



**CALEDONIA**  
**INVESTMENTS**

Performance driven

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# Interim report 2006

Six months ended 30 September 2006

identify  
invest  
involve

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Caledonia is one of the UK's largest investment trusts and is self-managed. We aim to be a core investment for those seeking a store of increasing value, by investing for the longer term in a range of assets.

Our ability to **identify** opportunities through our extensive network, **invest** in significant stakes for the longer term and **involve** ourselves with the managements of investee companies underpins our investment approach, through which we seek to deliver shareholder value.

We are **performance driven**.

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# Financial highlights

## Results summary (unaudited) based on the company balance sheet

	30 Sep 2006	31 Mar 2006
Total equity	£1,208m	£1,307m
Net asset value per share (undiluted)	2083p	2061p
Net asset value per share (diluted)	2061p	2044p
Interim dividend per share	9.5p	9.1p
Elective special dividend	£103m	–
Share price	2029p	1980p
Discount	2.6%	3.9%
FTSE All-Share index	3050	3048

1. Total equity as at 30 September 2006 is stated after deduction of the elective special dividend of £103m paid in July 2006.
2. The discount is stated by reference to the undiluted net asset value per share.
3. The calculation of net asset values per share based on the company balance sheet is consistent with the company's monthly unaudited net asset value announcements.

# 311%

Share price total return over ten years

# 201%

Outperformance against the  
FTSE All-Share Total Return index

# 242%

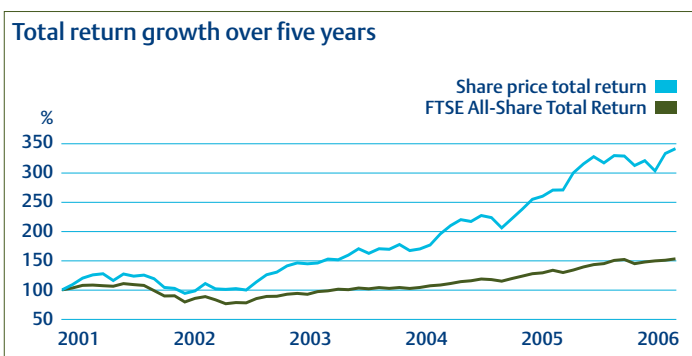
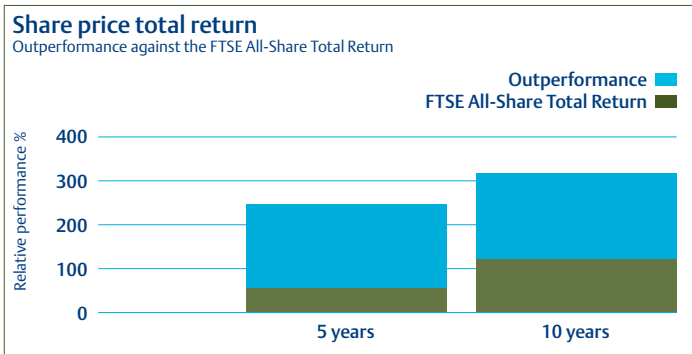
Share price total return over five years

# 189%

Outperformance against the  
FTSE All-Share Total Return index

# 4.4%

Increase in interim dividend



# Our portfolio

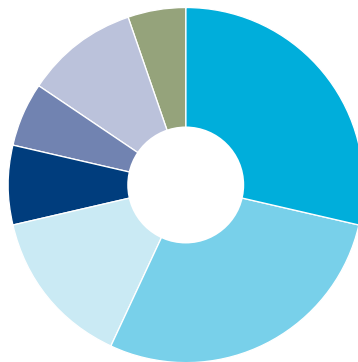
Name	Equity holding %	Country of domicile	Business sector	Nature of business	Total £m	Proportion of net assets %
Close Brothers <sup>1,2</sup>	12.3	UK	Financial	Merchant banking	183.6	15.2
British Empire Securities <sup>1,2</sup>	18.5	UK	Funds	Investment trust	134.2	11.1
Quintain Estates & Development <sup>1</sup>	7.3	UK	Property	Property investment and development	65.9	5.5
Rathbone Brothers <sup>1,2</sup>	10.8	UK	Financial	Fund management	52.9	4.4
Polar Capital funds <sup>2</sup>		Ireland/Cayman	Funds	Hedge and long-only funds	48.1	4.0
Bristow Group <sup>1,2</sup>	6.9	US/UK	Oil and gas	Helicopter services	38.7	3.2
Melrose Resources <sup>1</sup>	8.9	UK	Oil and gas	Oil and gas exploration	34.6	2.9
Cobepa <sup>2</sup>	9.4	Belgium	Funds	Investment company	29.9	2.5
Edinmore <sup>2</sup>	100.0	UK	Property	Property trading	29.3	2.4
Oval Financial <sup>2</sup>	29.0	UK	Financial	Insurance broking	25.7	2.1
Satellite Information Services <sup>2</sup>	24.4	UK	Consumer	Betting information distribution	25.6	2.1
Ermitage <sup>2</sup>	60.0	Jersey	Financial	Fund management	22.1	1.8
Eddington Triple Alpha Fund <sup>2</sup>		Cayman	Funds	Fund of hedge funds	21.4	1.8
Incise Media <sup>1,2</sup>	10.6	UK	Consumer	Business publishing	21.1	1.7
A G Barr <sup>1</sup>	9.4	UK	Consumer	Soft drinks	20.7	1.7
Savills <sup>1,2</sup>	2.9	UK	Property	Property agency	20.5	1.7
Alok Industries <sup>1,2</sup>	13.7	India	Consumer	Textiles manufacturer	18.2	1.5
Sterling Industries <sup>2</sup>	100.0	UK	Industrial	Engineering	17.7	1.5
Novae Group <sup>1,2</sup>	6.1	UK	Financial	Insurance services	16.7	1.4
Celerant Group <sup>2</sup>	49.0	UK	Industrial	Management consultancy	15.9	1.3
India Capital Growth Fund <sup>1,2</sup>	22.0	Guernsey	Funds	Investment company	15.8	1.3
Eredene Capital <sup>1,2</sup>	19.6	UK	Property	Property investment	14.4	1.2
Nova Capital funds		UK	Funds	Investment funds	13.7	1.1
Polar Capital Partners <sup>2</sup>	20.5	UK	Financial	Fund management	13.6	1.1
Buckingham Gate <sup>2</sup>	100.0	UK	Property	Property investment	13.2	1.1
The Sloane Club <sup>2</sup>	100.0	UK	Consumer	Residential club owner and operator	12.7	1.1
Avanti Screenmedia <sup>1,2</sup>	17.6	UK	Consumer	Screenmedia services	12.5	1.0
Marketform <sup>2</sup>	26.8	UK	Financial	Insurance services	12.3	1.0
Other investments					194.7	16.1
<b>Total investments</b>					<b>1,145.7</b>	<b>94.8</b>
Other net assets					62.3	5.2
<b>Net assets</b>					<b>1,208.0</b>	<b>100.0</b>

1. Equity securities listed on UK or overseas stock exchanges.

2. Board representation.

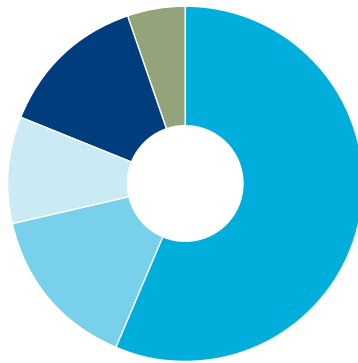
The table above shows holdings representing 1% or more of net assets.

Net assets by business sector



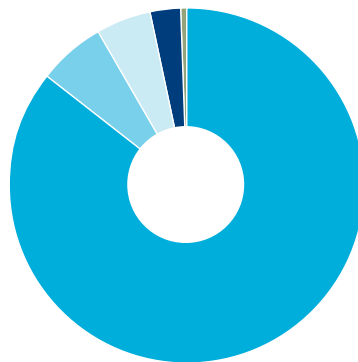
	£m	%
Financial	347.3	28.7
Funds	343.1	28.4
Property	173.1	14.3
Oil and gas	87.6	7.3
Industrial	70.6	5.8
Consumer	124.0	10.3
Total portfolio	1,145.7	94.8
Other net assets	62.3	5.2
	1,208.0	100.0

Net assets by category



	£m	%
Equities quoted	682.4	56.5
Equities unquoted	183.1	15.1
Loans and fixed income	115.7	9.6
Hedge and other funds	164.5	13.6
Total portfolio	1,145.7	94.8
Other net assets	62.3	5.2
	1,208.0	100.0

Net assets by currency



	£m	%
Pounds sterling	1,036.3	85.8
US dollar	74.3	6.1
Euro	60.4	5.0
Indian rupee	31.2	2.6
Other currencies	5.8	0.5
	1,208.0	100.0

# Chairman's statement

## Continuing strong performance



### Results

The first half of our fourth year as an investment trust has been a quieter period for investment markets, with our benchmark FTSE All-Share index showing a flat performance and with the movement in Caledonia's net asset value per share during this short period showing just a small increase of 1.1%. This slowdown in markets has come as no surprise to us, as mentioned in our last annual report. Tim Ingram, in his Chief Executive's review, comments on our continuing strong performance against our five and ten year benchmark and this reflects our investment strategy, which is aimed at the longer term.

### Dividend

The directors have declared an interim dividend of 9.5p per share, representing an increase of 4.4%, thus maintaining our aim to make progressive annual dividend payments.

### Elective special dividend

In June, we offered shareholders the option of participating in a return of funds of up to £128m by way of an elective special dividend, with the shares elected being cancelled through a reduction of capital. Shareholders elected to receive this dividend of 1902.17p per share on 84.4% of the total shares offered, resulting in a pay out of £102.9m. Of this, we estimate that 89% was accounted for principally by institutions, including The Cayzer Trust Company, which chose to maintain its shareholding at 33.3%, leaving only some 11% being taken up by retail shareholders. We regard the overall outcome as very satisfactory.

### Share price

Our share price total return over the half year of 3.6% was ahead of the 1.8% increase in the FTSE All-Share Total Return index and has benefited from a further reduction in the discount of our share price to net asset value per share. The discount has narrowed over the period from 3.9% to 2.6%, which is far removed from the 29.8% prevailing at the time of our conversion to investment trust status on 1 April 2003. However, I must again remind shareholders that we do not control our share price and that, for the future, we are more likely to be judged on the performance of our underlying assets.

### Portfolio

Tim Ingram comments on the detailed movements within our portfolio for the six months under review in his Chief Executive's review. It has continued to be an active period, but marked by our decision to realise our substantial, long standing holding in Kerzner International (formerly Sun International) through a management buy-out proposed by the Kerzner family. We had previously halved the size of this shareholding and the final realisation yielded proceeds, after taking account of currency hedges, of £131m, bringing the overall total realised to £216m, on an investment costing £43m. I would like to thank all concerned with the management of this highly entrepreneurial and rewarding investment. I would also like to extend our very deepest sympathies to Sol Kerzner and his family on the recent loss of his son Butch in a helicopter accident so soon after their decision to embark on a new phase in the development of the business, of which Butch was so much the architect.

### Outlook

We have been fortunate in delivering long periods of good growth for our shareholders, but this poses demanding standards for the future. Whilst we can never be sure of repeating this, we believe strongly in our long term approach of backing sound managements in businesses that we can understand. We have an interesting and diverse portfolio, a healthy flow of opportunities and the resources to invest further. However, there are many uncertainties in this fast changing world and we can only commit to do our best.

Peter Buckley  
Chairman

# Chief Executive's review

## Active period for new investments



### Markets

The first six months of our financial year has ended rather flat in terms of equity prices. A distinct wobble was felt in May, with the FTSE All-Share index falling by over 5%. The effects of higher energy prices, high levels of consumer debt (at least in the Anglo-Saxon countries), an upwards tendency on interest rates and tensions in the Middle East and North East Asia are all starting to be felt. Consequently, notwithstanding our long term approach, we consider it prudent to retain liquidity on our balance sheet, despite having paid out approximately £102.9m of cash through an elective special dividend in July.

### Performance

Our total shareholder return ("TSR") over five years to 30 September 2006 was 242%, compared with the FTSE All-Share Total Return of 53%. Over the ten year period, our TSR of 311% compares well with the 110% total return of the FTSE All-Share. We continue to have a TSR performance that meets our aspiration to be in the top quartile of global growth investment trusts for both these periods.

As our TSR performance is strongly driven by our share price, performance over five and ten years has been enhanced by a significant narrowing of the discount between our share price and net asset value ("NAV") per share. The measure, therefore, of how our actual portfolio of investments has performed relative to the market can be gauged by comparing our NAV per share performance with the FTSE All-Share index.

We converted to investment trust status on 1 April 2003 and, since then, have consistently applied recognised valuation guidelines in measuring our NAV. In the three and a half years since our conversion, our NAV per share has increased by 128%, whereas the FTSE All-Share index has increased by 76%, representing an outperformance of 52% over this period.

### Activity

In the first six months of our financial year we have been very active, making around £172m of new and follow-on investments. Nearly half of this amount was for new investments, which included:

- £22.1m for a 60% stake in Ermitage, an unlisted Jersey-based fund of hedge funds business, with a further £5.0m invested in its Strategic Partners Fund.
- £15.9m for a 49% stake in Celerant Consulting, an unlisted UK-based management consultancy business.
- £12.0m for a 19.6% shareholding in Eredene Capital, an AIM-listed company investing in property in India.
- £12.0m in a Nova Capital Guernsey fund that bought a 100% stake in Springboard, a private equity investment company, and which will be managed by Nova Capital, in which we hold a 33% stake.
- £8.4m for a 49.9% stake in TGE, an unlisted Germany-based liquefied natural gas process engineering business.

Realisations totalled around £176m, of which by far the most important was the buy-out of Kerzner International, the resorts owner and operator in which we had an 8% stake, by a management-led investor group. The \$237m received by us at the beginning of September had been hedged at an average of \$1.81 to the pound, resulting in an overall realisation of £131m, including a £6m benefit from the hedge.

In July, we paid out approximately £102.9m in cash to shareholders who had elected to receive a special dividend with a subsequent cancellation of those shares on which this special dividend was paid. This elective offer permitted over-subscription, and all shareholders who so subscribed had their over-subscriptions met in full. Our shares in issue subsequently reduced by approximately 5.4m to around 58.7m.

As a result of all of the above activity, our liquidity reduced from £180m at 31 March 2006 to £84m at 30 September 2006.

### Looking forward

Although we continue to see a healthy flow of investment opportunities, we remain conservative in our approach, particularly regarding price. We do, therefore, expect to have a significant level of liquidity at the end of our financial year.

Tim Ingram  
Chief Executive

# Chief Executive's review

## continued

**Table 1: Investments**  
six months to 30 September 2006

	Equity holding %	Instrument	Country of domicile	Business	Cost £m
<b>New</b>					
Ermitage	60.0	Equity/loans	Jersey	Hedge fund manager	22.1
Celerant Group	49.0	Equity/loans	UK	Management consultancy	15.9
Eredene Capital	19.6	Equity	UK	Property investment	12.0
Nova Springboard fund		Capital/loan	Guernsey	Investment fund	12.0
TGE Holdings	49.9	Equity/loans	Germany	Gas engineering	8.4
Serica Energy	3.6	Equity	UK	Oil and gas exploration	5.6
Strategic Partners Fund		Shares	US	Hedge fund	5.0
Other investments					1.7
					82.7
<b>Follow-on</b>					
Polar Capital funds		Shares	Ireland/Cayman	Hedge funds	26.8
Bristow Group	6.9	Equity/prefs	US/UK	Helicopter services	13.9
Melrose Resources	8.9	Equity	UK	Oil and gas exploration	10.7
Edinmore	100	Loans	UK	Property trading	8.4
Novae Group	6.1	Equity	UK	Insurance services	6.1
Other investments					22.9
					88.8
					171.5

**Table 2: Realisations**  
six months to 30 September 2006

	Nature of realisation	Proceeds £m	Realised gain £m
Kerzner International	Full sale of holding	125.1	103.4
Sterling Industries	Capital distribution	23.0	2.3
Polar Capital funds	Redemption of funds	7.2	2.4
Other realisations		20.8	6.6
		176.1	114.7

The Kerzner International sale proceeds exclude £5.9m of currency hedge gains.

# Income statement

## for the six months ended 30 September 2006 (unaudited)

	6 mths 30 Sep 2006 £m	Company 6 mths 30 Sep 2005 £m	Year 31 Mar 2006 £m	6 mths 30 Sep 2006 £m	Group 6 mths 30 Sep 2005 £m	Year 31 Mar 2006 £m
Investment and other income	14.0	9.3	26.2	12.3	9.1	26.0
Gains and losses on investments held at fair value	2.3	154.2	352.7	(15.2)	133.6	321.6
Gains on money market funds held at fair value	1.0	–	0.8	1.0	–	0.8
Gains and losses on derivatives	5.9	(6.7)	(9.0)	6.1	(6.7)	(9.0)
Provisions	–	–	(10.0)	(3.1)	–	(6.9)
	23.2	156.8	360.7	1.1	136.0	332.5
Management expenses	(5.3)	(5.6)	(10.8)	(5.3)	(5.6)	(10.8)
Other expenses	(0.8)	(0.5)	(1.1)	(0.8)	(0.5)	(1.1)
<b>Net portfolio return</b>	<b>17.1</b>	<b>150.7</b>	<b>348.8</b>	<b>(5.0)</b>	<b>129.9</b>	<b>320.6</b>
Revenue from sales of goods and services	–	–	–	64.4	60.4	109.1
Operating expenses	–	–	–	(55.2)	(55.1)	(106.9)
Gain on disposal of available for sale investment	–	–	–	–	–	0.3
Gain on disposal of operations	–	–	–	–	–	31.4
Gain on investment property	–	–	–	–	–	1.7
Share of results of joint ventures	–	–	–	1.7	0.4	1.0
<b>Profit before finance costs</b>	<b>17.1</b>	<b>150.7</b>	<b>348.8</b>	<b>5.9</b>	<b>135.6</b>	<b>357.2</b>
Finance costs	(1.1)	(0.7)	(0.8)	(2.6)	(1.5)	(3.2)
<b>Profit before tax</b>	<b>16.0</b>	<b>150.0</b>	<b>348.0</b>	<b>3.3</b>	<b>134.1</b>	<b>354.0</b>
Taxation	1.2	0.3	1.4	(0.7)	(0.4)	(0.4)
<b>Profit for the period</b>	<b>17.2</b>	<b>150.3</b>	<b>349.4</b>	<b>2.6</b>	<b>133.7</b>	<b>353.6</b>
<b>Attributable to</b>						
Equity holders of the parent	17.2	150.3	349.4	1.6	133.7	353.5
Minority interest	–	–	–	1.0	–	0.1
	17.2	150.3	349.4	2.6	133.7	353.6
Basic earnings per ordinary share	28.2p	237.1p	551.4p	2.6p	211.1p	558.3p
Diluted earnings per ordinary share	28.0p	236.1p	549.2p	2.6p	210.2p	556.1p

# Statement of recognised income and expense

## for the six months ended 30 September 2006 (unaudited)

	6 mths 30 Sep 2006 £m	Company 6 mths 30 Sep 2005 £m	Year 31 Mar 2006 £m	6 mths 30 Sep 2006 £m	Group 6 mths 30 Sep 2005 £m	Year 31 Mar 2006 £m
Gains on revaluation of available for sale investments	–	–	–	–	0.7	–
Gain on disposal of available for sale investments	–	–	–	–	–	(0.3)
Exchange differences on translation of foreign operations	–	–	–	(0.7)	1.7	0.7
Actuarial gains and losses on defined benefit pension schemes	–	1.2	(1.2)	2.5	1.0	(1.8)
Tax on items recognised directly in equity	–	–	0.3	–	(0.3)	0.3
<b>Net income recognised directly in equity</b>	<b>–</b>	<b>1.2</b>	<b>(0.9)</b>	<b>1.8</b>	<b>3.1</b>	<b>(1.1)</b>
Profit for the period	17.2	150.3	349.4	2.6	133.7	353.6
<b>Total recognised income and expense</b>	<b>17.2</b>	<b>151.5</b>	<b>348.5</b>	<b>4.4</b>	<b>136.8</b>	<b>352.5</b>
<b>Attributable to</b>						
Equity holders of the parent	17.2	151.5	348.5	3.4	136.8	352.4
Minority interest	–	–	–	1.0	–	0.1
	17.2	151.5	348.5	4.4	136.8	352.5

# Balance sheet

## as at 30 September 2006 (unaudited)

	30 Sep 2006 £m	Company 30 Sep 2005 £m	31 Mar 2006 £m	30 Sep 2006 £m	Group 30 Sep 2005 £m	31 Mar 2006 £m
<b>Non-current assets</b>						
Investments held at fair value through profit or loss	1,142.9	1,045.2	1,145.2	1,031.7	959.6	1,049.0
Investments in subsidiaries	2.8	2.8	2.8	–	–	–
Property, plant and equipment	–	–	–	75.1	76.3	69.1
Investment property	–	–	–	5.8	4.1	5.8
Intangible assets	–	–	–	40.6	4.1	4.0
Available for sale investments	–	–	–	0.5	4.4	0.5
Interests in joint ventures	–	–	–	11.0	8.8	9.6
Deferred tax assets	2.3	–	1.2	4.2	1.0	2.4
<b>Non-current assets</b>	<b>1,148.0</b>	<b>1,048.0</b>	<b>1,149.2</b>	<b>1,168.9</b>	<b>1,058.3</b>	<b>1,140.4</b>
<b>Current assets</b>						
Inventories	–	–	–	29.5	24.2	30.2
Operating and other receivables	4.3	5.8	4.2	28.4	31.7	27.8
Current tax assets	–	4.1	–	0.6	3.8	0.5
Investments held at fair value through profit or loss	–	–	75.8	0.3	–	75.8
Cash and cash equivalents	84.1	82.3	103.8	115.0	102.2	164.7
<b>Current assets</b>	<b>88.4</b>	<b>92.2</b>	<b>183.8</b>	<b>173.8</b>	<b>161.9</b>	<b>299.0</b>
<b>Total assets</b>	<b>1,236.4</b>	<b>1,140.2</b>	<b>1,333.0</b>	<b>1,342.7</b>	<b>1,220.2</b>	<b>1,439.4</b>
<b>Current liabilities</b>						
Bank overdrafts	–	–	–	(1.7)	(5.1)	(8.2)
Interest-bearing loans and borrowings	–	–	–	(1.0)	–	(0.7)
Operating and other payables	(5.6)	(12.1)	(4.0)	(23.7)	(33.3)	(25.4)
Employee benefits	–	–	–	(1.4)	(2.3)	(9.9)
Current tax liabilities	(7.6)	(9.0)	(6.5)	(9.8)	(9.4)	(8.8)
Provisions	(13.5)	–	(13.5)	(14.7)	–	(11.0)
<b>Current liabilities</b>	<b>(26.7)</b>	<b>(21.1)</b>	<b>(24.0)</b>	<b>(52.3)</b>	<b>(50.1)</b>	<b>(64.0)</b>
<b>Non-current liabilities</b>						
Interest-bearing loans and borrowings	–	–	–	(63.4)	(39.5)	(41.3)
Employee benefits	(1.7)	(1.4)	(1.4)	(4.9)	(14.6)	(8.0)
Deferred tax liabilities	–	(1.9)	(0.6)	(1.1)	(2.5)	(0.7)
Provisions	–	–	–	(4.0)	–	–
<b>Non-current liabilities</b>	<b>(1.7)</b>	<b>(3.3)</b>	<b>(2.0)</b>	<b>(73.4)</b>	<b>(56.6)</b>	<b>(50.0)</b>
<b>Total liabilities</b>	<b>(28.4)</b>	<b>(24.4)</b>	<b>(26.0)</b>	<b>(125.7)</b>	<b>(106.7)</b>	<b>(114.0)</b>
<b>Net assets</b>	<b>1,208.0</b>	<b>1,115.8</b>	<b>1,307.0</b>	<b>1,217.0</b>	<b>1,113.5</b>	<b>1,325.4</b>
<b>Equity</b>						
Share capital	3.3	3.6	3.6	3.3	3.6	3.6
Share premium	1.3	1.3	1.3	1.3	1.3	1.3
Capital redemption reserve	1.2	1.2	1.2	1.2	1.2	1.2
Capital reserve	935.6	752.8	947.5	–	–	–
Retained earnings	266.6	356.9	353.4	1,207.4	1,106.0	1,317.9
Foreign exchange translation reserve	–	–	–	(0.2)	0.1	0.5
Fair value reserve for available for sale investments	–	–	–	–	0.7	–
<b>Equity attributable to owners of the parent</b>	<b>1,208.0</b>	<b>1,115.8</b>	<b>1,307.0</b>	<b>1,213.0</b>	<b>1,112.9</b>	<b>1,324.5</b>
Minority interest	–	–	–	4.0	0.6	0.9
<b>Total equity</b>	<b>1,208.0</b>	<b>1,115.8</b>	<b>1,307.0</b>	<b>1,217.0</b>	<b>1,113.5</b>	<b>1,325.4</b>
Net asset value per ordinary share (undiluted)	2083p	1762p	2061p			
Net asset value per ordinary share (diluted)	2061p	1748p	2044p			

# Cash flow statement

## for the six months ended 30 September 2006 (unaudited)

	6 mths 30 Sep 2006 £m	Company 6 mths 30 Sep 2005 £m	Year 31 Mar 2006 £m	6 mths 30 Sep 2006 £m	Group 6 mths 30 Sep 2005 £m	Year 31 Mar 2006 £m
<b>Cash flow from operating activities</b>						
Dividends received	9.8	8.5	18.6	8.7	8.4	17.4
Interest received	2.9	3.4	7.8	3.2	3.3	9.1
Cash received from customers	–	–	–	69.0	62.0	115.8
Cash paid to suppliers	(6.4)	(7.4)	(13.3)	(74.5)	(61.8)	(132.7)
Taxes paid	–	–	–	(3.3)	(1.7)	(3.2)
Group relief received	0.6	1.1	1.4	–	–	–
<b>Net cash flow from operating activities</b>	<b>6.9</b>	<b>5.6</b>	<b>14.5</b>	<b>3.1</b>	<b>10.2</b>	<b>6.4</b>
<b>Cash flow from investing activities</b>						
Purchases of property, plant and equipment	–	–	–	(12.1)	(1.4)	(4.1)
Proceeds from disposal of property, plant and equipment	–	–	–	–	1.6	1.9
Purchases of non-current investments held at fair value	(168.4)	(58.9)	(160.2)	(138.7)	(58.7)	(149.2)
Purchases of current investments held at fair value	–	–	(85.0)	(0.3)	–	(85.0)
Proceeds on disposal of non-current investments held at fair value	176.3	119.6	323.0	145.5	110.8	274.4
Proceeds on disposal of current investments held at fair value	76.8	–	10.0	76.8	–	10.0
Net receipts from derivatives	5.3	–	(7.5)	6.0	–	(7.5)
Purchase of interest in joint venture	–	–	–	–	(1.1)	(1.1)
Purchase of subsidiary net of cash acquired	–	–	–	(17.1)	(0.1)	–
Proceeds on disposal of subsidiaries net of cash disposed	–	–	–	0.9	–	80.3
Taxes received	–	–	–	0.9	–	1.3
<b>Net cash flow from investing activities</b>	<b>90.0</b>	<b>60.7</b>	<b>80.3</b>	<b>61.9</b>	<b>51.1</b>	<b>121.0</b>
<b>Cash flow from financing activities</b>						
Interest paid	(0.8)	(0.4)	(0.3)	(2.0)	(1.5)	(2.3)
Distributions paid to holders of equity shares	(115.9)	(12.4)	(18.2)	(115.4)	(12.4)	(18.2)
Proceeds from new borrowings	38.0	–	–	51.2	1.7	7.0
Repayment of borrowings from a subsidiary	–	(10.3)	(10.2)	–	–	–
Repayment of borrowings	(38.0)	–	–	(41.8)	(0.1)	(4.0)
Net purchase of own shares	0.1	(0.5)	(1.9)	0.1	(0.5)	(1.9)
<b>Net cash flow from financing activities</b>	<b>(116.6)</b>	<b>(23.6)</b>	<b>(30.6)</b>	<b>(107.9)</b>	<b>(12.8)</b>	<b>(19.4)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(19.7)</b>	<b>42.7</b>	<b>64.2</b>	<b>(42.9)</b>	<b>48.5</b>	<b>108.0</b>
Cash and cash equivalents at period start	103.8	39.6	39.6	156.5	48.4	48.4
Exchange gains/(losses) on cash and cash equivalents	–	–	–	(0.3)	0.2	0.1
<b>Cash and cash equivalents at period end</b>	<b>84.1</b>	<b>82.3</b>	<b>103.8</b>	<b>113.3</b>	<b>97.1</b>	<b>156.5</b>

# Notes to the financial information

## 1. Reporting entity

Caledonia Investments plc (the 'Company') 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.

The unaudited interim financial information contained in this report has been approved for issue by the board of directors on 21 November 2006. The comparative figures for the financial year ended 31 March 2006 are not the Company's statutory accounts for that financial year. Those accounts, which were prepared under International Financial Reporting Standards ('IFRS') as adopted by the EU, 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.

This interim financial information has not been prepared in accordance with IAS 34 'Interim Financial Reporting'.

The interim financial information contained in this report does not include all the information and disclosures required in the annual report and financial statements, and should be read in conjunction with the Group's annual report and financial statements as at 31 March 2006, which are available on request from the Company's registered office or at [www.caledonia.com](http://www.caledonia.com).

## 2. Significant accounting policies

The interim financial information contained in this report, as at and for the six months ended 30 September 2006, comprise the Company and all its subsidiaries (together referred to as the 'Group') and the Group's interests in associates and jointly controlled entities.

The accounting policies applied by the Group in this interim financial information are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 March 2006.

Caledonia is an investment trust company. However, because it has the power to control certain investments, it is required to prepare group accounts that consolidate the results of such investments. In order to present information that is comparable with other investment trust companies, Caledonia also publishes financial information of the Company, which includes investments in subsidiaries regarded as part of the Company's investing business at fair value.

## 3. Taxation

	Company			Group		
	6 mths 30 Sep 2006 £m	6 mths 30 Sep 2005 £m	Year 31 Mar 2006 £m	6 mths 30 Sep 2006 £m	6 mths 30 Sep 2005 £m	Year 31 Mar 2006 £m
<b>Income statement</b>						
UK taxation	(1.2)	(0.3)	(1.4)	(0.3)	(0.4)	(1.4)
Overseas taxation	-	-	-	1.0	0.8	1.8
	(1.2)	(0.3)	(1.4)	0.7	0.4	0.4
<b>Changes in equity</b>						
UK taxation	-	-	(0.3)	-	0.3	(0.3)

Included in the Group's share of results of joint ventures for the six months ended 30 September 2006 is a tax charge of £0.5m (six months ended 30 September 2005 - £0.1m and year ended 31 March 2006 - £0.1m).

## 4. Earnings and net asset value per share

### Basic and diluted earnings per share

The calculation of basic earnings per share of the Company and of the Group at 30 September 2006 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the six months ended 30 September 2006.

The calculation of diluted earnings per share takes account of share options and deferred bonus plan awards with dilutive potential. The weighted average number of ordinary shares takes account of the number of dilutive potential ordinary shares to be issued as a result of share options exercised and the vesting of shares under the deferred bonus plan.

	Company			Group		
	6 mths 30 Sep 2006 £m	6 mths 30 Sep 2005 £m	Year 31 Mar 2006 £m	6 mths 30 Sep 2006 £m	6 mths 30 Sep 2005 £m	Year 31 Mar 2006 £m
Earnings (basic)	17.2	150.3	349.4	1.6	133.7	353.5
Effect of share options	-	-	0.2	-	-	0.2
Earnings (diluted)	17.2	150.3	349.6	1.6	133.7	353.7
	000's	000's	000's	000's	000's	000's
Weighted average shares (basic)	61,081	63,394	63,366	61,051	63,344	63,315
Effect of share options	389	275	294	389	275	294
Weighted average shares (diluted)	61,470	63,669	63,660	61,440	63,619	63,609

### Undiluted and diluted net asset value per share

The Company's undiluted net asset value per ordinary share is based on the net assets of the Company at the period end and on the number of ordinary shares in issue at the period end less shares held by the Caledonia Investments plc Employee Share Trust and shares held in treasury.

The company's diluted net asset value per ordinary share assumes the exercise of all outstanding share options and the vesting of shares under the deferred bonus plan.

		30 Sep 2006	30 Sep 2005	31 Mar 2006
Net assets (£m)	Undiluted	1,208.0	1,115.8	1,307.0
	Diluted	1,221.2	1,127.2	1,317.1
Number of shares (000's)	Undiluted	57,988	63,313	63,411
	Diluted	59,243	64,495	64,425
Net asset value per share (p)	Undiluted	2083	1762	2061
	Diluted	2061	1748	2044

## 5. Dividends

	6 mths 30 Sep 2006		6 mths 30 Sep 2005		Year 31 Mar 2006	
	p	£m	p	£m	p	£m
<b>Recognised</b>						
Interim for 2005	-	-	-	-	9.1	5.8
Final for 2006 (2005)	20.5	13.0	19.5	12.4	19.5	12.4
Elective special	-	102.9	-	-	-	-
	20.5	115.9	19.5	12.4	28.6	18.2
<b>Proposed</b>						
Interim for 2006	9.5	5.5	9.1	5.8	-	-
Final for 2006	-	-	-	-	20.5	13.0
	9.5	5.5	9.1	5.8	20.5	13.0

The proposed interim dividend for 2006 is based on 9.5p per share and 57,988,000 ordinary shares being eligible as at 30 September 2006. The dividend was approved on 21 November 2006 and will be payable on 9 January 2007 to shareholders on the register on 8 December 2006. The ex-dividend date will be 6 December 2006.

# Independent review report to Caledonia Investments plc

## Introduction

We have been instructed by the company to review the financial information for the six months ended 30 September 2006 which comprises the income statement, the statement of recognised income and expense, the balance sheet, the cash flow statement and related notes 1 to 5 on a Company and Group basis. 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 Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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 formed.

## 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 of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

## Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 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 excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) 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 2006.



**Deloitte & Touche LLP**  
Chartered Accountants  
London  
21 November 2006

# Information for shareholders

## 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 this purpose. Mandates may be obtained from Capita Registrars at the address given on the following page. Where dividends are paid directly into shareholders' bank accounts, dividend tax vouchers are sent directly to shareholders' registered addresses.

Shareholders on the New Zealand register may arrange to receive their dividends by direct credit to a specified New Zealand bank account. New Zealand registered shareholders should contact Computershare Investor Services Ltd at the address given on the following page if they wish to set up such an arrangement.

## 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 values

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](http://www.caledonia.com).

## Financial calendar

Provisional dates for the company's financial events over the coming year are as follows:

Interim results announced	21 November 2006
Interim report published	4 December 2006
Interim dividend paid	9 January 2007
Annual results announced	30 May 2007
Annual report published	18 June 2007
Annual general meeting	19 July 2007
Final dividend paid	2 August 2007

## Caledonia Investments ISA

The Caledonia Investments Individual Savings Account ('ISA') is a tax efficient savings account that allows UK residents 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 Investments ISA is Capita Financial Managers Ltd, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0GA. The administrator of the ISA is Capita IRG Trustees Ltd, which can be contacted at Regulated Business, 34 Beckenham Road, Beckenham, Kent BR3 4TU or telephoned on 0870 162 3135.

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

## Caledonia Investments 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 Investments 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 telephoned on 0870 162 3135.

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

## PEPs and ISAs

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

### **Executive directors**

Peter N Buckley (Chairman)<sup>2</sup>  
Timothy C W Ingram (Chief Executive)  
Jonathan H Cartwright (Finance Director)  
James M B Cayzer-Colvin  
The Hon Charles W Cayzer  
John M May  
William P Wyatt

### **Non-executive directors**

James R H Loudon (Deputy Chairman)<sup>1,2,3</sup>  
Charles M Allen-Jones (senior independent)<sup>1,2,3,4</sup>  
Mark E T Davies<sup>2,3,4</sup>  
Richard Goblet d'Alviella  
David G F Thompson<sup>1,2,4</sup>

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

### **Associate directors**

Graeme P Denison  
Roland B S Fisher  
Jonathan R Hale  
Anthony E G Hambro  
Sheena D McNeill  
Paul M Whiteley

### **Secretary**

Graeme P Denison

### **Registered office**

Cayzer House  
30 Buckingham Gate  
London SW1E 6NN

### **Registered number**

Registered in England no 235481

### **Auditors**

Deloitte & Touche LLP  
Stonecutter Court  
1 Stonecutter Lane  
London EC4A 4TR

### **Registrars**

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
Tel: 0870 162 3100

Computershare Investor Services Ltd  
Private Bag 92119  
Auckland 1020  
New Zealand  
Tel: +64 9 488 8777

### **Brokers**

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20 Moorgate  
London EC2R 6DA

First NZ Capital Securities  
PO Box 3394  
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282-292 Lambton Quay  
Wellington  
New Zealand

### **Solicitors**

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