from the asset management division increased strongly by 83% to £31.8m, with funds under management rising by 27% to £7.1bn. Corporate finance income rose by 18% and market making continued to make a strong operating margin of 37% on income, with an even better return on funds employed, though slightly behind the previous year. Banking produced a higher overall result despite more difficult trading conditions. It is encouraging to note that all four divisions have made a good start to their current financial year.

Rathbone Brothers
valuation: £39.7m; holding: 11.1%
Rathbone Brothers is a leading provider of discretionary fund management and wealth management services for private clients and trustees.

For the six months to 30 June 2005, Rathbones again reported significantly improved results. Pre-tax profits (before one-off costs of £1.4m associated with its unsuccessful approach to Rensburg) increased by 21.1% to £16.1m. Total funds under management rose by 9.1% to £8.4bn, including funds under management in the unit trust company which are now over £1bn. Reported earnings per share rose by 9.4% to 25.5p (2004 – 23.3p) but, excluding one-off costs, the six months earnings would have risen by 19.5%. The interim dividend was increased by 9.5% to 11.5p per share.

Oval
valuation: £17.9m; holding: 27.4%
Oval is a UK commercial insurance and financial services broking business with annualised fee and commission turnover of about £50m. It was established in 2003 to acquire and integrate the best of the regional insurance broking businesses available in this fragmented sector, using a combination of cash and its own shares. Caledonia has been involved from the start and has provided a total of £17m in equity and convertible loan stock. Oval has now acquired, and begun integrating, the seven businesses of RP Hodson, Bland Bankart, Beddis & Partners, Halkett Associates, Barfield, Lochain Patrick (a Lloyd's broker now renamed Oval International) and, most recently, John Eke. Oval made a profit before tax of £2m in its year to 31 May 2005 and its rapid growth has enabled it to improve the terms of trade with insurers. Further economies of scale should be achievable and more acquisitions are planned.

Marketform
valuation: £14.7m; holding: 26.8%
Marketform is an unlisted Lloyd's insurance business in which its management has a substantial stake. It manages the business of a consortium of medical malpractice underwriters on a fee and profit commission basis and participates in the consortium through its own syndicate which also underwrites general liability insurance. All of its business is outside the USA. In 2003, Caledonia became a minority shareholder through an investment totalling £15m in equity and convertible loan notes. Marketform made a profit before tax of £6.2m in its year to 31 December 2004, which was broadly in line with expectations. Premium rates have steadied and the outlook continues to be attractive.

Leisure and media

Kerzner International
valuation: £91.5m; holding: 8.1%
Kerzner International ('KI') is a leading developer, owner and operator of luxury resort hotels and gaming properties worldwide. Caledonia has been involved with KI's management since the 1980s and was a founder investor in KI in 1994.

In June of this year, Caledonia again top-sliced its holding in KI, realising a further £22.5m at $58.01 per share. We have now realised about half of our original holding and the fact that our remaining 2.9m shares still constituted our fourth largest investment at 30 September gives some indication of its success.

KI's results for the nine months to 30 September 2005 showed record adjusted net income of $96.7m, reflecting a 31% increase over the comparable period in 2004. This improvement reflected a strong performance from Paradise Island in The Bahamas, which was not affected by hurricane activity this year, and also from its luxury One&Only resorts group, in which Palmilla in Mexico recorded particularly strong growth. The company's interest in the Mohegan Sun casino in Connecticut continued to improve and contributed $28.8m for the nine months.

KI's $730m Phase III expansion on Paradise Island, due to be fully completed in 2007, commenced this year and the plans to build a new Atlantis hotel resort on The Palm, Jumeirah in Dubai are progressing well, with construction expected to start towards the end of the year and with completion in 2008. KI's interest in this approximately $1.4bn project comprises a $200m 50% equity stake. In July, BLB, in which KI has an effective 37% interest, completed the $464m acquisition of the US operations of Wembley plc, of which the major component is the Lincoln Park racino in Rhode Island. Plans are in hand to redevelop this facility, including a substantial increase in the number of video lottery terminals.

A G Barr
valuation: £17.6m; holding: 9.4%
Caledonia has been a long term shareholder and supporter of A G Barr which manufactures, markets and distributes a range of carbonated soft drinks, including the well known brands of Irn-Bru and Tizer, as well as juice drinks and mineral water.

A G Barr announced interim results for its six months to 31 July 2005, which showed pre-tax profit growth of 5.7% before exceptional items on unchanged turnover and an increase of 5.4% in the interim dividend. The business is undergoing substantial change with the re-organisation of its Scottish operations and this was a good performance in tough market conditions for carbonated drinks. Management remain confident that the restructuring will deliver significant benefits in due course and of their ability to meet market expectations for the full year.

Incisive Media
valuation: £15.0m; holding: 9.5%
Incisive Media is one of the UK's foremost specialist providers of business information. Through leading magazines, consultancy, conferences and exhibitions, websites and a variety of other platforms, it serves a number of business sectors, especially in retail and wholesale financial markets. Caledonia first invested in Incisive Media in April 2004.

For its six months to 30 June 2005, Incisive Media reported an increase in total revenues of 12% and a 3% growth in pre-tax profits. Diluted earnings per share, reported on an IFRS basis for the first time, fell by 8%, reflecting both investment in organic growth and, in part, some weakness in advertising revenues in the second quarter. Management remain confident of a good second half and full year prospects.

Incisive Media recently acquired Search Engine Strategies, a market leading business that arranges trade shows and provides information in the online marketing sector. We were able to increase our shareholding in Incisive Media through the placing of equity to finance this acquisition.

Investment review

continued

Industrial and services

Paladin Resources
valuation: £95.7m; holding: 8.9%

Paladin is an independent oil and gas exploration and production company with assets in the North Sea, both in the UK and Norwegian waters, Australia, Indonesia, Romania, Tunisia and Gabon. Paladin reported very strong growth in its half year results to 30 June 2005. Production levels rose 10% to 46,000 barrels of oil equivalent per day ('boepd'), but the strength of the oil price was the main driver of financial returns. Revenue rose to £177.4m, with pre-tax profits rising by 115% to £101.6m and earnings per share increasing from 4.5p to 11.9p. The company announced a 79% increase in its interim dividend to 1.0p per share and the board outlined plans for a substantial increase in the final dividend. Most encouragingly, management indicated that they expected production levels to have reached 60,000 boepd by the year end.

In early October, the board of Paladin announced that it had received and was recommending an offer from Talisman Energy Resources, a listed Canadian oil and gas company, to purchase the entire share capital at 355p per share, valuing the company at £1.2bn. As a result of this offer, Caledonia was able to realise its entire holding for a sum of £108m, as explained in the chief executive's report.

Our holding in Paladin, which returned over six times our investment, was based upon our long standing relationship with its management, whom Caledonia had previously backed in Clyde Petroleum. Roy Franklin and his team should be congratulated on their consistent ability to create value for shareholders.

Sterling Industries
valuation: £30.3m; holding: 100%

Sterling Industries comprised two divisions, Hydraulics and Thermal Process. Sterling Hydraulics is a specialist designer and manufacturer of hydraulic valves primarily used in the construction machinery sector. Following a period of strong growth, both in the market in which Sterling Hydraulics operates and in the profits of the company, it was decided to take advantage of consolidation within this sector and sell this division to Parker Hannifin Corporation of the US for £33.2m. This sale completed in October 2005.

The remaining Thermal Process division consists of three separate businesses. Process Combustion Control is an environmental process combustion contractor specialising in heat transfer and pollution control systems, Bloom Engineering is a manufacturer of burner systems and GCD designs systems for the production of fibreglass.

Offshore Logistics/Bristow
valuation: £28.1m; holding: 5.6%

Offshore Logistics, together with its affiliate company, Bristow Helicopters, is a major provider of helicopter transportation services to the oil and gas industry worldwide. In June 2005, Offshore Logistics reported net income for the year to 31 March 2005 of $2.29 per diluted share compared with $1.64 for the previous year on the same basis.

In February 2005, the company announced the initiation of an internal investigation by outside counsel into certain payments made in a country in which the company's affiliated entities operate. The review has since been widened and a number of personnel have left the company. In June 2005, the company announced that an antitrust investigation of helicopter transportation providers in the Gulf of Mexico, including Offshore Logistics, had been commenced by the US Department of Justice. In August 2005, Offshore Logistics entered into an agreement with its bondholders for a temporary waiver of defaults that would otherwise have arisen through the late filing of regulatory returns to the US Securities and Exchange Commission occasioned by the internal investigation.

Notwithstanding these events, the company continues to explore new business opportunities as activity levels remain high within the oil and gas support services sector.

Melrose Resources
valuation: £21.6m; holding: 6.6%

Melrose is an oil and gas exploration and production company quoted in London with operations in Bulgaria, Egypt and the USA. Melrose announced strong interim results for its six months to 30 September 2005, highlighting a 301% increase in production. The half year has also seen significant development of the portfolio, with a six year extension to the El Mansoura Consession in Egypt and the award of further exploration ground in south east El Mansoura. Gas production rose from 3.4 billion cubic feet equivalent ('bcfe') to 13.8 bcfe, driving post tax profits from $2.4m to $17.7m. Profit for the period included a net gain of $3.8m on the sale of shares in Renova Energy, which floated on the AIM market.

Capital expenditure amounted to $31.5m, of which $11.7m was spent on exploration, mainly in Egypt, and $19.8m on development projects. During the second half of the year, a comprehensive exploration programme will see prospects in Egypt and Bulgaria drilled, as well as recent finds in Egypt being brought into production.

Wallem
valuation: £20.7m; holding: 79.0%

Wallem is a maritime services group based in Hong Kong. Caledonia has been a shareholder of Wallem for over 13 years. Wallem's activities encompass ship management, shipping and air cargo agency services, ship and cargo broking and maritime software development.

Wallem continues to perform very well and reported record operating profits equivalent to over £5m in the year to 30 September 2005. The growth in the fleet of ships under management was a major factor in this performance, coupled with strong agency profits in Japan and encouraging results from other Asian operations.

Our economic interest in Wallem has increased slightly in the period under review as a result of Wallem buying in shares owned by former employees.

Satellite Information Services
valuation: £18.0m; holding: 22.0%

The core business of Satellite Information Services ('SIS') is the provision of an integrated information service consisting of pictures, commentary and data to the betting industry, predominantly in the UK and Ireland, as well as overseas. SIS plays a pivotal role in supplying information on horse and greyhound racing and other betting events via satellite to over 9,000 licensed betting offices in the UK and Ireland. In addition, SIS provides outside broadcast, media production and distribution services to domestic and international clients, including three of the UK's largest news broadcasters.

We invested in SIS and gained board representation in May 2005 when we bought a 22% stake for £18.0m. SIS is performing well against its budget for the year to 31 March 2006 and we are pleased with the progress of this new investment.

Tribal Group
valuation: £12.6m; holding: 7.9%

Tribal Group is a leading UK provider of professional support and consultancy services. It offers a wide portfolio of consultancy and managed services across the UK outsourcing market in the areas of consulting, technology, resourcing, training, property, communications and healthcare delivery. Tribal continued to deliver revenue growth, with turnover for the year to 31 March 2005 up 24% at £229.5m (2004 – £185.7m). Caledonia purchased an additional 0.5m shares in Tribal in September, taking our holding to 7.9%, since when we have increased it to just over 8.0%.

Easybox
valuation: £12.4m; holding: 100%

Easybox is a self storage business operating in Italy and Spain, founded as a joint venture in 2000. The business was formed following the sale of Abacus, a successful UK self storage business, in conjunction with the Abacus management. Caledonia bought out its joint venture partner in 2003.

The first six month period of this financial year has followed much the same trend as previous years, notably strong growth from April to mid-July followed by a negative trend during the during the second half of July and August when many businesses are closed and potential new customers are on holiday. However, a strong performance in September saw a full recovery to the pre-holiday position and good growth has continued through October. Madrid was the best performing centre during this period, followed closely by Rome and Milano Centro.

While we have not yet managed to acquire any new centres this year, we are in advanced negotiations for two properties in Italy which we hope to add to our portfolio in the near future. The Spanish property market continues to offer few opportunities.

Property

Quintain Estates and Development
valuation: £52.2m; holding: 7.0%

Quintain is a property investment and development company specialising in the more challenging financial characteristics of commercial properties. For the year ended 31 March 2005, Quintain once again reported strong growth and an improvement in asset value of 22%, some 7% ahead of the Investment Property Databank index. It continues to make good progress on its high profile special projects at Wembley and the Greenwich Peninsula.

Savills
valuation: £16.6m; holding: 3.0%

Savills is a listed property agency and advisory business operating in the UK, Continental Europe and the Far East. Recognising the strength and calibre of the management team, and the potential for value creation, Caledonia built up a stake of just over 3%, mainly in 2003.

For the first six months to 30 June 2005, Savills' revenues and adjusted basic earnings per share both increased by 12.7%. There was particularly good performance in the commercial markets both in the UK and overseas, with the Asian geographical area showing a very strong first half.

Savills' share price further strengthened by nearly 37% during the six months to 30 September 2005 and we have reduced our stake to just under 3%.

Managed general funds

British Empire Securities
valuation: £119.4m; holding: 18.8%

British Empire is a UK investment trust whose objective is to achieve capital growth from a focused portfolio of investments, particularly in companies whose share price stand at a discount to estimated underlying net asset value. Caledonia has been a significant shareholder for almost 15 years. The performance of British Empire in its year to 30 September 2005 was outstanding. Net asset value on a total return basis rose by 43.9%, outperforming its MSCI benchmark index by 22%. British Empire once again performed strongly against its peers and was ranked first over both three and five year periods in the AITC Global Growth sector.

Levels of liquidity in the portfolio rose during the year as a result of realising some profitable holdings. This in turn resulted in higher income and British Empire was able to declare a special dividend of 1.4p per share in addition to increasing the basic annual dividend by 29%.

The combination of growth in asset value and the strengthening of the premium at which its shares trade, resulted in the share price of British Empire rising by 21.4% in the period under review. Caledonia took advantage of this share price premium to reduce its holding slightly, and reinvested part of the proceeds in the AVI Global Fund, which is an open-ended fund run by the same management team.

Cobepa
valuation: £26.2m; holding: 9.4%

Compagnie Benelux Paribas SA ('Cobepa') is a Belgian investment company with an attractive portfolio of listed and unlisted investments. Caledonia was part of a consortium that purchased Cobepa from BNP Paribas in 2004.

The portfolio was valued at €499m as at 30 June 2005, the largest holding being Dicobel, the parent company of Autoglass. During the period a number of divestments occurred, including part of the Dicobel holding, part of the holding in NAVTEQ, the NYSE listed provider of in-car navigation systems, and Groupe Josi, a Belgian holding company. Investments were made in Carmeuse, a company based in Belgium, which is one of the two worldwide lime producers, and Carrieres du Hainaut, a Belgian quarry that produces and sells a unique blue marble.

Polar Capital funds
valuation: £25.1m

Polar Capital is a research driven fund management company, providing a highly entrepreneurial environment for talented managers within a structure that offers a level of marketing, administrative and operational support normally only found in much larger organisations. Funds under management are in excess of $2bn.

In the last six months, Polar has added utility and currency teams to the operation, and has plans to expand its European and emerging markets teams. Performance across the portfolio of funds has been very strong, with the European Market Neutral fund leading the way.

Aberforth LP fund
valuation: £22.3m; holding: 25.5%

This managed limited partnership fund was launched in March 2001 with an initial life of four years and potential annual extensions for a further two years. The fund has entered its first extension period. Caledonia's original commitment of £25m was called down by 31 March 2003 and by 30 September 2005 had been fully repaid, together with an additional £9m from underlying realisations. The carrying value of £22.3m as at 30 September 2005 represents Caledonia's remaining interest in the fund as at that date.

Cumulative to 30 September 2005, the fund generated an IRR of almost 34% per annum, based upon both realised and unrealised gains, demonstrating significant outperformance against both the FTSE All-Share and FTSE Small Cap indices. The Aberforth team has once again shown considerable skill in both stock selection and the timing of disinvestment. The Aberforth LP fund has also benefited from the sale of its significant shareholding in Paladin.

Eddington Triple Alpha Fund
valuation: £18.0m

Eddington Capital was co-founded by Caledonia in 2003 as a specialist manager of high return fund of hedge funds. Its core fund, the Triple Alpha Fund, in which Caledonia invested £15m, was launched two years ago and has returned 20.9% since inception, although the return for the last six months was 4.5%.

The environment for hedge funds since the half year has been challenging and some of this year's gains in the Triple Alpha Fund have been given up. However, this is hoped to be short lived and more normal market conditions are expected to return.

Other

Alok Industries
valuation: £15.8m; holding: 10.6%

Alok Industries is an Indian textile manufacturing business listed in Mumbai, 28.3% owned, and managed by, the Jiwrajka family. Our decision to invest was based partly on the fact that Alok was well placed to take advantage of the removal of World Trade Organisation textile export quotas in January 2005. This event produced excellent market conditions for Alok, which reported post-tax profits for the year to 31 March 2005 of £11.4m and £5.8m for the six months to 30 September 2005.

The equity stake we have built up represents Caledonia's first significant investment in India. Following our earlier investment totalling £3.4m, in May 2005, we subscribed £8.2m in a further bond issue, which we also converted to equity.

A vigorous expansion programme, enabling Alok to grow its output of home textiles, apparel fabric and garments, is in progress. India's textile manufacturers provide European and American buyers with a much valued source of supply, in addition to China. Alok is also well positioned to benefit from the continued growth in Indian domestic demand for cotton textiles.

Investment analysis
Significant holdings

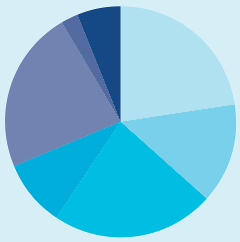
Name	Equity holding %	Country of incorporation	Nature of business	Total £m	Proportion of net assets %
Close Brothers [1,2]	12.4	UK	Merchant banking	149.5	13.4
British Empire Securities [1,2]	18.8	UK	Investment trust	119.4	10.7
Paladin Resources [1]	8.9	UK	Oil and gas exploration	95.7	8.6
Kerzner International [1,2]	8.1	Bahamas	Resort owner and operator	91.5	8.2
Quintain Estates and Development [1]	7.0	UK	Property holding and development	52.2	4.7
Rathbone Brothers [1,2]	11.1	UK	Fund management	39.7	3.6
Sterling Industries [2]	100	UK	Engineering	30.3	2.7
Offshore Logistics/Bristow [1,2]	5.6	USA/UK	Helicopter services	28.1	2.5
Cobepa [2]	9.4	Belgium	Investment company	26.2	2.4
Polar Capital funds [3]		UK	Hedge and long only funds	25.1	2.2
Aberforth LP fund [3]	25.5	UK	Managed fund	22.3	2.0
Melrose Resources [1]	6.6	UK	Oil and gas exploration	21.6	1.9
Wallem [2]	79.0	Cayman	Shipping services	20.7	1.9
Satellite Information Services [2]	22.0	UK	Betting information distribution	18.0	1.6
Eddington Triple Alpha Fund [3]		UK	Fund of hedge funds	18.0	1.6
Oval [2]	27.4	UK	Insurance services	17.9	1.6
A G Barr [1]	9.4	UK	Soft drinks	17.6	1.6
Savills [1,2]	3.0	UK	Property agency	16.6	1.5
Alok Industries [1]	10.6	India	Textiles	15.8	1.4
Incisive Media [1,2]	9.5	UK	Publishing	15.0	1.3
Marketform [2]	26.8	UK	Insurance services	14.7	1.3
Tribal Group [1]	7.9	UK	Support services	12.6	1.1
Easybox [2]	100	Luxembourg	Self storage	12.4	1.1
Other investments				167.1	15.0
Total investments				1,048.0	93.9
Net liquid assets				67.8	6.1
Net assets				1,115.8	100.0

1. Equity securities listed on the UK or overseas stock exchanges.
2. Board representation.
3. Advisory committee representation.

The table above shows all holdings representing 1% or more of net assets.

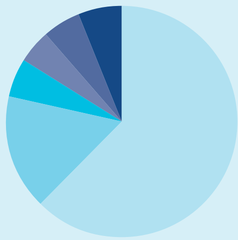
Portfolio distributions

Sector



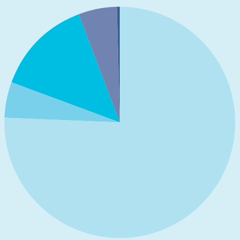
	£m	%
Financial	252.6	22.6
Leisure and media	155.6	14.0
Industrial and services	254.4	22.8
Property	103.9	9.3
Managed general funds	254.7	22.8
Other	26.8	2.4
Net liquid assets	67.8	6.1
	1,115.8	100.0

Category



	£m	%
Equities – quoted	697.8	62.4
Equities – unquoted	179.2	16.1
Loans and fixed income	59.8	5.4
Private equity LPs	52.4	4.7
Hedge and other funds	58.8	5.3
Net liquid assets	67.8	6.1
	1,115.8	100.0

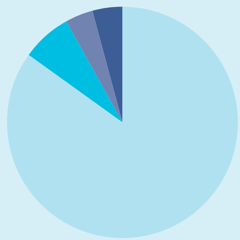
Geography



	£m	%
United Kingdom	845.0	75.8
Continental Europe	56.2	5.0
North America	152.0	13.6
Asia and Far East	59.9	5.4
Latin America	2.7	0.2
	1,115.8	100.0

Based on country of domicile or underlying spread for funds.

Currency



	£m	%
Pounds sterling	947.7	84.9
US dollar	77.6	7.0
Euro	43.8	3.9
Other	46.7	4.2
	1,115.8	100.0

Based on currency of investment, net of currency hedges.

Sector weighting against the FTSE All-Share

	Portfolio £m	Portfolio %	FTSE All-Share %
Financial	252.6	24.1	21.9
Leisure and media	155.6	14.8	10.5
Industrial and services	254.4	24.3	27.5
Property	103.9	9.9	4.2
Managed general funds	254.7	24.3	2.5
Other	26.8	2.6	33.4
	1,048.0	100.0	100.0

Based on Caledonia's grouping of the FTSE industry sectors.

Company income statement

for the six months ended 30 September 2005 (unaudited)

	6 mths to 30 Sep 2005			6 mths to 30 Sep 2004			Year to 31 Mar 2005		
	Revenue £m	Capital £m	Total £m	Revenue £m	Capital £m	Total £m	Revenue £m	Capital £m	Total £m
Gains/(losses) on investments held at fair value through profit or loss	–	154.2	154.2	–	34.1	34.1	–	159.0	159.0
Gains/(losses) on forward currency contracts	–	(6.7)	(6.7)	–	0.1	0.1	–	5.8	5.8
	–	147.5	147.5	–	34.2	34.2	–	164.8	164.8
Income									
Investment and other income	9.3	–	9.3	7.2	–	7.2	18.9	–	18.9
Expenses									
Management expenses	(5.6)	–	(5.6)	(5.2)	–	(5.2)	(10.6)	–	(10.6)
Transaction costs	–	(0.5)	(0.5)	–	(0.1)	(0.1)	–	(0.2)	(0.2)
Settlement proposals costs	–	–	–	(0.4)	–	(0.4)	(0.4)	–	(0.4)
	(5.6)	(0.5)	(6.1)	(5.6)	(0.1)	(5.7)	(11.0)	(0.2)	(11.2)
Profit before finance costs	3.7	147.0	150.7	1.6	34.1	35.7	7.9	164.6	172.5
Finance costs	(0.7)	–	(0.7)	(0.6)	–	(0.6)	(1.0)	–	(1.0)
Profit before tax	3.0	147.0	150.0	1.0	34.1	35.1	6.9	164.6	171.5
Taxation	–	0.3	0.3	1.0	(0.6)	0.4	1.9	(2.0)	(0.1)
Profit for the period	3.0	147.3	150.3	2.0	33.5	35.5	8.8	162.6	171.4
Earnings per ordinary share									
Basic			237.1p			52.4p			260.9p
Diluted			236.1p			52.2p			260.0p

The total column of this statement represents the company's income statement, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Trust Companies. All items in the above statement derive from continuing operations.

Company statement of recognised income and expense

for the six months ended 30 September 2005 (unaudited)

	6 mths to 30 Sep 2005 £m	6 mths to 30 Sep 2004 £m	Year to 31 Mar 2005 £m
Actuarial gains/(losses) on defined benefit pension schemes	1.2	0.3	1.3
Tax on items taken directly to equity	–	(0.1)	(0.3)
Net income recognised directly in equity	1.2	0.2	1.0
Transfers			
Profit for the period	150.3	35.5	171.4
Total recognised income and expense	151.5	35.7	172.4

Company statement of movements in equity

for the six months ended 30 September 2005 (unaudited)

	6 mths to 30 Sep 2005 £m	6 mths to 30 Sep 2004 £m	Year to 31 Mar 2005 £m
Balance at period start	978.3	917.8	917.8
Total recognised income and expense	151.5	35.7	172.4
Ordinary dividends	(12.4)	(13.4)	(18.9)
Elective special dividend	–	(88.0)	(88.0)
Share-based payments	0.2	0.2	0.3
Purchase of own shares	(1.8)	(1.1)	(5.3)
Balance at period end	1,115.8	851.2	978.3

Company balance sheet

at 30 September 2005 (unaudited)

	30 Sep 2005 £m	30 Sep 2004 £m	31 Mar 2005 £m
Non-current assets			
Investments held at fair value through profit or loss	**1,045.2**	851.0	944.3
Investments in subsidiaries	**2.8**	2.8	2.8
	1,048.0	853.8	947.1
Current assets			
Operating and other receivables	**2.4**	2.5	4.5
Forward currency contracts	**3.4**	4.0	1.4
Current tax assets	**4.1**	5.0	3.5
Cash and cash equivalents	**82.3**	2.6	39.6
	92.2	14.1	49.0
Total assets	**1,140.2**	867.9	996.1
Current liabilities			
Operating and other payables	**(2.7)**	(2.7)	(4.1)
Forward currency contracts	**(9.4)**	(0.1)	(0.7)
Current tax liabilities	**(9.0)**	(0.6)	–
Borrowings from subsidiaries	**–**	(10.2)	(10.2)
	(21.1)	(13.6)	(15.0)
Non-current liabilities			
Employee obligations	**(1.4)**	(3.1)	(2.3)
Deferred income tax liabilities	**(1.9)**	–	(0.5)
	(3.3)	(3.1)	(2.8)
Total liabilities	**(24.4)**	(16.7)	(17.8)
Net assets	**1,115.8**	851.2	978.3
Equity			
Ordinary share capital	**3.6**	3.6	3.6
Share premium	**1.3**	1.3	1.3
Capital redemption reserve	**1.2**	1.2	1.2
Retained earnings – non-distributable	**752.8**	481.9	607.3
Retained earnings – distributable	**356.9**	363.2	364.9
Total equity	**1,115.8**	851.2	978.3
Net asset value per ordinary share	**1762p**	1338p	1543p

Company cash flow statement

for the six months ended 30 September 2005 (unaudited)

	6 mths to 30 Sep 2005 £m	6 mths to 30 Sep 2004 £m	Year to 31 Mar 2005 £m
Cash flow from operating activities			
Dividends received	8.5	7.8	15.7
Interest received	3.4	2.6	4.3
Management and other operating expenses paid	(7.4)	(6.8)	(11.4)
Group relief received	1.1	0.9	1.5
Net cash from operating activities	5.6	4.5	10.1
Cash flow from investing activities			
Purchase of investments	(58.9)	(85.9)	(127.4)
Sale of investments	110.6	145.6	218.5
Receipts from forward currency contracts	–	–	8.8
Capital distributions from investments	–	5.8	8.8
Proceeds from liquidation of a subsidiary	9.0	–	–
Net cash from investing activities	60.7	65.5	108.7
Cash flow from financing activities			
Interest paid	(0.4)	(0.6)	(1.0)
Distributions paid to holders of equity shares	(12.4)	(13.4)	(18.9)
Elective special dividend paid	–	(88.0)	(88.0)
Issue of loans	–	1.3	–
Redemption of long term loans	(10.3)	(4.7)	(4.8)
Purchase of own shares	(0.5)	(0.8)	(5.3)
Net cash from financing activities	(23.6)	(106.2)	(118.0)
Net increase/(decrease) in cash and cash equivalents	42.7	(36.2)	0.8
Cash and cash equivalents at period start	39.6	38.8	38.8
Cash and cash equivalents at period end	82.3	2.6	39.6

Consolidated income statement

for the six months ended 30 September 2005 (unaudited)

	6 mths to 30 Sep 2005 £m	6 mths to 30 Sep 2004 £m	Year to 31 Mar 2005 £m
Gains/(losses) on investments held at fair value through profit or loss	133.6	32.8	160.2
Gains/(losses) on forward currency contracts	(6.7)	0.1	5.8
	126.9	32.9	166.0
Income			
Investment and other income	9.1	6.9	16.7
Expenses			
Management expenses	(5.6)	(5.2)	(10.6)
Transaction costs	(0.5)	(0.1)	(0.2)
Settlement proposals costs	–	(0.4)	(0.4)
	(6.1)	(5.7)	(11.2)
Profit from investing operations	129.9	34.1	171.5
Trading operations			
Revenue from sales of goods and services	60.4	57.5	123.7
Other operating expenses	(55.1)	(56.2)	(122.8)
Gains on investment property	–	–	1.1
Share of results of joint ventures	0.4	0.2	0.6
Profit from trading operations	5.7	1.5	2.6
Profit before finance costs	135.6	35.6	174.1
Finance costs	(1.5)	(1.2)	(2.4)
Profit before tax	134.1	34.4	171.7
Taxation	(0.4)	(1.1)	(3.6)
Profit for the period	133.7	33.3	168.1
Attributable to			
Equity holders of the parent	133.7	33.2	167.9
Minority interest	–	0.1	0.2
	133.7	33.3	168.1
Earnings per ordinary share			
Basic	211.1p	49.0p	255.8p
Diluted	210.2p	48.9p	254.9p

Consolidated statement of recognised income and expense

for the six months ended 30 September 2005 (unaudited)

	6 mths to 30 Sep 2005 £m	6 mths to 30 Sep 2004 £m	Year to 31 Mar 2005 £m
Gains/(losses) on revaluation of available for sale investments	0.7	0.4	0.4
Exchange differences on translation of foreign operations	1.7	0.8	(0.2)
Actuarial gains/(losses) on defined benefit pension schemes	1.0	(0.4)	1.0
Tax on items recognised directly in equity	(0.3)	(0.1)	–
Net income recognised directly in equity	3.1	0.7	1.2
Profit for the period	133.7	33.3	168.1
Total recognised income and expense for the period	136.8	34.0	169.3
Attributable to			
Equity holders of the parent	136.8	33.9	169.1
Minority interest	–	0.1	0.2
	136.8	34.0	169.3

Consolidated balance sheet

at 30 September 2005 (unaudited)

	30 Sep 2005 £m	30 Sep 2004 £m	31 Mar 2005 £m
Non-current assets			
Goodwill	3.5	4.9	3.6
Other intangible assets	0.6	0.1	0.6
Investment property	4.1	3.0	4.1
Property, plant and equipment	76.3	79.5	78.6
Investments held at fair value through profit or loss	959.6	788.2	881.2
Interests in joint ventures	8.8	3.2	7.5
Available for sale investments	4.4	3.2	3.9
Deferred income tax assets	1.0	1.0	0.8
	1,058.3	883.1	980.3
Current assets			
Inventories	24.2	26.0	23.3
Operating and other receivables	28.3	28.3	31.3
Forward currency contracts	3.4	4.0	1.4
Current tax assets	3.8	3.4	1.9
Cash and cash equivalents	102.2	11.3	51.3
	161.9	73.0	109.2
Total assets	1,220.2	956.1	1,089.5
Current liabilities			
Operating and other payables	(26.2)	(24.1)	(29.0)
Forward currency contracts	(9.4)	(0.1)	(0.7)
Current tax liabilities	(9.4)	(10.2)	(10.0)
Borrowings	(5.1)	(1.4)	(3.0)
	(50.1)	(35.8)	(42.7)
Non-current liabilities			
Borrowings	(39.5)	(36.9)	(38.1)
Employee obligations	(14.6)	(16.2)	(14.5)
Deferred income tax liabilities	(2.5)	(0.3)	(1.4)
	(56.6)	(53.4)	(54.0)
Total liabilities	(106.7)	(89.2)	(96.7)
Net assets	1,113.5	866.9	992.8
Equity			
Ordinary share capital	3.6	3.6	3.6
Share premium	1.3	1.3	1.3
Capital redemption reserve	1.2	1.2	1.2
Foreign exchange translation reserve	0.1	0.8	(0.2)
Fair value reserve	0.7	(0.3)	0.3
Retained earnings	1,106.0	859.5	985.7
Equity attributable to holders of the parent	1,112.9	866.1	991.9
Minority interest	0.6	0.8	0.9
Total equity	1,113.5	866.9	992.8

Consolidated cash flow statement

for the six months ended 30 September 2005 (unaudited)

	6 mths to 30 Sep 2005 £m	6 mths to 30 Sep 2004 £m	Year to 31 Mar 2005 £m
Cash flow from operating activities			
Dividends received	8.4	7.3	13.5
Interest received	3.3	2.3	3.7
Management expenses paid	(6.4)	(6.6)	(11.4)
Cash received from trade customers	62.0	57.5	123.1
Cash paid to trade suppliers	(55.4)	(52.3)	(109.2)
Income taxes paid	(1.7)	(1.1)	(2.0)
Net cash from operating activities	10.2	7.1	17.7
Cash flow from investing activities			
Purchases of property, plant and equipment	(1.4)	(2.7)	(3.7)
Proceeds on disposal of property, plant and equipment	1.6	3.1	1.6
Purchases of investments held at fair value through profit or loss	(58.7)	(83.3)	(121.4)
Proceeds on disposal of investments held at fair value through profit or loss	110.8	144.5	217.6
Proceeds on sale of foreign currency contracts	–	–	8.8
Purchase of interest in joint venture	(1.1)	–	(4.6)
Purchase of subsidiary net of cash acquired	(0.1)	(1.7)	(2.2)
Proceeds on disposal of subsidiary	–	1.8	3.3
Net cash from investing activities	51.1	61.7	99.4
Cash flow from financing activities			
Interest paid	(1.5)	(1.2)	(2.2)
Distributions paid to holders of equity shares	(12.4)	(13.4)	(18.9)
Dividends paid to minority interests	–	(0.1)	(0.1)
Elective special dividend paid	–	(88.0)	(88.0)
Issue of loans	1.7	0.1	–
Redemption of long term loans	(0.1)	(6.1)	(4.9)
Purchase of own shares	(0.5)	(0.8)	(5.3)
Net cash from financing activities	(12.8)	(109.5)	(119.4)
Net increase/(decrease) in cash and cash equivalents	48.5	(40.7)	(2.3)
Cash and cash equivalents at period start	48.4	50.7	50.7
Exchange gains/(losses) on cash and cash equivalents	0.2	(0.3)	–
Cash and cash equivalents at period end	97.1	9.7	48.4

Notes to the financial information

1. General information

Caledonia Investments plc is an investment trust company incorporated in England. The address of its registered office is Cayzer House, 30 Buckingham Gate, London SW1E 6NN. The ordinary shares of the company are listed on the London and New Zealand Stock Exchanges.

This financial information is presented in pounds sterling because that is the currency of the primary economic environment in which Caledonia operates.

This unaudited interim financial information has been approved for issue by the board of directors on 1 December 2005. The comparative figures for the financial year ended 31 March 2005 are not the company's statutory accounts for that financial year. Those accounts, which were prepared under UK Generally Accepted Accounting Practice ('UK GAAP'), have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

2. Accounting policies

Basis of preparation

The interim financial information has been prepared in accordance with International Financial Reporting Standards ('IFRS') for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 6.

The interim financial information has been prepared on the historical cost basis, except for the revaluation of financial instruments and investment properties. The principal accounting polices adopted are set out below.

Caledonia is an investment trust company. However, because it holds majority stakes in certain investments, it is required to prepare group accounts that consolidate the results of such investments. In order to present information that is consistent with other investment trust companies, Caledonia also publishes separate financial statements of the company, which include investments in subsidiaries at fair value.

Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment trusts, issued by the Association of Investment Trust Companies ('AITC') in January 2003, is consistent with the requirements of IFRS, the separate financial information of the company has been prepared on a basis compliant with the SORP.

Foreign currency translation

The functional currency of the company is pounds sterling. Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are included in net profit or loss for the period.

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

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

Investments

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

Investments held by the company and by subsidiary investment companies as part of the group's business of investing in financial assets are designated as measured at fair value through profit or loss. In the separate financial statements of the company, investments in subsidiaries that are regarded as part of the company's investing business are also designated as measured at fair value through profit or loss. Other investments in subsidiaries are accounted for at cost in the separate financial statements of the company and other investments held by subsidiaries are designated as available for sale.

Investments designated as at fair value through profit or loss or as available for sale are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in the value of investments designated as fair value through profit or loss are included in net profit or loss for the period. For available for sale investments, gains and losses arising from changes in fair value are recognised directly in equity until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Quoted investments are valued at bid price or the last traded price when a bid price is not available. Unquoted investments are valued using recognised valuation methodologies, in accordance with the International Private Equity and Venture Capital Guidelines, which reflect the amount for which an asset could be exchanged between knowledgeable, willing parties on an arm's length basis.

Income

Dividends receivable on equity shares are recognised as revenue for the period on an ex-dividend basis. Where no ex-dividend date is available, dividends receivable on or before the period end are treated as revenue for the period. Provision is made for any dividends not expected to be received. The fixed returns on debt securities and non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the debt securities and shares. Interest receivable from cash and short term deposits is accrued to the end of the period.

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

Expenses

All expenses are accounted for on an accruals basis. In the separate financial statements of the company, all expenses are presented as revenue items in the income statement, except that expenses of acquisition of an investment designated as held at fair value through profit or loss or expenses of an aborted acquisition of an investment are presented as capital items and expenses of disposal of an investment are deducted from the disposal proceeds of the investment.

Taxation

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

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

In line with the recommendations of the SORP, tax is allocated between the revenue and capital columns of the company's income statement based on the nature of the transaction that gives rise to the tax charge or relief.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Dividend distributions

Interim and final dividends are recognised in the period in which they are declared.

Employee benefits

Pension schemes

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and are presented in the statement of recognised income and expense.

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

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

Profit-sharing and bonus plans

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

National Insurance on share option scheme gains

National Insurance contributions payable on the exercise of certain employee share options at the date of exercise have been charged as an expense. The charge is based on the difference between the market value of the underlying shares at the balance sheet date and the option exercise price and calculated at the latest enacted National Insurance contributions rate.

Share-based payments

The group has applied the requirements of IFRS 2 'Share-based Payment' to all grants of equity instruments, including those granted on or before 7 November 2002, for which the fair value has been publicly disclosed on the company's website.

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

Fair value is measured by use of a trinomial model. The model takes account of the early exercise behaviour of employees by assuming that exercise takes place whenever the stock price reaches a certain multiple of the strike price. The model also considers the possibility that employees will leave the company early, before and after the vesting period.

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

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

Property, plant and equipment

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

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

Buildings	25-40 years
Plant and machinery	10-15 years
Equipment and motor vehicles	3-8 years

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

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

Investment property

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

Brands and trademarks

Brands and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Goodwill

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

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

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

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Impairment of assets

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

Inventories

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

Receivables

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

Cash and cash equivalents

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

Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Borrowings include preference shares in subsidiaries held by third parties that fall under the definition of financial liabilities under IAS 32.

Share capital

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

Where any group company and the ESOP trust purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or sold. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

Derivative financial instruments and hedge accounting

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

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. The amount in equity is released to income when the forecast transaction impacts profit or loss.

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from re-measuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in profit or loss.

Changes in the fair value of derivative financial instruments where hedge accounting is not applied are recognised in the income statement as they arise. If capital in nature, the associated change in value is presented as a capital item in the income statement.

Hedge accounting is discontinued when the hedging instrument or the hedged item expires or is sold, terminated, exercised or no longer qualifies for hedge accounting.

Basis of consolidation

Subsidiaries

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

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency in the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

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

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

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

Associates

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

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

No other group company held investments in associates.

Joint ventures

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

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

The results and assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting, except when classified as held for sale. Interests in joint ventures are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group's share of net assets of the joint ventures, less any impairment in the value of individual investments. Losses of the joint ventures in excess of the group's interest in those joint ventures are not recognised. Any excess of the cost of acquisition over the group's share of the fair values of the identifiable net assets of the joint ventures at the date of acquisition is recognised as goodwill. Any deficiency in the cost of acquisition below the group's share of the fair values of the identifiable net assets at the date of acquisition is credited in profit or loss in the period of acquisition.

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

IFRS restatement

The company has relied on exemptions detailed in IFRS 1 in respect of business combinations and cumulative translation differences.

3. Earnings per share

The calculation of the basic and diluted earnings per share, in accordance with IAS 33, is based on the following:

	Company			Group		
	6 mths to 30 Sep 2005 £m	6 mths to 30 Sep 2004 £m	Year to 31 Mar 2005 £m	6 mths to 30 Sep 2005 £m	6 mths to 30 Sep 2004 £m	Year to 31 Mar 2005 £m
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	150.3	35.5	171.4	133.7	33.2	167.9
	No '000	No '000	No '000	No '000	No '000	No '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	63,394	67,780	65,697	63,344	67,730	65,647
Effect of dilutive potential ordinary shares						
Share options	275	216	224	275	216	224
Weighted average number of ordinary shares for the purposes of diluted earnings per share	63,669	67,996	65,921	63,619	67,946	65,871

4. Dividends

	6 mths to 30 Sep 2005 pence	6 mths to 30 Sep 2004 pence	Year to 31 Mar 2005 pence	6 mths to 30 Sep 2005 £m	6 mths to 30 Sep 2004 £m	Year to 31 Mar 2005 £m
Interim dividend			8.7			5.5
Final dividend	19.5	18.6	18.6	12.4	13.4	13.4
	19.5	18.6	27.3	12.4	13.4	18.9

The directors have declared an interim dividend of 9.1p per ordinary share amounting to £5.8m, payable on 10 January 2006 to shareholders registered on 9 December 2005. The shares will be quoted ex-dividend on 7 December 2005.

5. Net asset value per ordinary share

Company

The net asset value per ordinary share is based on the net assets attributable to the equity shareholders of £1,115.8m at 30 September 2005 (£851.2m at 30 September 2004 as restated and £978.3m at 31 March 2005 as restated) and on 63.313m (63.596m at 30 September 2004 and 63.396m at 31 March 2005) ordinary shares, being the number of ordinary shares in issue at the period end.

Notes to the financial information

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6. Restatement of balances

This is the first period that the company has presented its financial information under IFRS. The following disclosures explain the transition from UK GAAP to IFRS at the date of transition (1 April 2004) and at the end of the latest periods presented in the most recent financial statements under UK GAAP for the company and the group.

Reconciliation of equity from UK GAAP to IFRS

Company

UK GAAP description	Note	At 1 Apr 2004 UK GAAP £m	At 1 Apr 2004 Adjustments £m	At 1 Apr 2004 IFRS £m	At 30 Sep 2004 UK GAAP[1] £m	At 30 Sep 2004 Adjustments £m	At 30 Sep 2004 IFRS £m	At 31 Mar 2005 UK GAAP £m	At 31 Mar 2005 Adjustments £m	At 31 Mar 2005 IFRS £m	IFRS description
Fixed assets											Non-current assets
Investments	d	893.0	(2.8)		857.9	(2.8)		951.4	(2.8)		**Investments held at fair**
	f		(3.1)	887.1		(4.1)	851.0		(4.3)	944.3	**value through profit or loss**
	d		2.8	2.8		2.8	2.8		2.8	2.8	**Investments in subsidiaries**
		893.0	(3.1)	889.9	857.9	(4.1)	853.8	951.4	(4.3)	947.1	
Current assets											Current assets
Debtors	i	12.7	(5.7)		11.4	(5.0)		9.4	(3.5)		
	s		(3.9)	3.1		(3.9)	2.5		(1.4)	4.5	**Operating and other receivables**
	s		3.9	3.9		4.0	4.0		1.4	1.4	**Forward currency contracts**
	i		5.7	5.7		5.0	5.0		3.5	3.5	**Current tax assets**
Short term deposits	j	32.8	(32.8)		0.3	(0.3)		36.4	(36.4)		
Cash at bank and in hand	j	6.0	32.8	38.8	2.3	0.3	2.6	3.2	36.4	39.6	**Cash and cash equivalents**
		51.5	–	51.5	14.0	0.1	14.1	49.0	–	49.0	
		944.5	(3.1)	941.4	871.9	(4.0)	867.9	1,000.4	(4.3)	996.1	**Total assets**
Current liabilities											Current liabilities
Creditors due within one year	i	(18.5)	0.6		(19.0)	0.6		(27.4)			
	k		13.4			5.5			12.4		
	l					10.2			10.2		
	s		0.1	(4.4)			(2.7)		0.7	(4.1)	**Operating and other payables**
	s		(0.1)	(0.1)		(0.1)	(0.1)		(0.7)	(0.7)	**Forward currency contracts**
	i		(0.6)	(0.6)		(0.6)	(0.6)			–	**Current tax liabilities**
	l			–		(10.2)	(10.2)		(10.2)	(10.2)	**Borrowings from subsidiaries**
		(18.5)	13.4	(5.1)	(19.0)	5.4	(13.6)	(27.4)	12.4	(15.0)	
Creditors falling due after one year											Non-current liabilities
Long term borrowings		(4.8)		(4.8)	–		–	–		–	**Borrowings**
Amounts due to subsidiaries		(10.2)		(10.2)	–		–	–		–	**Borrowings from subsidiaries**
	n		(3.3)			(2.9)			(1.9)		
	o		(0.2)	(3.5)		(0.2)	(3.1)		(0.4)	(2.3)	**Employee obligations**
	h			–			–		(0.5)	(0.5)	**Deferred income tax liabilities**
		(15.0)	(3.5)	(18.5)	–	(3.1)	(3.1)	–	(2.8)	(2.8)	
		(33.5)	9.9	(23.6)	(19.0)	2.3	(16.7)	(27.4)	9.6	(17.8)	**Total liabilities**
Net assets		911.0	6.8	917.8	852.9	(1.7)	851.2	973.0	5.3	978.3	**Net assets**
Capital and reserves											Equity
Called up share capital		4.0		4.0	3.6		3.6	3.6		3.6	**Ordinary share capital**
Share premium account		1.3		1.3	1.3		1.3	1.3		1.3	**Share premium**
	p		1.2	1.2		1.2	1.2		1.2	1.2	**Capital redemption reserve**
Own shares	w	(4.2)	4.2		(5.1)	5.1		(9.1)	9.1		
Non-distributable reserves	f	458.0	(3.1)		492.3	(4.1)		621.9	(4.3)		
	p		(1.2)			(1.2)			(1.2)		
	w		(4.2)	449.5		(5.1)	481.9		(9.1)	607.3	**Retained earnings – non-distributable**
Distributable reserves	h	451.9			360.8			355.3	(0.5)		
	k		13.4			5.5			12.4		
	n		(3.3)			(2.9)			(1.9)		
	o		(0.2)	461.8		(0.2)	363.2		(0.4)	364.9	**Retained earnings – distributable**
Total shareholders' funds		911.0	6.8	917.8	852.9	(1.7)	851.2	973.0	5.3	978.3	**Total equity**

1. The UK GAAP balance sheet at 30 September 2004 has been restated following the adoption of UITF 37 'Purchases and Sales of Own Shares'. The impact has been to increase debtors and own shares by £0.3m each and reduce reserves by £0.6m The UK GAAP balance sheet at 30 September 2004 has also been restated to allocate forward currency contracts amounting to £3.9m from investments to debtors.

Group

UK GAAP description	Note	At 1 Apr 2004 UK GAAP £m	At 1 Apr 2004 Adjust-ments £m	At 1 Apr 2004 IFRS £m	At 30 Sep 2004 UK GAAP[1] £m	At 30 Sep 2004 Adjust-ments £m	At 30 Sep 2004 IFRS £m	At 31 Mar 2005 UK GAAP £m	At 31 Mar 2005 Adjust-ments £m	At 31 Mar 2005 IFRS £m	IFRS description
Fixed assets											Non-current assets
Intangible assets	a	4.9		4.9	4.7	0.2	4.9	3.2	0.4	3.6	**Goodwill**
	b		0.1	0.1		0.1	0.1		0.6	0.6	**Other intangible assets**
	c		0.5	0.5		3.0	3.0		4.1	4.1	**Investment property**
Fixed assets	b	84.1	(0.1)		82.4	(0.1)		82.0	(0.6)		
	c			84.0		(2.8)	79.5		(2.8)	78.6	**Property, plant and equipment**
Investments	c	830.5	(0.5)		798.9	(0.5)		898.5	(1.6)		
	e		(2.9)			(2.9)			(7.5)		
	f		(3.1)			(4.1)			(4.3)		**Investments held at fair**
	g		(3.5)	820.5		(3.2)	788.2		(3.9)	881.2	**value through profit or loss**
	e		3.0	3.0		3.2	3.2		7.5	7.5	**Interests in joint ventures**
	g		3.5	3.5		3.2	3.2		3.9	3.9	**Available for sale investments**
	h		0.9	0.9		1.0	1.0		0.8	0.8	**Deferred income tax assets**
		919.5	(2.1)	917.4	886.0	(2.9)	883.1	983.7	(3.4)	980.3	
Current assets											Current assets
Stocks		26.4		26.4	26.0		26.0	23.3		23.3	**Inventories**
Debtors	i	36.6	(4.1)		35.6	(3.4)		34.6	(1.9)		
	s		(3.9)	28.6		(3.9)	28.3		(1.4)	31.3	**Operating and other receivables**
	s		3.9	3.9		4.0	4.0		1.4	1.4	**Forward currency contracts**
	i		4.1	4.1		3.4	3.4		1.9	1.9	**Current tax assets**
Short term deposits	j	40.2	(40.2)		1.3	(1.3)		38.2	(38.2)		
Cash at bank and in hand	j	14.6	40.2	54.8	10.0	1.3	11.3	13.1	38.2	51.3	**Cash and cash equivalents**
		117.8	–	117.8	72.9	0.1	73.0	109.2	–	109.2	
		1,037.3	(2.1)	1,035.2	958.9	(2.8)	956.1	1,092.9	(3.4)	1,089.5	**Total assets**
Creditors falling due within one year											Current liabilities
Other creditors	i	(50.0)	10.6		(39.8)	10.2		(52.1)	10.0		
	s		0.1						0.7		
	k		13.4	(25.9)		5.5	(24.1)		12.4	(29.0)	**Operating and other payables**
	s		(0.1)	(0.1)		(0.1)	(0.1)		(0.7)	(0.7)	**Forward currency contracts**
	i		(10.6)	(10.6)		(10.2)	(10.2)		(10.0)	(10.0)	**Current tax liabilities**
Short term borrowings		(4.3)		(4.3)	(1.4)		(1.4)	(3.0)		(3.0)	**Borrowings**
		(54.3)	13.4	(40.9)	(41.2)	5.4	(35.8)	(55.1)	12.4	(42.7)	
Creditors falling due after one year											Non-current liabilities
Long term borrowings	m	(42.3)	(0.3)	(42.6)	(36.7)	(0.2)	(36.9)	(37.9)	(0.2)	(38.1)	**Borrowings**
	n		(15.7)			(16.0)			(14.1)		
	o		(0.2)	(15.9)		(0.2)	(16.2)		(0.4)	(14.5)	**Employee obligations**
Deferred tax	h	(1.5)	1.2	(0.3)	(1.1)	0.8	(0.3)	(0.7)	(0.7)	(1.4)	**Deferred income tax liabilities**
		(43.8)	(15.0)	(58.8)	(37.8)	(15.6)	(53.4)	(38.6)	(15.4)	(54.0)	
		(98.1)	(1.6)	(99.7)	(79.0)	(10.2)	(89.2)	(93.7)	(3.0)	(96.7)	**Total liabilities**
Net assets		939.2	(3.7)	935.5	879.9	(13.0)	866.9	999.2	(6.4)	992.8	**Net assets**
Capital and reserves											Equity
Called up share capital		4.0		4.0	3.6		3.6	3.6		3.6	**Ordinary share capital**
Share premium account		1.3		1.3	1.3		1.3	1.3		1.3	**Share premium**
Capital redemption reserve		1.2		1.2	1.2		1.2	1.2		1.2	**Capital redemption reserve**
Own shares	w	(4.6)	4.6		(5.2)	5.2		(9.5)	9.5		
	q			–		0.8	0.8		(0.2)	(0.2)	**Foreign exchange translation reserve**
	g			–		(0.3)	(0.3)		0.3	0.3	**Fair value reserve**
Revaluation reserve	r	270.6	(270.6)		241.7	(241.7)		325.4	(325.4)		
Profit and loss account	a	665.6			636.4	0.2		676.1	0.4		
	c					(0.3)			(0.2)		
	e		0.1			0.3					
	f		(3.1)			(4.1)			(4.3)		
	g					0.3			(0.3)		
	h		2.1			1.8			0.1		
	k		13.4			5.5			12.4		
	n		(15.7)			(16.0)			(14.1)		
	o		(0.2)			(0.2)			(0.4)		
	q					(0.8)			0.2		
	r		270.6			241.7			325.4		
	t		(0.1)			(0.1)			(0.1)		
	w		(4.6)	928.1		(5.2)	859.5		(9.5)	985.7	**Retained earnings**
Total shareholders' funds		938.1	(3.5)	934.6	879.0	(12.9)	866.1	998.1	(6.2)	991.9	**Equity attributable to parent**
Minority interests	c	1.1			0.9			1.1	(0.1)		
	m		(0.3)			(0.2)			(0.2)		
	t		0.1	0.9		0.1	0.8		0.1	0.9	**Minority interests**
		939.2	(3.7)	935.5	879.9	(13.0)	866.9	999.2	(6.4)	992.8	**Total equity**

1. The UK GAAP balance sheet at 30 September 2004 has been restated to allocate forward currency contracts amounting to £3.9m from investments to debtors and to reclassify own shares held by a subsidiary of £0.5m previously included in investments.

Notes to the financial information

continued

Reconciliation of profit from UK GAAP to IFRS

Company

	Note	6 mths to 30 Sep 2004 UK GAAP £m	Adjust-ments £m	IFRS £m	Year to 31 Mar 2005 UK GAAP £m	Adjust-ments £m	IFRS £m
Gains/(losses) on investments held at fair value through profit or loss	f	35.0	(1.0)		160.0	(1.2)	
	u		0.1	34.1		0.2	159.0
Gains/(losses) on forward currency contracts		0.1		0.1	5.8		5.8
		35.1	(0.9)	34.2	165.8	(1.0)	164.8
Income							
Investment and other income		7.2		7.2	18.9		18.9
Expenses							
Management expenses	o	(4.9)	(0.1)		(10.0)	(0.3)	
	v		(0.2)	(5.2)		(0.3)	(10.6)
Transaction costs	u		(0.1)	(0.1)	–	(0.2)	(0.2)
Settlement proposals costs		(0.4)		(0.4)	(0.4)		(0.4)
		(5.3)	(0.4)	(5.7)	(10.4)	(0.8)	(11.2)
Profit before finance costs		37.0	(1.3)	35.7	174.3	(1.8)	172.5
Finance costs		(0.6)		(0.6)	(1.0)		(1.0)
Profit before tax		36.4	(1.3)	35.1	173.3	(1.8)	171.5
Taxation	h	0.1	0.3	0.4	(0.1)	–	(0.1)
Profit for the period		36.5	(1.0)	35.5	173.2	(1.8)	171.4

Group

	Note	6 mths to 30 Sep 2004 UK GAAP £m	Adjust-ments £m	IFRS £m	Year to 31 Mar 2005 UK GAAP £m	Adjust-ments £m	IFRS £m
Gains/(losses) on investments held at fair value through profit or loss	f	34.9	(1.0)		161.5	(1.2)	
	g		(0.4)			(0.5)	
	q		(0.8)			0.2	
	u		0.1	32.8		0.2	160.2
Gains/(losses) on forward currency contracts		0.1		0.1	5.8		5.8
		35.0	(2.1)	32.9	167.3	(1.3)	166.0
Income							
Investment and other income	e	6.9		6.9	17.4	(0.7)	16.7
Expenses							
Management expenses	o	(4.9)	(0.1)		(10.0)	(0.3)	
	v		(0.2)	(5.2)		(0.3)	(10.6)
Transaction costs	u		(0.1)	(0.1)		(0.2)	(0.2)
Settlement proposals costs		(0.4)		(0.4)	(0.4)		(0.4)
		(5.3)	(0.4)	(5.7)	(10.4)	(0.8)	(11.2)
Profit from investing operations		36.6	(2.5)	34.1	174.3	(2.8)	171.5
Trading operations							
Revenue from sales of goods and services	a	56.4	0.6		122.7	0.5	
	q		0.5	57.5		0.5	123.7
Other operating expenses	a	(55.6)	0.2		(121.9)	0.4	
	c		(0.3)			(0.3)	
	n					(0.5)	
	q		(0.5)	(56.2)		(0.5)	(122.8)
Gains on investment property				–	1.1		1.1
Share of results of joint ventures	e		0.2	0.2		0.6	0.6
Profit from trading operations		0.8	0.7	1.5	1.9	0.7	2.6
Profit before finance costs		37.4	(1.8)	35.6	176.2	(2.1)	174.1
Finance costs	m	(1.2)		(1.2)	(2.3)	(0.1)	(2.4)
Profit before tax		36.2	(1.8)	34.4	173.9	(2.2)	171.7
Taxation	h	(1.0)	(0.1)	(1.1)	(2.9)	(0.7)	(3.6)
Profit for the period		35.2	(1.9)	33.3	171.0	(2.9)	168.1
Attributable to							
Equity holders of the parent		35.1	(1.9)	33.2	170.7	(2.8)	167.9
Minority interest	m	0.1		0.1	0.3	(0.1)	0.2
		35.2	(1.9)	33.3	171.0	(2.9)	168.1

In the table above, the UK GAAP numbers incorporate the results previously reported in the consolidated profit and loss account and in the consolidated statement of total recognised gains and losses.

Notes to the reconciliations from UK GAAP to IFRS.

a Under IFRS 3 'Business Combinations', goodwill acquired in a business combination is recognised as an asset and subject to impairment testing in accordance with IAS 36 'Impairment of Assets'. Under UK GAAP, goodwill on acquisitions was capitalised and written off over its useful economic life. This adjustment represents the write back of previous goodwill amortisation, less any impairment.

b Under UK GAAP, trademarks and brands were included in 'Tangible fixed assets'. Under IFRS, these have been reallocated to 'Other intangible assets'.

c Under IAS 40 'Investment Property', investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Under UK GAAP, certain property was included in 'Fixed assets' at cost less depreciation and in 'Investments' at fair value. This adjustment reallocates investment property to IFRS 'Investment property', reverses the previously charged depreciation and charges the loss arising from changes in the fair value to profit or loss. The gains or losses arising on changes in the fair value have been included in the income statement.

d In separate financial statements, IAS 27 'Consolidated and Separate Financial Statements' requires investments in subsidiaries to be accounted for at cost or in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. Most investments in subsidiaries are regarded as part of the company's investing business and are therefore designated as measured at fair value through profit or loss. Other investments in subsidiaries that do not form part of the company's investing business have been reallocated from UK GAAP 'Investments' to IFRS 'Investments in subsidiaries' and accounted for at cost.

e Under IAS 31 'Interests in Joint Ventures', joint ventures should be identified and stated as a one line item at cost plus the investor's share of retained post-acquisition profits and other changes in net assets, where accounted for using the equity method. Under UK GAAP, interests in joint ventures were not considered to be material and were included in 'Investments' at cost less provision. This adjustment represents the reallocation of interests in joint ventures stated at net assets at the date of transition to IFRS and the movement in post-acquisition profits and other changes in net assets since.

f Investments have been designated as held at fair value through profit or loss and, under IFRS, instruments quoted on a stock market should be valued at bid prices on the reporting date. This adjustment represents the decrease in the values of quoted investments at the reporting dates and the movement in the period when valued at bid prices compared with valuing at mid price under UK GAAP.

g Investments held by trading subsidiaries that are not considered to be part of the group's business of investing in financial assets, are classified as available for sale and held at fair value, with changes in fair value recognised in equity. Under UK GAAP, these holdings were included in 'Investments' at fair value. This adjustment reallocates such investments to IFRS 'Available for sale investments'.

h The deferred income tax has been recalculated in accordance with IAS 12. This adjustment comprises a number of items. A deferred tax liability has been recognised for the amount of tax calculated on the unrealised gains of investments in controlled foreign companies – deferred tax on unrealised gains was not permitted under UK GAAP, but is required under IFRS. A deferred tax asset has been recognised in respect of the pension deficit recognised in the balance sheet in accordance with IAS 19 (see note 'n') to the extent that the asset is considered to be recoverable. A deferred tax asset has been recognised in respect of the National Insurance contributions provided on share option gains (see note 'o') to the extent that the asset is considered to be recoverable.

i Under IAS 1, tax assets and liabilities should be shown separately from other assets and liabilities on the face of the balance sheet. Current tax assets and liabilities previously included in UK GAAP 'Debtors' and 'Creditors falling due within one year' have been reallocated to IFRS 'Current tax assets' and 'Current tax liabilities'.

j Under UK GAAP, 'Short term deposits' were shown separately from 'Cash at bank and in hand'. Under IFRS, these lines have been combined into 'Cash and cash equivalents'.

k Under IFRS, dividends proposed after the balance sheet date but before the financial statements are finalised, are treated as a non-adjusting post balance sheet event and are not accrued. This adjustment represents the change in treatment from UK GAAP, under which dividends proposed after the balance sheet date were accrued in the financial statements.

l Under UK GAAP, 'Creditors falling due within one year' included a loan from a subsidiary, which has been reallocated to IFRS 'Borrowings from subsidiaries'.

m IAS 32 'Financial Instruments: Disclosure and Presentation' defines equity instruments as any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Certain subsidiaries of the company have outstanding preference shares held by third parties. Under UK GAAP, these instruments have been included in 'Minority interests – non-equity' in the balance sheet. Under IFRS, they should be treated as non-current liabilities. This adjustment reflects the change in accounting treatment. Preference dividends payable to the holders of these shares have been reallocated to finance costs.

n Under IAS 19 'Employee Benefits', the pension scheme deficits should be included in the balance sheet. This adjustment reflects the change in treatment from UK GAAP where, under SSAP 24 'Accounting for Pension Costs', the pension scheme deficits were not included in the balance sheet.

o Under IFRS, National Insurance contributions payable on the exercise of employee share options should be provided in full when the options are granted. This adjustment represents the change in treatment from UK GAAP, which, in accordance with UITF 25 'National Insurance contributions on share option gains', requires the National Insurance contributions to be charged to profit and loss over the performance period. This calculation resulted in an immaterial amount and, accordingly, no provision was made under UK GAAP.

p Under UK GAAP, the company's 'Non-distributable reserves' included the capital redemption reserve. This has been reallocated to the IFRS 'Capital redemption reserve'.

q In accordance with IFRS, a foreign currency translation reserve has been recognised in respect of the exchange movements arising on consolidation since 31 March 2004. IAS 21 'The Effects of Changes in Foreign Exchange Rates' requires the revenue and expenses of a foreign entity to be translated at exchange rates at the dates of the relevant transactions or at an appropriate average rate. This adjustment represents the difference in treatment from UK GAAP, where the profit and loss of a foreign entity was translated at the closing rates.

r Under IFRS, consolidated reserves are presented as the single line 'Retained earnings'. Under UK GAAP, reserves have been shown as split between 'Revaluation reserve' and 'Profit and loss account'. This reallocation combines these two reserves.

s Under IFRS, amounts due to and from counterparties in respect of forward currency contracts are shown separately. Under UK GAAP, these contracts were included within debtors or creditors.

t Under UK GAAP, the minority's share of the retained losses of certain subsidiaries was set off against minority interests. Under IAS 27, this is required to be written off, unless there is an obligation on the minority to fund the loss.

Notes to the financial information

continued

u Under IAS 39, transaction costs on investments designated as measured at fair value through profit or loss are charged immediately to the income statement. Under UK GAAP, costs relating to the acquisition of investments were included in the cost of the investment. This adjustment represents the change in treatment from UK GAAP.

v Under IFRS 2, the fair value of equity-settled share-based payments is required to be expensed in profit or loss over the vesting period. An equivalent charge was not required to be made under UK GAAP. This adjustment represents the change in treatment from UK GAAP.

w Under UK GAAP, 'Own shares' are shown separately. This has been reallocated to the company IFRS 'Retained earnings – non-distributable' and the group IFRS 'Retained earnings'.

Cash flow statement

The company and group cash flow statements have been prepared in accordance with IAS 7 'Cash Flow Statements'. Under IAS 7, the cash flow statements show the movement in cash and cash equivalents, being defined as cash on hand, demand deposits and short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Under UK GAAP, the company and group cash flow statements showed the movement in cash repayable on demand only and, in particular, excluded short term deposits.

For the six months to 30 September 2004, this change in definition from cash to cash and equivalents resulted in the UK GAAP decrease in cash of £3.6m in the company and £1.8m in the group changing to a decrease in cash and cash equivalents of £36.2m in the company and £40.7m in the group under IFRS. For the year to 31 March 2005, the UK GAAP decrease in cash of £2.8m in the company and £0.5m in the group changed to an increase in cash and cash equivalents of £0.8m in the company and a decrease of £2.3m in the group under IFRS.

All other adjustments made to the cash flow statements from IFRS represent reclassifications between line items and have not impacted actual cash flows.

Independent review report by KPMG Audit Plc

to Caledonia Investments plc

Introduction

We have been engaged by the company to review the financial information set out on pages 10 to 26 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

As disclosed in note 2 to the financial information, the next annual financial statements of the group will be prepared in accordance with IFRS as adopted for use in the European Union. The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2005.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
London
1 December 2005

Investor information

Dividends

Shareholders on the UK register who wish to have dividends paid directly into a bank account, rather than by cheque to their registered address, can complete a mandate form for the purpose. Mandates may be obtained from Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Where dividends are paid directly into shareholders' bank accounts, dividend tax vouchers are sent directly to shareholders' registered addresses.

Share prices

The company's ordinary shares are listed on the London Stock Exchange under the SEDOL code of 0163992 or TIDM code of CLDN. Prices are published daily in the Financial Times under the 'Investment Companies' heading and in other leading newspapers.

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

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

Change of address

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

Shareholders on the New Zealand register should similarly notify Computershare Investor Services Ltd at the address given on the following page, but where there is more than one registered holder, all holders should sign.

Monthly net asset value

The company publishes a monthly fact sheet shortly after the month end, which includes its net asset value per share. The monthly fact sheet can be found on the company's website at www.caledonia.com.

Financial calendar

Ex-dividend date	7 December 2005
Dividend record date	9 December 2005
Interim dividend paid	10 January 2006
Annual results announced	May 2006
Annual report published	June 2006
Annual general meeting	July 2006
Final dividend paid	July 2006
Interim results announced	November 2006
Interim report published	November 2006

Caledonia ISA

The Caledonia Individual Savings Account ('ISA') is a tax efficient savings account that allows you to invest up to £7,000 each tax year. Lump sum payments or regular monthly deposits can be made to the ISA.

The plan manager of the Caledonia ISA is Capita Financial Managers Ltd, which can be contacted at Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0GA or telephone on 020 7556 8800.

Documentation for the ISA is available on Caledonia's website.

Caledonia Share Savings Plan

The Caledonia Share Savings Plan is a savings plan that aims to provide a simple and flexible way for investors to purchase shares in Caledonia. Lump sum payments or regular monthly deposits can be made to the Share Savings Plan.

The Caledonia Share Savings Plan is provided by Capita IRG Trustees Ltd, which can be contacted at Regulated Business, 34 Beckenham Road, Beckenham, Kent BR3 4TU, or telephone on 0870 162 3122.

Documentation for the Share Savings Plan is available on Caledonia's website.

PEPs and ISAs

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

Executive directors
Peter N Buckley (chairman)[2]
Timothy C W Ingram (chief executive)
Jonathan H Cartwright (finance director)
The Hon Charles W Cayzer
Jamie M B Cayzer-Colvin
John M May
William P Wyatt

Non-executive directors
James R H Loudon (deputy chairman)[1,2,3]
Charles M Allen-Jones (senior independent)[1,2,3,4]
Mark E T Davies[2,3,4]
Richard Goblet d'Alviella
David G F Thompson[1,2,4]

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

Associate directors
Anthony J Carter
Graeme P Denison
Jonathan R Hale
Anthony E G Hambro
Paul M Whiteley

Secretary
Graeme P Denison

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Printed on totally chlorine free paper sourced from sustainable forests.
Designed and produced by College Design www.collegedesign.com

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