



Caledonia Investments plc
Annual Report 2005

Proof 3
27/5/05

Run out at 100%

pdf 100%

PLEASE NOTE: THIS PROOF IS NOT ACCURATE FOR COLOUR.

Private & confidential

Highlights

- Outperformance against benchmark of 133% and 111% over five and ten years
- 9% outperformance of NAV per share against FTSE All-Share over 12 months
- Company total return for the year of £173m (264p per share)
- 4.4% increase in annual dividend to 28.2p marks 38 years of increasing dividends
- £124m invested and £218m disinvested
- Narrowing of share price discount to NAV from 21% to 12% over the year
- Payment of elective special dividend of £88m and capital reduction

Performance

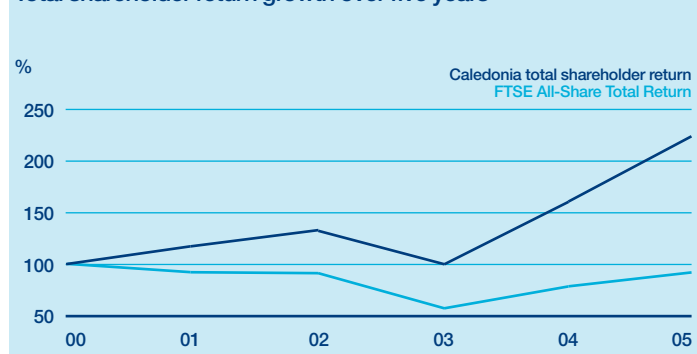
	10 year %	5 year %	1 year %
Caledonia total shareholder return	229.7	124.5	37.7
FTSE All-Share Total Return	118.4	(8.2)	15.6
Total shareholder return outperformance	111.3	132.7	22.1
Dividend increase	64.7	21.7	4.4

Results summary

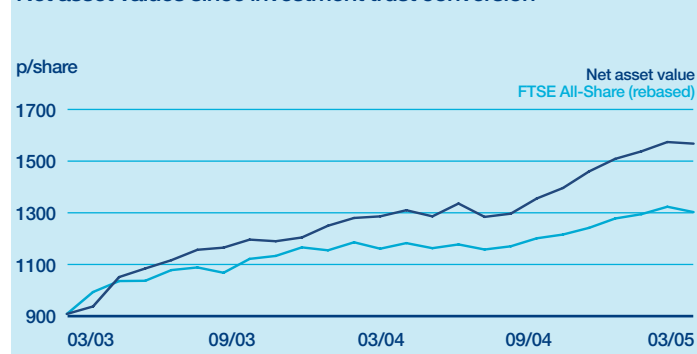
	2005	2004	Change %
Total shareholders' funds	£973.0m	£911.0m	6.8
Net asset value per ordinary share	1554p	1282p	21.2
Share price	1367p	1017p	34.4
Discount	12.0%	20.7%	42.0
FTSE All-Share index	2457.7	2197.0	11.9
Dividends per ordinary share	28.2p	27.0p	4.4

Results are based on the company balance sheet, as restated.
Total shareholders' funds in 2005 is after the elective special dividend of £88.0m.
Net asset value per ordinary share is stated before accrued final dividends.

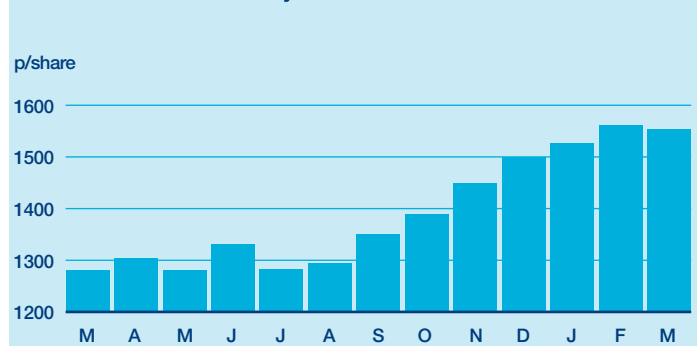
Total shareholder return growth over five years



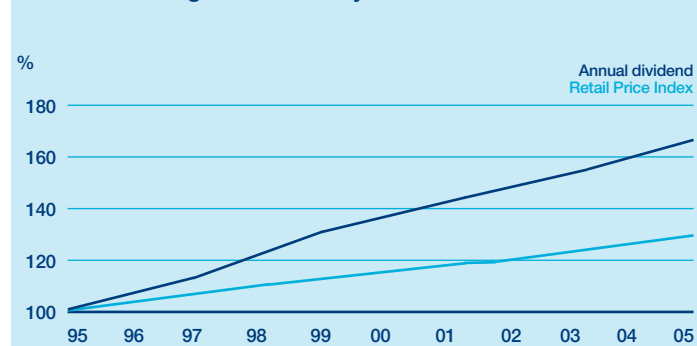
Net asset values since investment trust conversion



Net asset values over one year



Annual dividend growth over ten years



Source: Caledonia and FTSE/Datastream

Chairman's statement



Peter Buckley
Chairman

Caledonia's second year as an investment trust has been successful, with significant outperformance again recorded against our benchmark.

Results

I am delighted to report that our second year as an investment trust has been another successful one. We are pleased once again to have delivered excellent results for shareholders with total shareholder return over five and ten years outperforming our benchmark of the FTSE All-Share Total Return index by 133% and 111% respectively, which is considerably ahead of the outperformance recorded a year ago. It has also been an eventful year in that we found a satisfactory solution to the ill-considered attempts to liquidate Caledonia and destroy a company with a proud record of delivering good value for its shareholders over a long time frame. This is fully explained under 'Elective special dividend' below.

Share price

We are pleased that our continued growth in net assets per share amounting to some 21% over the year has been complemented by a further reduction in the discount of our share price to our underlying assets. This discount has narrowed from 30% two years ago to 21% a year ago and now to 12% at the close of the year under review. The discount is slightly above the average of our Global Growth sector peer group, and still well above some of the other top performers in this sector with whom we can justifiably compare ourselves. We do well to remember however that we do not control our share price, though we have worked diligently to create greater awareness of our good long term performance and particularly with retail investors whom we believe to be natural owners of our shares. We shall continue with this effort as Tim Ingram explains in his chief executive's report, but the restoration of stability within our shareholder base is likely also to have contributed to this lower discount so that it will prove much more challenging to continue this trend from now onwards, which may in turn affect our total return performance. Nonetheless, we believe that our long established strategy of taking significant stakes in businesses of which we have a good understanding, with particular emphasis on identifying sound managements, should continue to deliver good long term net asset value performance.

Dividend

We are pleased to recommend a final dividend of 19.5 pence per share bringing the total for the year to 28.2 pence. This amounts to an increase of 4.4% and maintains our policy of seeking to achieve progressive annual dividend payments, which we have now delivered for 38 successive years.

Elective special dividend

In July 2004, the elective special dividend and reduction of capital that had been proposed to resolve the long running dispute amongst the shareholders of Caledonia's largest shareholder, The Cayzer Trust Company, in which two institutional shareholders had also become involved, became effective. This dispute had been damaging to Caledonia's business model, which is founded on being a stable investor, willing and able to take the longer term view. Under these proposals, all shareholders were offered the opportunity to receive an elective special dividend, on up to two-ninths of their shareholdings, of an amount based on an 18% discount to the company's net asset value per share, with subsequent cancellation of those shares on which the dividend was paid through a Court approved reduction of capital. I am pleased

to report that, aside from The Cayzer Trust Company, which had undertaken in advance to take up its full entitlement in order to facilitate the buy-out of its dissident shareholders, and Hermes, which we expected to participate given its previous publicly expressed views in support of the liquidation of Caledonia, the shares cancelled in respect of our other shareholders only amounted to some 1% of our overall share capital. This outcome enabled us to put an end to the misplaced and potentially destabilising attempts by a small handful of shareholders to liquidate Caledonia by paying out £88m, or less than 10% of our shareholders' funds. We were most encouraged by this support and I would like to thank our many shareholders who believe in our long term approach and who chose to remain with us. It is good to know that the £88m outflow of funds has been more than made up by the subsequent increase in the value of our assets by the year end.

Portfolio

In my interim statement, I reported on the reduced weighting in our portfolio of our two largest holdings, Close Brothers and Kerzner International ('KI'), where disposals had netted proceeds of some £91m. These rebalancing issues are ones of success given the strong share price performance of these companies over time and we took advantage of an even higher price for KI shares in February of this year and realised a further £28m. These investments still remain our two largest holdings, at 14% and 12% of our portfolio respectively at the year end. The chief executive's report gives a more detailed commentary on our portfolio.

Economic and political background

Over the years, I have made brief reference to the economic background against which we operate with the inevitable bias which is imposed by the incumbent political faction. I have also consistently highlighted the damage imposed on our economy by our failure to reject the political and federalist agenda emanating from Brussels, as against one seeking to build a more open – or common – marketplace. However, we have rather missed the bus on the latter, for the world is now our marketplace – not the historic boundaries of Europe as recently expanded. It is therefore encouraging to see the groundswell of opinion recognising the shortcomings of an unelected and unaccountable body in Brussels which seeks extravagantly to build an ivory tower. The forthcoming referenda are pivotal to this issue but, even if the proposals for the new European Constitution are rejected, the challenge will still remain to undo much of the stultifying legislation which has been imposed unilaterally on the business community.

The recent election has sadly perpetuated a regime whose economic doctrines are gradually worsening the outlook for business in this country. Most leading economic bodies have recently warned of the growing public sector deficit with its inbuilt inefficiencies and of the likelihood of yet higher taxation. The flawed idealism attaching to this burgeoning Government expenditure has not yet fully dawned but it inevitably will and this causes us to be cautious on the investment front until the storm develops more fully and realism looks like prevailing.

Board

We have taken the opportunity to strengthen our board over the past six months. I was pleased to welcome Richard Goblet d'Alviella, chief executive of Sofina, the Belgium-based investment company, to our board as a non-executive director in January and more recently, in April, Jamie Cayzer-Colvin and Will Wyatt as executive directors. Given our interest in finding suitable investment opportunities on the Continent, exemplified by our recent investment in Cobepa, and Sofina's not dissimilar investment philosophy to our own, Richard Goblet's wide investment experience of the continent of Europe is a valuable added resource. Jamie Cayzer-Colvin and Will Wyatt, who have worked for Caledonia since 1995 and 1997 respectively and who both became associate directors three years ago, are responsible for a growing number of recent investment initiatives. We now have a younger board which is positive, whilst maintaining the experience which is crucial to our long term approach.

Sir David Kinloch retired as an executive director in January 2004 on reaching the normal retirement age, but remained as a non-executive director until the conclusion of last year's annual general meeting. Accordingly, he left the board during the year under review and I would wish to repeat my thanks to him for his valuable service to Caledonia since the company took to its new life in 1988. Sadly, Michael Wyatt also decided to retire from the board at the close of the financial year. His contribution over 30 years as a director has been huge and his steady counsel through the enormous changes which have taken place with the business over that period has stood the company in great stead. He was deputy chairman from 1994 until 2001 and became a non-executive director in 2002. I would wish to thank him most wholeheartedly on behalf of all our shareholders.

Staff

Once again I would like to pay tribute to the unstinting efforts of our focused management team in Cayzer House and for its commitment to continuing to build Caledonia for the benefit of all our shareholders. The consistency of good culture in any business is a key ingredient for success and I believe we score well on this count, with a strong will to preserve this special feature. In addition to thanking the home team, I would also like to extend these thanks to all those who have done well for us in our investee companies.

Outlook

It is normally difficult to interpret the crystal ball, but our view tends on the cautious side. Deficits and consumer debt in the USA are high and the latter is repeated in the UK with the added issue of rising Government spending. However, growth over the medium to longer term in Asia and the Far East, where we are inclined to seek some investment opportunities, looks interesting. We shall bear these factors in mind as we move forward in the belief that our philosophy should continue to deliver good value for shareholders.

Peter Buckley
Chairman

Chief executive's report



Tim Ingram
Chief executive

We have continued to make new investments and to disinvest where appropriate in an environment in which attractive opportunities remain available to the longer term investor.

This is the second year that we are reporting our results as an investment trust. Last year we reported that for 2003 we had been named the 'Brightest Newcomer' by the Investment Trusts magazine and, this time, we can report that for 2004 your company won an award as 'Best Global Growth Trust'.

Performance

The year ended 31 March 2005 has again seen strong growth in the value of our investment portfolio. Net asset value ('NAV') per share, before accrued final dividends, has grown from 1282p at the beginning of the year to 1554p at 31 March 2005 – a growth of 21%. As the FTSE All-Share index has grown by nearly 12% during this period, this represents a 9% outperformance. The table below analyses this outperformance into its component parts.

One year performance attribution

	Return %
Market (FTSE All-Share index)	11.9
Stock selection	7.6
Sector allocation	0.5
NAV per share enhancement (elective special dividend)	2.3
Management and other expenses	(1.1)
Caledonia's NAV per share	21.2

Of particular note, given our style to back strong management teams, is that over 7% of the outperformance can be attributed to our having, in aggregate, invested in companies which have themselves outperformed within their sectors. Also of note is the NAV per share enhancement of 2.3%, which resulted from the elective special dividend and reduction of capital that was completed last July. This exercise, which is mentioned more fully in the chairman's statement, both resolved in full a potentially unstable situation within our largest shareholder, The Cayzer Trust Company, and directly created additional value for our remaining shareholders through the NAV per share enhancement.

Notwithstanding our good shorter term performance, our approach continues to be long term and we believe that a more pertinent measure for our shareholders is our total shareholder return ('TSR'), measured over five and ten year periods. The table below shows this performance.

Five and ten year relative TSR performance

To 31 March 2005	Caledonia TSR %	FTSE All-Share Total Return %	Outperformance %
5 years	124.5	(8.2)	132.7
10 years	229.7	118.4	111.3

We have significantly outperformed our benchmark and this performance again puts us in the top quartile when measured against the Global Growth sector for all investment trusts over these periods. The above table also shows that, as for last year, we have been producing positive returns over the last five and ten year periods, the former when our benchmark has been in negative territory. This we will continue to strive to do. In order to enhance our ability to produce positive returns in times when equity markets are flat or falling, as well as being prepared to hold cash, we also invest in other classes of assets such as unquoted investments (22% of the portfolio at 31 March 2005), property (13%) and hedge funds (3%). In all these cases, our business policy is the same: to back, with long term capital, carefully selected management teams.

Investment activity

Our investment style remains consistent. We only invest when we are confident that we are backing management teams that should be able to create good medium and long term value for their shareholders. We look to take significant shareholdings in such situations, usually with a Caledonia executive taking a position on the board of the investee company, and where we are aiming to be a long term supportive and involved investor. This is a distinctive but unusual style, particularly in relation to quoted companies, and one that brings us a strong flow of investment opportunities. Considerable time is spent analysing these opportunities and we are very discerning in our final selection, especially in relation to the quality of the management. The entry price is obviously a further major consideration, as we need to be confident that there is room for good value creation over the medium term.

During the course of our financial year, our investment committee evaluated around 150 potential new investment opportunities. These were short-listed down to a more manageable number, which were then intensely evaluated and from which we made seven new investments for a total amount of £60m. In addition, we invested a further £64m as follow-on funding in existing investments. This is a similar level to the previous year when a total of £108m was invested in new and follow-on investments. Both new and follow-on investments for the year ended 31 March 2005 are shown in the table below.

A second distinctive characteristic of our investment style is our hands-on approach after we have made the investment. As stated above, it is our normal policy for a Caledonia investment executive to join the board of the investee company as a non-executive director, and considerable time is spent in working supportively with management to achieve long term shareholder value creation. A large portion of the investment executive's time is spent in this way, and we believe that such an approach is a significant contributor to our performance. During the year, we have had a Caledonia executive as a director on the boards of 24 of our top 30 investments. Whether we have representation on the board or not, efforts are made to influence constructively the operations and strategies of each investee company.

New and follow-on investments

Investment	Cost £m	Resultant holding %	Category	Country	Business
New investments					
Cobepa	22.8	9.4	Unquoted	Belgium	Investment company
Incisive Media	10.6	8.8	Quoted	UK	Business publisher
Omniport	6.0	39.2	Unquoted	UK	Regional airport owner
Indian securities	7.4		Quoted	India	Portfolio of quoted Indian securities
Berkshire Capital	5.1	30.0	Unquoted	USA	Investment banking advisor
Terrace Hill	4.1	7.5	Quoted	UK	Commercial property developer
Seven Publishing	3.5	21.7	Unquoted	UK	Magazine publisher
	59.5				
Follow-on investments					
General Practice	16.9	30.0	Unquoted	UK	Health care property developer and owner
Oval	12.5	27.4	Unquoted	UK	Insurance broking consolidator
Polar Capital funds	9.3	24.6 ¹	Hedge funds	Cayman	Paragon and Asia ex-Japan hedge funds
Tribal Group	9.2	7.4	Quoted	UK	Support services for the UK public sector
Melrose Resources	0.9	6.7	Quoted	UK	Oil and gas exploration and production
Other	15.5				Includes private equity fund draw downs
	64.3				
	123.8				

1. Holding in the management company was unchanged.

Chief executive's report

continued

Although we are a long term investor, we believe that there comes a time when it is appropriate for us to disinvest, or partially sell down, from an investment. In addition, there may be redemptions within funds in which we have invested which give rise to capital flows back to Caledonia. During the year, we realised some £218m through such events as listed in the table below.

Full and partial disinvestments	£m
Kerzner International	62.0
Close Brothers	57.1
Aberforth LP fund	23.8
Radio Investments	13.7
Polar Capital and funds	12.4
Distributions from private equity funds	8.1
Redleaf II	7.0
Paladin Resources	6.5
Hill & Smith Holdings	5.2
Active Capital Trust	5.1
Offshore Logistics/Bristow – capital reorganisation	3.7
Amerindo Internet Fund	3.0
Other	10.1
	217.7

As a general rule, we disinvest when we believe that, going forward, the funds released can achieve a higher return for our shareholders through being employed elsewhere, or when concentration of risk considerations mean it is prudent to reduce our holding. However, when disinvesting, particular care is taken to ensure that we do not damage our valuable reputation as a long term supportive investor.

Treasury

We started the year with net liquid funds of £34m. Although some borrowings were incurred during the year to finance the elective special dividend which was paid in July, by the end of the year, as a result of our net disinvestment activity, we again had net liquid funds of around £40m and, thus, no external borrowings, reflecting our conservative approach in the present market conditions.

At our extraordinary general meeting in June last year, we sought and obtained authority to buy our own shares on the open market, which we can now hold in treasury, when we believe this is beneficial to our shareholders. During the year, we bought into treasury 100,000 of our shares at a price of 1015p per share. We will be seeking approval at our forthcoming annual general meeting to extend this authority for a further year, as we believe there may be further opportunities for us to enhance shareholder value in this way.

We have taken a cautious approach to our structural US dollar currency exposures, which arise because some of our investments are denominated in US dollars. During the year, we increased the extent of our dollar hedging so that by the end of the financial year these structural dollar exposures were fully hedged.

Costs

Keeping overhead costs down is an important objective for us. Every pound of overhead cost is a pound reduction in our shareholders' net assets. We believe that being a self-managed investment trust with direct control over costs significantly helps this objective. Our overhead costs for the year were about 1% of our net assets, which compares favourably against a pre-tax weighted industry average of 1.5% – particularly in view of the time-consuming hands-on approach that we take with our investment portfolio.

Shareholders

We believe that putting our efforts into growing NAV per share is the best way to achieve our financial objectives for our shareholders. However, we are aware of the continuing desire of shareholders also to see a narrowing in the discount of our share price when compared with NAV per share. We reported last year on initiatives we were taking to create an environment which would encourage a narrowing of this discount. These initiatives are bearing fruit in that our discount, which was around 21% at 31 March 2004, had narrowed to around 12% at 31 March 2005. It is our belief that our shareholder objectives are in line with the aspirations of many retail investors, and we are continuing to increase the awareness of Caledonia as an investment trust amongst potential retail shareholders. As part of this initiative, we arranged from 1 November 2004 for our shares to be listed on the stock exchange in New Zealand, where UK incorporated investment trusts currently offer a more tax efficient means of investment for New Zealand resident individuals when compared with other collective investment vehicles. As a result of this and other initiatives, we estimate that, during the course of the year, the percentage of retail shareholders has increased by around 7% to about 23% at 31 March 2005.

Recent activity

The only significant changes to our portfolio in the six weeks since our year end have been the sale of all of our shares in F&C Asset Management for £20m and the purchase for £18m of a 22% stake in Satellite Information Services, an unquoted company specialising in the distribution of betting related media.

The future

Since our financial year end, stock markets have experienced some turbulence, justifying our stance to be cautious and ungeared. We are confident that the resilience of our long term approach should continue to prove to be of value in these times. We are continuing to see a strong flow of good business opportunities, and our approach to these remains cautious but consistent. Over the last eighteen months, we have spent significant amounts of time looking at the higher growth markets in Asia and the Far East, and during the last few months have initiated a small portfolio of quoted Indian shares – these were valued at £8.4m at 31 March 2005, which represents a 13.5% gain on cost. We believe that the fast growing Indian economy offers good opportunities for our long term approach and, although we would not expect this area to become a particularly significant part of our portfolio in the short to medium term, we are hoping to increase our investment activity in that country. We are also looking at opportunities in China, but with added caution in view of the linguistic, legal and cultural challenges for a financial investor in that area. We are, of course, also continuing to look at opportunities in our traditional markets.

By carefully selecting the right opportunities where there are strong management teams, by continuing our active involvement in investee companies and through disinvesting when appropriate, we seek to maintain our distinctive performance.

Tim Ingram
Chief executive

Objectives and strategy

Objectives

Caledonia aims to achieve a long term total shareholder return in excess of the FTSE All-Share Total Return index, while maintaining a progressive annual dividend, through a focused portfolio of significant stakes in companies where it believes there to be good opportunities for building value.

Caledonia measures its performance over the long term by comparing its total shareholder return against the FTSE All-Share Total Return index over five and ten year periods.

Strategy

Caledonia's strategy is to invest in and actively manage significant stakes in 30 to 40 companies and situations where it believes there to be good opportunities for building value. Active management will usually be achieved by working closely and constructively with the investee management, often through board representation, as a long term supportive shareholder. Risk is managed by holding a diversified portfolio, with at least 50% of the portfolio in quoted securities or liquid assets. Caledonia self-manages its portfolio, using in-house expertise, as well as using third party managers who specialise in particular asset classes or geographical areas.

Caledonia seeks new investments with a typical size of £10m to £25m. Although Caledonia usually aims to have an influential minority stake it will, on occasion, be prepared to take a controlling interest where it believes that this will maximise shareholder value. When considering an investment opportunity, particular care is taken in appraising the capabilities and commitment of the management team of the prospective investee company. The anticipated total return from the investment, the strategy in relation to it, and the overall risks, are carefully analysed as part of the investment process.

Caledonia will invest part of its portfolio in third party managed funds. Again, a core skill is its ability to assess the capabilities and commitment of the fund management team and Caledonia will often seek to obtain a significant stake in the management company, thereby potentially enhancing returns to shareholders.

Caledonia seeks to work closely and constructively with the management of companies that it has backed and to make available the considerable experience of its own team to help the investee company's management to address the business issues. The strategy for each investment, including the returns and the timing of eventual disposal, is reviewed regularly. Investments are realised when it is believed that the funds released can provide better long term returns, but in a manner consistent with Caledonia's reputation as a supportive long term investor.

Whilst the source of funding for new investments generally comes from its own resources, Caledonia may at times seek to enhance returns by taking on moderate levels of gearing.

Tight control is exercised over costs, notwithstanding Caledonia's active and participative management style. Cost containment is significantly aided by managing the large majority of investments through the in-house management team.

Competitive advantages

Caledonia believes that its history and strategy deliver the following key competitive advantages:

- Favoured access – Caledonia's long established and valuable reputation as a supportive long term investor attracts a strong deal flow of opportunities not always available to others, which enables it to be highly selective in its investments.
- Long experience – Caledonia's management team has long experience of proactively working with the management teams of investee companies to identify and promote business growth opportunities.
- Self-management – Caledonia's portfolio is largely self-managed, thereby reducing third party fees and ensuring that performance gains accrue to Caledonia's shareholders. Where investments are made in managed funds, Caledonia seeks to secure a stake in the asset management business, to enhance further potential returns.
- Progressive dividends – Caledonia has a substantial level of distributable reserves to support its progressive dividend policy for the foreseeable future.

Investment analysis

Significant holdings

Name	Equity holding %	Country of incorporation	Nature of business	Total £m	Proportion of total assets %
Close Brothers ^{1,2}	12.5	UK	Merchant banking	139.5	14.2
Kerzner International ^{1,2}	10.1	Bahamas	Resorts owner and operator	117.4	11.9
British Empire Securities ^{1,2}	19.9	UK	Investment trust	104.9	10.7
Paladin Resources ¹	9.0	UK	Oil and gas exploration	55.7	5.7
Quintain Estates & Development ¹	7.0	UK	Property holding and development	48.2	4.9
Rathbone Brothers ^{1,2}	11.3	UK	Fund management	37.4	3.8
Polar Capital and funds ^{2,3,4}	24.6	UK/Cayman	Fund management and funds	27.4	2.8
Cobepa ²	9.4	Belgium	Investment company	26.1	2.6
Offshore Logistics/Bristow ^{1,2}	5.6	USA/UK	Helicopter services	23.8	2.4
Aberforth LP fund ³	25.5	UK	Managed fund	22.5	2.3
F&C Asset Management ¹	1.9	UK	Fund management	21.1	2.1
General Practice ²	30.0	UK	Health care properties	19.9	2.0
Eddington Capital and funds ^{2,3,5}	50.0	UK/Cayman	Fund management and funds	18.5	1.9
Oval ²	27.4	UK	Insurance services	17.0	1.7
A G Barr ¹	9.4	UK	Soft drinks	16.8	1.7
Wallem ²	74.4	Cayman	Shipping services	15.7	1.6
Savills ^{1,2}	4.2	UK	Property agency	15.5	1.6
Marketform ²	26.8	UK	Insurance services	15.1	1.5
Melrose Resources ¹	6.7	UK	Oil and gas exploration	14.8	1.5
Incisive Media ^{1,2}	8.8	UK	Publishing	13.6	1.4
Easybox ²	99.2	Luxembourg	Self storage	12.3	1.2
Edinmore ²	100	UK	Property trading and investment	11.0	1.1
Sterling Industries ²	100	UK	Engineering	10.8	1.1
Amber Industrial ²	100	UK	Speciality chemicals	10.7	1.1
The Sloane Club ²	100	UK	Residential club owner and operator	10.1	1.0
Buckingham Gate ²	100	UK	Property holding	9.9	1.0
SVB Holdings ^{1,2}	5.3	UK	Insurance	9.5	1.0
Other investments				106.3	10.8
Total investments				951.5	96.6
Net liquid assets				33.9	3.4
Net assets				985.4	100.0
Dividend accrual				(12.4)	
Shareholders' funds				973.0	

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

2. Board representation.

3. Advisory committee representation.

4. Included £7.3m for the management company and £20.1m of funds.

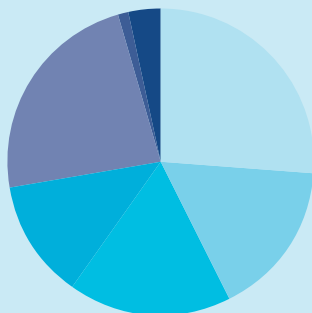
5. Included £0.7m for the management company and £17.8m of funds.

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

Investment analysis

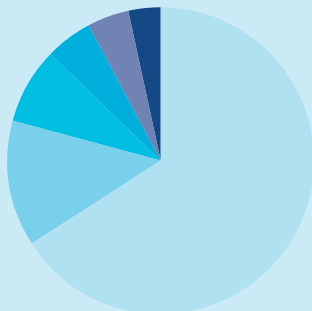
Asset distribution

Sector



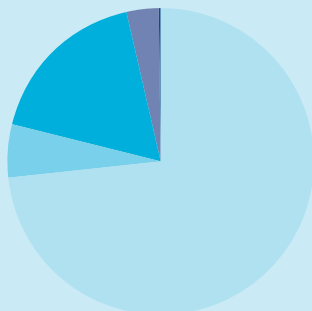
	£m	%
Financial	258.0	26.2
Leisure and media	161.5	16.4
Industrial and services	169.6	17.2
Property	123.3	12.5
Managed general funds	228.5	23.2
Other	10.6	1.1
Net liquid assets	33.9	3.4
	985.4	100.0

Category



	£m	%
Equities – quoted	649.4	65.9
Equities – unquoted	131.0	13.3
Loans and fixed income	78.9	8.0
Private equity LPs	49.4	5.0
Hedge and other funds	42.8	4.4
Net liquid assets	33.9	3.4
	985.4	100.0

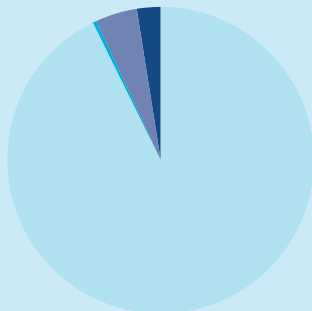
Geography



	£m	%
United Kingdom	722.6	73.3
Continental Europe	54.8	5.6
North America	172.5	17.5
Asia and Far East	33.1	3.4
Latin America	2.4	0.2
	985.4	100.0

Based on country of domicile or underlying spread for funds.

Currency



	£m	%
Pounds sterling	913.7	92.7
US dollar	4.3	0.4
Euro	43.2	4.4
Other	24.2	2.5
	985.4	100.0

Based on currency of investment, net of currency hedges.

Investment analysis

Sector weighting

Caledonia organises its investments into sectors, based on groupings of the FTSE industry sectors. UK listed securities are classified according to their standard listing sector. Other securities are classified according to the FTSE sector they would probably be included in, if they were listed. The Caledonia sectors are as follows:

Financial

Banks
Insurance
Life assurance
Speciality and other finance

Leisure and media

Beverages
Leisure, entertainment and hotels
Media and photography
Tobacco

Managed general funds

Investment companies

Industrial and services

Aerospace and defence
Automobiles and parts
Chemicals
Electronic and electrical equipment
Engineering and machinery
Oil and gas
Steel and other metals
Support services
Transport

Property

Construction and building materials
Forestry and paper
Real estate

Other

Electricity
Food and drug retailers
Food producers and processors
Gas distribution
General retailers
Health
Household goods and textiles
Information technology hardware
Mining
Personal care and household products
Pharmaceuticals and biotech
Software and computer services
Telecommunication services
Utilities other

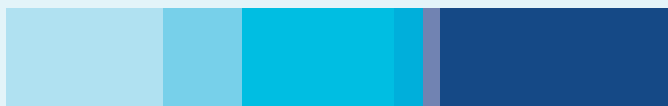
The following chart shows the weighting of Caledonia's portfolio by sector in relation to the equivalent FTSE industry grouping:

Sector weighting against the FTSE All-Share

Portfolio



FTSE All-Share



	£m	Portfolio %	FTSE All-Share %
Financial	258.0	27.1	23.6
Leisure and media	161.5	17.0	11.8
Industrial and services	169.6	17.8	22.8
Property	123.3	13.0	4.4
Managed general funds	228.5	24.0	2.6
Others	10.6	1.1	34.8
	951.5	100.0	100.0

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

Investment analysis

Holdings by sector

Name	Equity interest %	Equities quoted £m	Equities unquoted £m	Loans and fixed income £m	Private equity partnerships £m	Hedge and other funds £m	Total £m	Proportion of total assets %
Financial								
Close Brothers	12.5	139.5	–	–	–	–	139.5	14.2
Rathbone Brothers	11.3	37.4	–	–	–	–	37.4	3.8
F&C Asset Management	1.9	21.1	–	–	–	–	21.1	2.1
Oval	27.4	–	10.0	7.0	–	–	17.0	1.7
Marketform	26.8	–	7.6	7.5	–	–	15.1	1.5
SVB Holdings	5.3	4.9	–	4.6	–	–	9.5	1.0
Polar Capital	24.6	–	7.3	–	–	–	7.3	0.7
Eddington Capital	50.0	–	0.1	0.6	–	–	0.7	0.1
Other investments		2.5	7.2	0.7	–	–	10.4	1.1
		205.4	32.2	20.4	–	–	258.0	26.2
Leisure and media								
Kerzner International	10.1	117.4	–	–	–	–	117.4	11.9
A G Barr	9.4	16.8	–	–	–	–	16.8	1.7
Incisive Media	8.8	13.6	–	–	–	–	13.6	1.4
The Sloane Club	100	–	10.1	–	–	–	10.1	1.0
Other investments		–	3.6	–	–	–	3.6	0.4
		147.8	13.7	–	–	–	161.5	16.4
Industrial and services								
Paladin Resources	9.0	55.7	–	–	–	–	55.7	5.7
Offshore Logistics/Bristow	5.6	22.9	0.9	–	–	–	23.8	2.4
Wallem	74.4	–	15.7	–	–	–	15.7	1.6
Melrose Resources	6.7	14.8	–	–	–	–	14.8	1.5
Easybox	99.2	–	–	12.3	–	–	12.3	1.2
Sterling Industries	100	–	10.5	0.3	–	–	10.8	1.1
Amber Industrial	100	–	–	10.7	–	–	10.7	1.1
Other investments		10.2	6.7	6.5	2.4	–	25.8	2.6
		103.6	33.8	29.8	2.4	–	169.6	17.2
Property								
Quintain Estates & Development	7.0	48.2	–	–	–	–	48.2	4.9
General Practice	30.0	–	2.8	17.1	–	–	19.9	2.0
Savills	4.2	15.5	–	–	–	–	15.5	1.6
Edinmore	100	–	2.0	9.0	–	–	11.0	1.1
Buckingham Gate	100	–	9.9	–	–	–	9.9	1.0
Other investments		5.7	8.1	0.1	4.9	–	18.8	1.9
		69.4	22.8	26.2	4.9	–	123.3	12.5
Managed general funds								
British Empire Securities	19.9	104.9	–	–	–	–	104.9	10.7
Cobepa	9.4	–	26.1	–	–	–	26.1	2.6
Aberforth LP fund	25.5	–	–	–	22.5	–	22.5	2.3
Polar Capital funds		–	–	–	–	20.1	20.1	2.0
Eddington Capital fund		–	–	–	–	17.8	17.8	1.8
Other investments		7.9	2.4	2.3	19.6	4.9	37.1	3.8
		112.8	28.5	2.3	42.1	42.8	228.5	23.2
Other								
Other investments		10.4	–	0.2	–	–	10.6	1.1
Total investments		649.4	131.0	78.9	49.4	42.8	951.5	96.6
Net liquid assets							33.9	3.4
Total assets							985.4	100.0
Dividend accrual							(12.4)	
Shareholders' funds							973.0	

Investment review

Financial

Caledonia has a history of investing in financial services companies and we have been actively involved in the development of many such businesses. Although we sold part of our Close Brothers stake during the year, our weighting in this sector of 27% is still greater than the FTSE All-Share weighting of 24% and reflects our interest in an area where long term growth prospects should be achievable. Over the year, the value of our holdings in financial services companies has decreased by 2%, compared with an increase of 8% in this sector of the FTSE All-Share.

Close Brothers

valuation: £139.5m; holding 12.5%

Close Brothers is the largest independent quoted merchant bank in the UK. Caledonia has been a supportive shareholder since 1986, which highlights our long term investment approach. One of Caledonia's directors is an independent non-executive director of the company.

Close Brothers has been a very successful investment, due in no small part to its sound management. At the start of the year, it represented over 21% of our portfolio and, after careful consideration, we decided that it would be appropriate to rebalance the holding. As a result, we sold 7.4m shares for just over £57m in June last year. The remaining holding of 18m shares is still our largest investment, representing 14% of our portfolio.

In March this year, Close Brothers released a very satisfactory set of interim results for the six months ending January 2005. Operating profit on ordinary activities before taxation and goodwill amortisation increased by 13% over the same period a year earlier, to £65.1m. Earnings per share before goodwill amortisation also grew by 13%, rising from 27.7p to 31.2p.

Investment banking profits increased by some 17% compared with the same period a year earlier and contributed 51% to the group's operating result. Components of these results include market-making, which performed well given the quiet conditions in the early part of the period, and corporate finance, which completed a pleasing number of transactions for clients. The key driver of growth, however, was the asset management division, which saw profits more than double with funds under management growing by 22% to £6.1bn, from £5.0bn a year earlier.

Banking, which represents the remaining 49% of operating profits, saw profits grow by 2% from the same period a year earlier. Close Brothers' loan book increased to £2.0bn from £1.7bn, with an organic growth rate of some 6%.

Rathbone Brothers

valuation: £37.4m; holding 11.3%

Rathbones specialises in providing personalised investment management and wealth management services for private clients and trustees, including discretionary asset management, tax planning, trust and private company management and banking services. It manages £7.7bn of funds, including over £800m managed by Rathbone Unit Trust Management.

Rathbones' profit before tax (before exceptional gains and goodwill amortisation) for its year ended 31 December 2004 increased by 32.0% to £26.0m and earnings per share (before goodwill amortisation) increased by 22.8% to 46.8p. Total funds under management rose by 13.2% to £7.7bn and the dividend of 27.5p was a 5.8% increase over the previous year.

The first three months of 2005 saw Rathbones in discussion with Rensburg about a possible merger. Rathbones continued to regard the strategic and financial case for merging Rensburg and Rathbones as compelling but, in the absence of a recommendation from the Rensburg board, decided not to proceed with an offer.

Rathbones will continue to pursue its existing strategy of developing its investment management and wealth management businesses organically, as well as by selective acquisitions and recruitments where culturally compatible and demonstrably earnings enhancing to Rathbones' shareholders.

F&C Asset Management

valuation: £21.1m; holding 1.9%

F&C Asset Management is one of the five largest UK fund management businesses, following the merger of ISIS Asset Management and F&C in the second half of 2004. Caledonia had been a long term and influential shareholder in ISIS and, until the merger, had board representation. Our shareholding in the company, which was renamed F&C Asset Management, was diluted to 1.9% as a result of this merger.

The results of F&C Asset Management for the year to 31 December 2004 are difficult to compare with previous years as a result of the merger. However, earnings per share rose from 12.0p to 14.0p and the dividend was maintained at 11.0p per share for the year. F&C Asset Management was also able to confirm that it would deliver the cost savings which were a significant driving factor behind the merger. Funds under management were £125bn at 31 December 2004 and F&C Asset Management is aiming to build these through delivering strong investment performance and increased choice of investment alternatives for its institutional and retail customers.

Since the year end, our holding in F&C Asset Management has been sold for £20m.

Oval

valuation: £17.0m; holding 27.4%

Oval is a UK commercial insurance and financial services broking business with annualised fee and commission turnover of about £36m. It was established in late 2003, with financial support from Caledonia, to acquire and integrate some of the best regional broking businesses in this still fragmented industry. Our investment, in the form of equity and a convertible loan, now totals £17m.

The Oval concept involves the use of its own equity as well as cash as consideration for its acquisitions, which should provide incentives to vendors and help to maintain the value of goodwill acquired. As it grows, Oval can take advantage of economies of scale and the improved terms of trade available from insurers.

Oval's experienced and energetic management team has now successfully completed and begun integrating five acquisitions, RP Hodson, Bland Bankart, Beddis & Partners, Halkett Associates and Barfield. This has resulted in rapid growth, with original revenue targets achieved early. Profitability is broadly in line with expectations and more acquisitions are planned.

Close Brothers – London



Investment review

continued

Financial

Marketform

valuation: £15.1m; holding 26.8%

Marketform is an unquoted Lloyd's insurance business, with substantial management ownership. It specialises in medical malpractice and general liability business for insureds outside the USA. Marketform 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 partially aligned corporate syndicate, for which it also acts as managing agent.

Caledonia has been a minority shareholder since autumn 2003, through an investment of £15.1m in equity and convertible loan capital. Profits after tax for 2004 were broadly in line with expectations. The specialised nature of Marketform's classes of business offers some protection from rate competition and the outlook remains attractive.

SVB Holdings

valuation: £9.5m; holding 5.3%

SVB is a listed Lloyd's insurance business, focusing on longer tail speciality lines, such as financial institutions cover, directors' and officers' liability and professional indemnity, as well as shorter tail property insurance, aviation reinsurance and some marine cover. It also has insurance distribution businesses, which produce about a quarter of its premium income. In 2003, Caledonia invested £9.1m in equity and £4.9m in convertible bonds to back a vigorous new management team to take advantage of the sharply improved trading conditions prevailing after 11 September 2001. However, as a result of severe deterioration in earlier years' losses, SVB had a tough year in 2004.

At the time we invested, problems in SVB's US casualty treaty reinsurance and other liability business (underwritten in 2001 and prior years) had surfaced, but their full scale and severe toxicity were not then apparent to anyone. The new management discontinued this area of the business, which is now being run off in a separate unit.

Unexpectedly bad loss reviews began to disclose the full scale of the old year problems in the first half of 2004 and further reserves of £37.8m were required. In addition, at 30 June 2004, an exceptional loss provision of £103.6m was established, of which £67.1m remains unused.

SVB's ongoing business continues to be very profitable. We have confidence in the management team and support their view that, in the course of time, the continuing profitability of the ongoing business should substantially outstrip the old year losses.

Polar Capital

valuation: £7.3m (£27.4m including funds); holding 24.6%

In January 2001, Caledonia co-founded Polar Capital with a highly respected team of fund managers. Our assistance in formulating the Polar Capital structure, obtaining FSA approvals and recruitment of its key personnel, illustrates well our ability to play a constructive role in the formation of a business that has shown impressive growth. Funds under management at the year end stood in excess of \$2bn.

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. With a staff of 38, Polar Capital manages \$0.65bn in hedge funds and \$1.35bn in long-only funds.

Caledonia owns 24.6% of the management company, with the staff owning the balance, and is represented on the board of the management company and the boards of its funds. As a result of the success and profitability of the business over the year, the value of our equity investment increased from £5.1m to £7.3m. In addition, Polar Capital repaid £1.0m of subordinated loan notes, initially provided by Caledonia for regulatory capital.

Eddington Capital

valuation: £0.7m (£18.5m including funds); holding 50.0%

Eddington Capital was established in 2003 and is another example of Caledonia co-founding a business in the fund management arena. As a specialist in high return fund of hedge funds, Eddington Capital launched its flagship Triple Alpha Fund on 1 September 2003, which Caledonia seeded with £15m.

Since launch, while Eddington built up a track record, limited marketing of the Triple Alpha Fund has taken place and it only grew from £15m to £23m. Eddington has recently started active marketing of the fund and its investment approach is seen as refreshingly different from that of other funds of funds. As potential investors become more familiar with the fund, Eddington hopes to see assets under management rise steadily later in the year. Improving the performance and increasing the size of the Triple Alpha Fund should result in Eddington earning increasing performance fees.

Marketform and SVB Holdings – Lloyd's of London



Investment review

continued

Leisure and media

Caledonia has long experience of the leisure and media sector through its involvement in the hospitality and publishing industries. Although we sold part of our Kerzner International stake and our holding in Radio Investments during the year, further investments in media companies have maintained a weighting greater than the FTSE All-Share index, at 17% compared with 12%. Over the year, our holdings have increased in value by 35%, compared with an increase in the leisure and media companies in the FTSE All-Share index of 11%.

Kerzner International

valuation: £117.4m; holding 10.1%

Kerzner International ('KI') is a leading developer, owner and operator of destination resorts, casinos and luxury hotels worldwide. Caledonia backed the management team when Sun International Hotels (now KI) was founded in 1994. Caledonia has had a non-executive director on KI's board from the outset.

In July 2004, Caledonia reduced its holding in KI by selling 1.3m shares at \$47.50 per share, as part of a transaction which allowed Istithmar, a company owned by the Government of Dubai, to acquire a 13% holding in KI. Istithmar is KI's partner in building a new \$1.1bn 'Atlantis' resort on The Palm, Jumeirah in Dubai. We reduced our stake further in February this year, when we sold 886,000 shares at \$61.48 per share. Caledonia's remaining 3.62m shares represented 12% of our portfolio at the year end and were valued at £117.4m.

Earlier this year, KI reported 2004 full year adjusted earnings per share of \$2.47, compared with \$2.36 achieved in 2003. The company's flagship operation is Atlantis, Paradise Island, a 2,317 room, ocean-themed destination resort off Nassau in The Bahamas. The resort includes the world's largest open air marine habitat and is the home to the largest casino in the Caribbean. KI continues to develop the resort and is currently constructing the Atlantis Marina Village, comprising five new restaurants and retail space, together with further timeshare developments at the Harborside at Atlantis. Plans are also in hand for expanding the water park attractions and constructing a 600 room all-suite hotel and a 500 room condominium hotel.

The company was also responsible for the development of, and receives income derived from, Mohegan Sun in Uncasville, Connecticut, which has become one of the premier casino destinations in the United States.

In its luxury resort hotel business, the company manages nine resort hotels primarily under the One&Only brand. The resorts, featuring some of the top-rated properties in the world, are located in The Bahamas, Mexico, Mauritius, the Maldives and Dubai.

In addition to the Phase III expansion in The Bahamas, KI currently has a number of new developments under construction or in an advanced stage of planning. These include a 2,000 room Atlantis project on The Palm, Jumeirah in Dubai, a 600 room hotel and casino project in Morocco, a One&Only hotel in Cape Town, South Africa, and a casino in Northampton, for which KI received its certificate of consent from the UK Gaming Board in 2004.

Kerzner International – Mauritius



A G Barr

valuation: £16.8m; 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 recently announced an excellent set of results for the year to 31 January 2005. Pre-tax profits rose 13.1% to £15.6m in a competitive market for soft drinks as a result of improved margins and increased market share for its core brands. Earnings per share rose by 13.3% to 56.6p and there was a 12.7% increase in the dividend to 28.75p per share.

A G Barr has been improving and developing its manufacturing and distribution operations and also announced a significant programme of capital investment of £17m over three years to produce further efficiencies. This news was well received by the market and the share price has continued to perform strongly since 31 March 2005.

Incisive Media

valuation: £13.6m; holding 8.8%

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 acquired a 6.4% stake in Incisive Media through supporting a fundraising in April 2004, to finance the acquisition of a specialist private equity publishing business, and further purchases of shares were made during the period. Caledonia is represented on the board.

In its year to 31 December 2004, Incisive Media reported a 49% increase in pre-tax profits to £7.7m on turnover which rose 31% to £46.5m – evidence of the quality of the margins achieved by the management team. Diluted earnings per share, adjusted for goodwill, rose 20% to 7.96p.

The current year has started well and Incisive Media is confident of producing another year of strong earnings growth in 2005.

The Sloane Club

valuation: £10.1m; holding 100%

The Sloane Club is a residential members club, based in the heart of Chelsea. Caledonia bought the Sloane Club in 1991 on a long lease, both as a property investment and because of its trading potential. It has been enlarged and modernised, most recently with the addition of air conditioning, flat screen TVs and broadband internet service, and currently has a membership of around 3,500. Caledonia is actively involved in the management of the business.

The Sloane Club enjoys the support of a loyal membership. However, the recruitment of new members, together with the retention of existing members, is important to its future prosperity. Overall profitability remained stable during the year, in which the refurbishment of the rooms enabled the Sloane Club to achieve an 11% increase in the average room rate, although this was offset by a fall in occupancy.

The business has continued to make progress with a number of successful sales and marketing initiatives during the year. In addition, the Sloane Club is actively engaged in the pursuit of hotel management opportunities. The Sloane Club competes in the four star hotel sector and, for the foreseeable future, expects the trading environment to remain challenging.

The Sloane Club – London



Investment review

continued

Industrial and services

Caledonia's experience in the industrial and services sector dates back many decades, giving us the expertise to work closely with management teams of investee companies. During the year, we identified few attractive new opportunities and, as a result, only 18% of our investments are in this sector, compared with 23% for the FTSE All-Share index. However, we have made some follow-on investments in activities where we see value opportunities. Over the year, our holdings have increased in value by 32%, compared with an increase in the industrial and services companies in the FTSE All-Share index of 19%.

Paladin Resources

valuation: £55.7m; holding 9.0%

Paladin is an independent oil and gas exploration and production company with assets in the North Sea, Australia, Indonesia, Romania, Tunisia and Gabon. During the year, we sold part of our holding in Paladin for £6.5m. Despite this, the strength of Paladin's share price during the period has seen the value of our residual stake rise to be the fourth largest in our portfolio.

Paladin reported strong financial results for 2004, on similar levels of production to 2003. Operating cash flow was particularly impressive at £171.9m and earnings per share increased 24% to 11.1p. The dividend was increased by 8% to 1.7p and reserves showed a 5% increase.

Paladin entered new territory during the year with the purchase for \$150m of an interest in the Laminaria and Corallina permits in the Timor Sea, off the coast of Australia. This acquisition fits neatly with Paladin's strategy of purchasing assets where further active investment enhances production.

The outlook for the coming year is favourable, with a strong oil price and a heavy capital investment programme driving increased production.

Offshore Logistics/Bristow

valuation: £23.8m; 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. During the year, £3.7m was received as a result of a capital reorganisation of Offshore Logistics' affiliate, Bristow Helicopters.

In February 2005, Offshore Logistics reported substantially improved diluted earnings per share of \$1.82 for the nine months to 31 December 2004, compared with \$0.86 for the same period in 2003. Together with generally higher levels of activity and improved margins, the benefits of restructuring the business to improve efficiencies are coming through. This has been assisted by new fleet introductions and customer and safety orientated initiatives.

Offshore Logistics is listed on the New York Stock Exchange and Caledonia is represented on the board.

Wallem

valuation: £15.7m; holding 74.4%

Wallem is a maritime services group based in Hong Kong. Caledonia has been a shareholder of Wallem for over 12 years and has board representation. Wallem's activities encompass ship and cargo broking, ship management, shipping and air cargo agency services and maritime software development.

In the period under review, which has been a period of strong growth in the shipping sector, Wallem has increased the fleet of ships under management substantially and seen higher activity and profit from its agency business. Wallem reported significantly higher pre-tax profits for the year to 30 September 2004.

Wallem continues to perform strongly in its current financial year. It has also established a number of new operations in Asia and Europe, which positions Wallem well to take advantage of further growth in world shipping markets and China in particular.

As a result of its strong performance, our valuation of Wallem has increased by 49% over the year to 31 March 2005.

Melrose Resources

valuation: £14.8m; holding 6.7%

Melrose Resources is an oil and gas exploration and production company listed in London. The company has interests in Bulgaria, Egypt, the USA and France.

The highlight of an eventful year for Melrose was the first production from the Galata gas field in Bulgaria, which came on stream in June 2004. The seven month contribution from Galata, allied with a 258% increase in production in Egypt, helped overall production rise to over 8,000 barrels of oil equivalent per day ('boepd'), compared with 1,300 boepd in the previous year. Profits after tax for the year rose by 174% to £7.7m, driving an increase of 70% in earnings per share to 10.7p and a very welcome maiden dividend of 1.0p was declared.

During the period, Melrose raised £24.6m of new equity, in which Caledonia participated with a further £1m investment, and agreed a syndicated debt facility of \$75m to help fund working capital requirements. Encouragingly, oil and gas reserves increased by 14% compared with the previous year. A number of new exploration licences were secured in Egypt and Bulgaria, as well as a permit to explore in the Rhône-Maritime concession off the southern Mediterranean coast of France.

Easybox

valuation: £12.3m; holding 99.2%

Easybox, a self storage business currently operating in Italy and Spain, was established in 2000 by Caledonia and a joint venture partner. Caledonia bought out its partner in early 2003. We have a longstanding relationship with the management of Easybox, who had previously developed Abacus into a leading UK self storage business. Abacus, a Caledonia-owned company, was sold in 1998 for a substantial profit.

Finding new sites for operations continues to prove very difficult, particularly in Spain. Whilst a number of these have been viewed during the year, none have been found which meet Easybox's exacting requirements. The existing six facilities are all trading well, particularly the highly visible store in Rome. Total retail space let increased by 37% to 19,427 sq m and revenue is up 40% on last year. The company's financial position continues to strengthen and operating cash flow is positive.

Paladin Resources – North Sea**Sterling Industries**

valuation: £10.8m; holding 100%

Sterling Industries comprises three distinct businesses, all operating in the engineering sector. Sterling Hydraulics is a specialist designer and manufacturer of hydraulic valves primarily used in the construction machinery industry. Bloom Engineering designs and builds burners for the iron and steel and aluminium industries. Process Combustion Corporation ('PCC') designs, manufactures, and supplies combustion heat transfer and pollution control systems to various industries to meet environmental requirements.

Sterling Hydraulics is currently enjoying strong demand for its products, driven by high commodity prices stimulating demand for construction and mining machinery. The results for the year show a significant improvement on last year's outturn and the Sterling board regards the prospects for the coming year as most encouraging.

Bloom Engineering has operations in Europe, the USA and China. Whilst benefiting from high steel prices in the USA, the European business has continued to find the market challenging. Prospects in China are encouraging following Bloom's first order from Bao Steel, which was delivered during the year.

PCC had a successful year in Europe and the USA, with prospects in the latter looking better than for several years.

Amber Industrial

valuation: £10.7m; holding 100%

Amber is a speciality chemicals business with two significant parts, a global silicones compounding division and an industrial consumables distribution division operating in Germany, Austria, France and Switzerland. At the start of the year, Amber sold its UK aerosols division and has subsequently relocated its headquarters and UK silicones operation. Since Caledonia's year end, Amber has also made a property disposal realising proceeds of around £1m.

Underlying operating profits, which exclude discontinued businesses and the non-recurring costs associated with the disposal of the aerosols division, were up 28% in the year to March 2005. This was due mainly to improved trading conditions in the USA. As a result of the disposal of the aerosols division, Amber's valuation has been reduced to £10.7m from £12.8m a year earlier.

Offshore Logistics/Bristow – Gulf of Mexico

Investment review

continued

Property

Caledonia's history of property investment has gained us valuable knowledge of this sector. We invest in both property assets and in property management companies. We have made follow-on investments in General Practice and our weighting in property companies has increased to 13%, compared with 4% in the FTSE All-Share index. However, the FTSE All-Share represents quoted property companies only and not properties held through other vehicles. Over the year, our holdings have increased in value by 20%, compared with an increase in the property companies in the FTSE All-Share index of 21%.

Quintain Estates & Development

valuation: £48.2m; holding 7.0%

Quintain is a property investment and development company, with a proven track record, specialising in commercial properties. Over the year, the value of our holding has grown by 25%, reflecting the continued outperformance of Quintain against the FTSE All-Share index.

Quintain has now received planning consent for the first phase of the Wembley development and completed all commercial contracts at the Greenwich Peninsula. In addition to progress with these special projects, Quintain has completed a successful programme of disposals and purchases within its main portfolio. In July 2004, a new £475m corporate loan was syndicated that, combined with the ongoing revenue stream from its investment assets, has ensured that Quintain is in a strong financial position to acquire new assets and fund its special projects.

Profit before tax decreased to £5.0m for the six months ended 30 September 2004, compared with £7.3m in the corresponding period in 2003. This was due largely to exceptional costs relating to the re-financing of the company's debt. However, Quintain notes that the increasing value of the Wembley and Greenwich projects signals that it is on track to deliver good net assets growth for the year to March 2005.

General Practice

valuation: £19.9m; holding 30.0%

General Practice Group ('GPG') was formed over ten years ago to develop and invest in new surgeries for doctors in general practice and other associated primary care premises. Caledonia initially invested in GPG in 2002 and has recently made an additional investment of £16.9m to enable GPG to increase substantially its portfolio of surgeries across the country. GPG now owns 108 properties, with over 40 new properties per annum being added to the portfolio through its development programme.

In the NHS there are currently over 9,000 main surgeries and 2,500 branch surgeries. The NHS's aim is to bring all general practice premises up to modern standards, with over 3,000 new surgeries combining primary and community services. GPG is a market leader in this expanding sector.

GPG's annualised rent roll for the year ended March 2005 was £8m and it is on target to exceed £20m by 2008.

Quintain Estates & Development – Wembley



Savills

valuation: £15.5m; holding 4.2%

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 its stake mainly in 2003. One of Caledonia's directors is a non-executive director of Savills.

For the year to 31 December 2004, Savills showed strong performance with turnover up 9% to £328m and group operating profit increasing 10% to £39m. As a result, the share price also showed strong performance. As a major initiative, Savills has launched its fund management arm, Cordea Savills, and had around £1.4bn of funds under management at the end of December 2004.

Edinmore

valuation: £11.0m; holding 100%

Edinmore is a wholly owned property group specialising in rural estates and commercial property. Caledonia provides the finance and is actively involved in the management of the business.

Edinmore has had another solid year, achieving a number of substantial and profitable disposals, mainly in the rural sector of its property portfolio. Residential properties in rural areas and agricultural land have continued to command good prices, normally above expectations.

Few substantial rural properties or portfolios have come to the market in the past twelve months and opportunities have, therefore, been very limited. Land has been kept back from the market due to continuing uncertainty with regard to CAP reform, but it is anticipated that more land will become available within the next year or two.

It has been a very busy year for Edinmore's commercial property activities, with a number of substantial investments having been secured, mainly in joint ventures with other property companies. Although good rental returns have been achieved and there are few voids, Edinmore is working hard on asset management to increase yields where possible and improve the quality of the properties, with a view to achieving enhanced capital values on their disposal when market conditions are perceived to be right.

Buckingham Gate

valuation: £9.9m; holding 100%

Caledonia acquired 30 Buckingham Gate, London in December 2000 for its headquarters, as the scale of our activities had outgrown our former City office. The property is a seven floor office building in a prime West End location. Caledonia occupies four floors, with the remaining space let out. As well as being our head office, this allows us to let space, and thereby provide easy access, to some of our investee companies.

Buckingham Gate has benefited from the gradual recovery of the West End commercial property market, where there is less over supply than in the City. The success of Polar Capital, the fund management company in which Caledonia has a significant stake, caused it to vacate the one floor it occupied to move to larger premises. The space vacated has already been partly re-let.

Buckingham Gate – London



Investment review

continued

Managed general funds

Caledonia has particular expertise in identifying and supporting asset management teams, which we often back with an investment in the management company as well as in the fund itself. Our weighting of 24% in managed general funds is greater than the 3% of investment companies that make up the FTSE All-Share index, as a substantial proportion of our interests are structured as limited partnerships or offshore investment funds. Over the year, our holdings have increased in value by 31%, compared with an increase in the investment companies in the FTSE All-Share index of 15%.

British Empire Securities

valuation: £104.9m; holding 19.9%

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 prices stand at a discount to estimated underlying net asset value. Caledonia has been a significant shareholder for over 14 years and is represented on the board.

British Empire has continued to perform strongly, both outperforming its benchmark indices and remaining as a top performer in the Association of Investment Trust Companies' Global Growth sector. Over the year to March 2005, net asset total return was 25.5% compared with a total return of 15.6% for the FTSE All-Share index.

From the end of 2004 until recently, British Empire had been trading at a premium to its stated net asset value, reflecting this strong performance. It has also been taking profit and moving some of its portfolio onto a more defensive footing, should current market levels not prove sustainable.

Cobepa

valuation: £26.1m; 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 backed the management team to purchase Cobepa from BNP Paribas in April 2004 and is represented on Cobepa's board.

The portfolio is currently valued at €449m, the largest holding being Dicobel, the parent company of Autoglass. Other investments of note include D'leteren and NAVTEQ, the NYSE quoted supplier of in-car navigation systems. Cobepa seeks to invest between €20m to €50m of equity in either minority shareholdings, alongside families or other institutions, or majority positions where transactions are structured as leveraged buyouts. Its sphere of investment encompasses Belgium, France and Holland.

Aberforth LP fund

valuation: £22.5m; holding 25.5%

This limited partnership fund was launched in March 2001 with a remit to acquire significant shareholdings in smaller UK listed companies and to work with those companies to release latent value. Caledonia committed £25m to this fund, which was fully drawn down by March 2003. By 31 March 2005, the £25m was fully repaid, together with a further £4.5m from underlying realisations. The carrying value of £22.5m at 31 March 2005 represents Caledonia's interest in the remaining fund, which contains five underlying portfolio investments. As at that date, the fund had generated an IRR of almost 33% per annum, based upon both realised and unrealised gains, showing outperformance against the FTSE All-Share index and demonstrating a significant achievement by the Aberforth team in both stock selection and timing of investment and disinvestment. Caledonia is represented on the advisory committee.

Polar Capital funds

valuation: £20.1m

Caledonia has an investment in both Polar Capital and a number of its funds. Our investment in the management company is reviewed on page 15.

The majority of our Polar Capital fund investments are in hedge funds, which aim to generate a positive return substantially above the market risk free rate, irrespective of market conditions. These funds have performed well, returning between -1% and 21% over 2004.

During the year, Caledonia moved between various Polar Capital funds. We redeemed our investments in the Paragon and Japan funds for £11.4m and invested a total of £9.3m in the new Asia ex-Japan fund, launched at the end of 2004, and the Paragon fund.

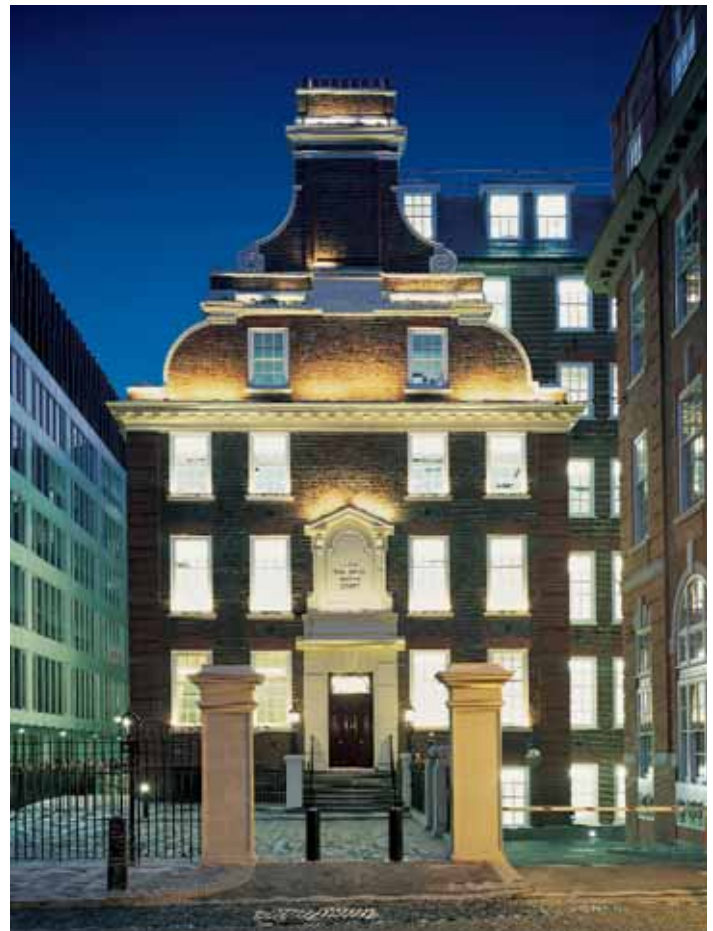
Eddington Capital fund

valuation: £17.8m

The Triple Alpha Fund is the first investment vehicle of Eddington Capital Management, reviewed on page 15. The fund is a multi-strategy fund of hedge funds, which seeks to deliver two and a half times the returns of the mainstream hedge fund universe. In the 18 months since launch, the fund has performed in line with that target, delivering an 18% return.

Performance to date is in excess of the returns earned by comparable indices, but hedge fund performance in general fell short of the long term outperformance we would have liked. An abnormally high correlation between strategies, fickle market sentiment and an absence of volatility have all reduced returns from hedge funds and the gain in value of the Triple Alpha Fund, although positive for the year, was lower than we had hoped for.

Polar Capital – London



Financial review



Jonathan Cartwright
Finance director

Caledonia became an investment trust company as from 1 April 2003 and, as such, we believe that the company statement of total return and company balance sheet are the most appropriate statements for reporting our performance. Therefore, this review discusses the financial results of the company as well as summarising the performance of the group.

Basis of presentation of accounts

Caledonia is an investment trust company, but we are relatively unusual in holding trading subsidiaries as part of our investment portfolio. Our ownership of subsidiaries requires us to prepare consolidated accounts, but the accounting rules prevent us from including subsidiaries in the consolidated accounts at valuation. The consolidated balance sheet would not, therefore, give a presentation of our investment portfolio consistent with other investment trusts. However, the company balance sheet does allow us to show the entire portfolio (including subsidiaries) at valuation and is, therefore, considered to be the most relevant statement in presenting our financial position. Consistent with the presentation of other investment trusts, we also present a company statement of total return. Actual proceeds from the disposal of any individual investment will inevitably depend on market and economic conditions prevailing at the time.

Company total return

Company total return for the year was £173.2m, or 263.6p per share, compared with £282.8m, or 391.5p per share last year.

Gains on investments over the year totalled £165.8m. This included gains of £39.2m on Kerzner International, £28.3m on British Empire, £24.8m on Paladin Resources and £13.5m on the Aberforth LP fund. As a result of investment sales during the year, historic gains of £99.2m were realised, notably £45.8m and £43.3m on the sales of part of our stakes in Kerzner International and Close Brothers respectively.

Income from investments of £18.9m fell from last year's figure of £21.5m. The dividends from most of our principal investments were maintained or increased over the year. However, the dividend from Close Brothers reduced by £1.7m as a result of the sale of part of our stake and a dividend of £1.3m from Wallem in 2004 was not repeated.

Management costs rose to £10.0m from £9.1m last year. This movement included increased pension contributions of £0.6m as part of a programme to address the company's defined benefit scheme's deficit.

Other corporate costs of £0.4m comprised the costs associated with the elective special dividend and reduction of capital, which was completed in July 2004. The cost last year of £2.5m arose principally from the liquidation proposals promoted by a minority group of shareholders in The Cayzer Trust Company, which were subsequently withdrawn.

Interest payable of £1.0m, the same as last year, arose principally on amounts due to a subsidiary undertaking.

The total taxation charge (revenue and capital) for the year amounted to £0.1m, compared with £0.4m last year.

Group profit and loss and other gains and losses

Overall, profit before tax for the year to 31 March 2005 totalled £6.6m, compared with £6.1m reported last year.

The group operating loss for the year was £9.0m, compared with £11.5m last year. The main factors in this improvement were increased profits from Sterling Industries of £1.2m, compared with a loss of £0.1m last year, offset by reduced profits from Edinmore of £1.0m, compared with £1.7m, and amortisation of goodwill which increased by £0.7m. Also, as mentioned above, other corporate costs reduced from £2.5m last year to £0.4m.

There were no sales of operations or properties last year, compared with a £0.6m loss and £1.1m profit respectively this year.

Income from investments of £16.5m was down on last year's figure of £17.3m. The main changes were dividends from Close Brothers reduced by £1.7m as a result of the sale of part of our stake and no dividends from Wallem, compared with £1.3m in 2004. Against this, dividends from most of our other principal investments were maintained or increased over the year. Interest receivable was £0.9m, slightly down on last year's amount as the group was more fully invested throughout the 2005 financial year than in 2004. Interest payable of £2.3m increased over the previous year's figure of £0.8m as non-recourse bank finance of £20.5m was raised in The Sloane Club and Buckingham Gate in March 2004.

Group realised and unrealised gains and losses mirror those of the company except for small differences where the company figures include realised and unrealised gains and losses on subsidiaries.

The total taxation charge (revenue and capital) for the year amounted to £2.9m, compared with £2.6m last year, principally due to tax on overseas investments.

Dividend

An interim dividend of 8.7p per share has been paid and the directors have recommended a final dividend of 19.5p per share, making a total of 28.2p per share for the year at a cost of £17.9m. This is a 4.4% increase over the total dividend for 2004 of 27.0p per share.

Cash flow and balance sheet

The difference between company and group net funds reflects the net funds held by trading subsidiaries and intra-group transactions.

The company's net funds at the year end were £39.6m compared with £34.0m at the start of the year, an increase of £5.6m. Significant outflows were incurred in respect of investment purchases totalling £127.4m, annual dividend payments of £18.9m and the elective special dividend payment of £88.0m. Investment purchases included £22.8m in Cobepa, £16.9m in General Practice, £12.5m in Oval and £10.6m in Incisive Media. Significant inflows arose from investment sales of £218.5m, capital dividends from group undertakings of £8.8m and £8.8m on the realisation of forward currency contracts. Investment sales proceeds included £62.0m from Kerzner International, £57.1m from Close Brothers, £23.8m of distributions from the Aberforth LP fund and £13.7m from the sale of Radio Investments.

The group's net funds at the year end were £10.4m compared with £8.2m at the start of the year, an increase of £2.2m. Most of the cash flows were similar to those of the company. However, the principal difference was due to operating cash flows, tax paid, elimination of intra-group dividends and purchase of fixed assets.

Elective special dividend and reduction of capital

On 15 March 2004, the company announced outline proposals for an elective return of funds to ordinary shareholders. On 19 May 2004, a circular was sent to all shareholders detailing the proposals. Subject to a number of conditions being met, all Caledonia ordinary shareholders were offered the opportunity to receive a special dividend on terms that they gave up part of their shareholdings. The elective special dividend was set at a fixed discount of 18% to Caledonia's net asset value calculated on the date and according to the methodology set out in the circular. Those who elected to receive the special dividend, which could be on a maximum of up to two out of every nine ordinary shares held, would have those shares on which they elected to receive the special dividend cancelled for nil consideration, pursuant to a Court approved reduction of capital.

In the event, elections were submitted to receive the special dividend on 8,407,676 Caledonia ordinary shares, representing 11.58% of the issued ordinary share capital. The net asset value per share, calculated in accordance with the methodology set out in the circular, as at the 25 June 2004 certification date, was 1276.91p. The amount of the special dividend per share was, therefore, 1047.07p, a total of £88.0m for all shares elected, which was paid on 2 July 2004. The 8,407,676 shares were cancelled, reducing the number of ordinary shares in issue to 64,205,796 as at that date.

Treasury operations and controls

The group's objective for its treasury operations is to ensure that adequate financial resources are available for its activities, whilst managing its credit, interest rate and currency risks.

Treasury operations are centred on the Group Treasury function and managed within policies and procedures approved by the board. The activities of Group Treasury are regularly reviewed by the executive directors and reported to the board.

Derivative financial instruments are used to manage risks arising from group activities. Caledonia does not trade in derivatives and does not enter into treasury transactions of either a speculative nature or unrelated to its activities.

Credit risk

The group's objective is to limit the risk of loss arising from default by counterparties. This is achieved by limiting exposure to single entities and by spreading risk across a number of counterparties. Exposures are only created with counterparties meeting standards predetermined by reference to the major credit rating agencies and within financial limits.

Interest rate risk

Interest rate risk arises on the fluctuations in value of financial instruments as a result of changes in market interest rates. The exposure to interest rate movements on treasury assets is mitigated by the use of term deposits, certificates of deposit and other instruments. In respect of specific debt, the group manages its exposure by using derivatives, such as caps and collars. The group seeks to maximise interest returns on cash principally by pooling and using bank deposits of varying maturity.

Financial review

continued

Liquidity risk

The group's objective is to ensure that funding is available to meet its requirements, whilst minimising borrowing costs and securing an advantageous return on liquid funds.

The group maintains undrawn committed borrowing facilities to provide flexibility in the management of the group's liquidity. At the year end, the group had undrawn committed facilities of £86.7m.

The management of liquid funds of the company is undertaken within guidelines designed to maintain its investment trust status. The policy of the board is that borrowings shall not exceed 20% of net assets. The company's undrawn committed facilities at the year end of £70m had been reduced from £200m as at 31 March 2004. In February 2004, the company had increased its committed facilities from £30m to £200m to fund the maximum dividend payment were all shareholders to have elected to receive the special dividend and consequent cancellation of shares proposed in March 2004. In the event, shareholders elected to receive the special dividend on 11.58% of the issued ordinary shares and therefore an amount of £88m was paid in July 2004. Proceeds from disinvestments enabled us to repay bank debt and we cancelled £130m of the committed facilities. In addition to the committed facilities, the company has an overdraft facility of £10m.

Foreign currency risk

The group's exposure to foreign currency risk arises primarily from holding investments and treasury assets and liabilities denominated in foreign currencies. Although the group is based in the UK, it is a significant investor in US dollar denominated assets and has investments in Europe, the Far East and other parts of the world. There is also exposure through UK portfolio investments which have activities abroad.

For investments denominated in foreign currencies, the board's current policy is that the company should have no direct exposure to the US dollar and that direct exposure to the euro and other currencies in aggregate should each not exceed 10% of the company's net assets. The full value of US dollar denominated investments, which amounted to £163.0m equivalent at the year end, is hedged using forward currency contracts. This policy is kept under review. At the year end, direct portfolio exposures to the euro and other currencies in aggregate were within the policy limits at 4.4% and 2.5% respectively. Consequently, these exposures were not hedged.

The group's policy is that, where possible, treasury assets and liabilities are converted into sterling to minimise the net exposure to foreign currencies.

The group also has a small amount of transactional currency exposure. Such exposure arises from sales or purchases in currencies other than the company's functional currency. Where these are material, it is the group's policy to hedge using forward currency contracts.

International Financial Reporting Standards

The requirement for Caledonia to adopt International Financial Reporting Standards ('IFRS'), commencing with the year beginning 1 April 2005, involves a process of major change, for which we have established a project team working in conjunction with the external auditors and other technical advisers. The key differences between IFRS and UK GAAP for Caledonia are the requirements to:

- Mark listed portfolio investments from mid-market prices to bid prices (IAS 39).
- Incorporate the difference between the balance sheet value of pension fund assets and discounted liabilities (IAS 19).

These adjustments are not expected to result in a material change in reported net asset values.

In addition, under IFRS 2 'Share-based payments', it will be necessary to expense benefits conferred on employees through the granting of share options. This entry will be debited through the company's income statement, but will have no effect on NAV per share.

The first accounts to reflect the adoption of IFRS will be the interim report for the six months to 30 September 2005. This interim report will include comparative figures adjusted in accordance with IFRS, together with the required restatement of the 31 March 2005 balance sheet.

We are committed to ensuring compliance with all material aspects of IFRS and action is being taken to establish the accounting policies, systems and reporting changes that will be required to be implemented.

Jonathan Cartwright
Finance director

Performance record

The following table shows Caledonia's cumulative total return and annual dividends over the last ten years:

Years ended 31 March	Share price p/share	Annual dividend p/share	Special dividend p/share	Cumulative performance based on 1995			
				Share price total return	FTSE All-Share Total Return	Annual dividend	Retail Price Index
1995	640.0	17.0	–	100	100	100	100
1996	750.0	18.0	–	121	125	106	103
1997	770.0	19.0	30.0	128	149	112	105
1998	879.0	20.5	–	158	203	121	109
1999	732.5	22.0	–	135	217	129	111
2000	771.5	23.0	70.0	147	238	135	114
2001	797.5	24.0	–	171	212	141	117
2002	847.5	25.0	–	187	206	147	118
2003	642.5	26.0	–	147	144	153	122
2004	1017.0	27.0	–	240	189	159	125
2005	1367.0	28.2	–	330	218	166	129
Compound annual returns							
5 year				17.6	(1.7)	4.2	2.5
10 year				12.7	8.1	5.2	2.6

The elective special dividend paid in July 2004 and consequent cancellation of shares is not included above.

The following table shows Caledonia's share price, net asset value per share and discount for each month of the year ended 31 March 2005:

Month	Net asset value p/share	Share price p/share	FTSE All-Share	Discount share price to NAV %	Cumulative performance based on March 2004		
					Net asset value/share	Share price	FTSE All-Share
Mar 2004	1282	1017.0	2197.0	20.7	100	100	100
Apr 2004	1305	1066.0	2237.3	18.3	102	105	102
May 2004	1282	1060.5	2201.8	17.3	100	104	100
Jun 2004	1330	1093.0	2228.7	17.8	104	107	101
Jul 2004	1280	1029.0	2192.2	19.6	100	101	100
Aug 2004	1292	1046.0	2214.2	19.0	101	103	101
Sep 2004	1349	1088.0	2271.7	19.3	105	107	103
Oct 2004	1388	1205.0	2297.7	13.2	108	118	105
Nov 2004	1450	1292.0	2345.2	10.9	113	127	107
Dec 2004	1497	1346.0	2412.3	10.1	117	132	110
Jan 2005	1525	1327.0	2441.2	13.0	119	130	111
Feb 2005	1560	1389.0	2495.5	11.0	122	137	114
Mar 2005	1554	1367.0	2457.7	12.0	121	134	112

Net asset value includes deductions for dividends on the ex-dividend date.

Net asset value has been restated for the change in accounting treatment of ESOP trusts.

The board



01 Peter Buckley – chairman

A member of the Institute of Chartered Accountants of Scotland, he became a director of Caledonia in 1976, held the position of chief executive from 1987 to 2002 and was appointed chairman in 1994. He is a non-executive director of Close Brothers, Kerzner International and Offshore Logistics. Age 62.

02 Tim Ingram – chief executive

After an early career in international banking, he was finance director and later chief executive of First National Finance Corporation from 1992 and a managing director of Abbey National from 1996 to 2002. He was appointed chief executive of Caledonia in 2002 and is also a non-executive director of Sage Group and Savills. Age 57.

03 Jonathan Cartwright – finance director

After qualifying as a chartered accountant with KPMG, he worked for Hanson, serving as group financial controller and finance director of Imperial Foods and other Hanson subsidiaries. He joined Caledonia in 1989 and was appointed finance director in 1991. He is a non-executive director of Offshore Logistics. Age 51.

04 Charles Cayzer – executive director

Having gained experience of merchant banking, commercial banking and corporate and project finance with Baring Brothers, Cayzer Irvine and Cayzer Ltd, he was appointed a director of Caledonia in 1985. He is chairman of the Sloane Club, Easybox and Edinmore, and also a non-executive director of General Practice. Age 48.

05 Jamie Cayzer-Colvin – executive director

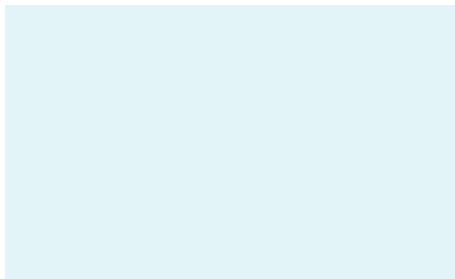
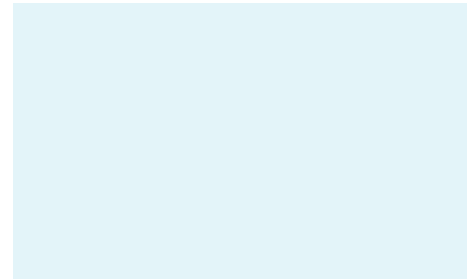
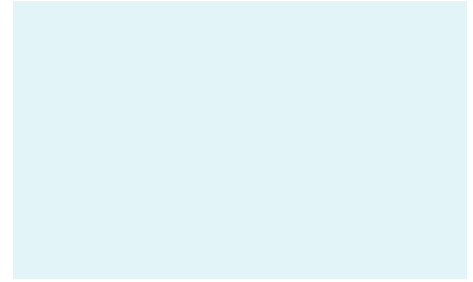
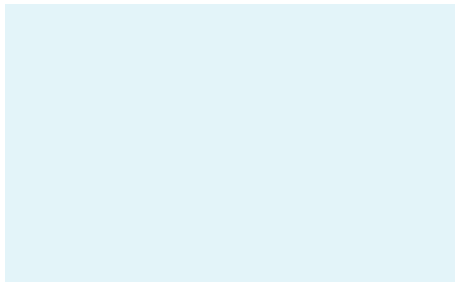
He joined the Caledonia group in 1995, initially working at its speciality chemicals subsidiary, Amber Industrial, before becoming an investment executive at Caledonia in 1999. He was appointed an associate director in 2002 and a director in April 2005. He is chairman of Amber Industrial and a non-executive director of Rathbone Brothers, Polar Capital, and Eddington Capital. Age 40.

06 John May – executive director

Appointed an executive director of Caledonia in September 2003, he worked for the Hambros Group for over 20 years until 1999, where he was an executive director of Hambros Bank and joint managing director of Hambro Countrywide. He then ran his own private equity investment and consultancy business. He is a non-executive director of British Empire Securities, Incisive Media, Oval, Marketform and Wallem. Age 50.

07 Will Wyatt – executive director

He joined the Caledonia group in 1997 as a project manager for its engineering subsidiary, Sterling Industries, before transferring to Caledonia's head office in 1999 as an investment executive. He was appointed an associate director in 2002 and a director in April 2005. He is a non-executive director of Sterling Industries, MORI Group, Terrace Hill and Cobepa. Age 36.



08 James Loudon – non-executive deputy chairman

Appointed a non-executive director of Caledonia in 1995 and non-executive deputy chairman in November 2001, he is a member of the Audit, Nomination and Remuneration Committees. He was group finance director of Blue Circle Industries from 1987 to 2001 and is a non-executive director of James Hardie Industries NV. He is also a governor of the University of Greenwich and a trustee of a number of charitable organisations. Age 62.

09 Charles Allen-Jones – senior independent non-executive director

Appointed a non-executive director of Caledonia in 2001, he is a member of the Audit, Nomination, Remuneration and Governance Committees. He was a partner of the international law firm, Linklaters, for 33 years, including five years as senior partner until his retirement in September 2001. He is also a non-executive director of Hongkong Land Holdings, a member of the Financial Reporting Council and serves on the Council of the Royal College of Art. Age 65.

10 Mark Davies – non-executive director

Appointed a non-executive director of Caledonia in 2002, he is a member of the Nomination, Remuneration and Governance Committees. He founded Inter Commodities in 1972, became chief executive of Gerrard Group in 1995 and was an executive director of Old Mutual Financial Services (UK) from 2000 to 2001. He is a director of Fleming Family & Partners and chairman of FF&P Asset Management and Thornhill Acquisitions. Age 56.

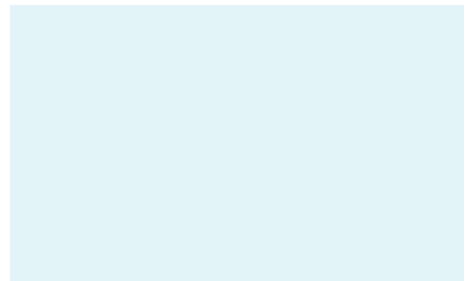
11 Richard Goblet d'Alviella – non-executive director

A Belgian national, he was appointed a non-executive director of Caledonia in January 2005. He has been chief executive officer of Sofina, a quoted Belgian financial holding company, since 1989, prior to which he was a managing director of the Paine Webber Group with a background in international investment banking in London and New York. He is a non-executive director of Delhaize, Eurazeo, Danone and SES Global, in which Sofina has interests. Age 56.

12 David Thompson – non-executive director

Appointed a non-executive director of Caledonia in 2003, he is a member of the Audit, Nomination and Governance Committees. He is chairman of The Wolverhampton & Dudley Breweries, having served as its managing director from 1986 to 2001. He is also a non-executive director of The JPMorgan Fleming Smaller Companies Investment Trust, Persimmon, The Income & Growth Trust and Tribal Group. Age 50.

Associate directors



01 Tony Carter

He joined Caledonia in 1989 after working for Westminster Bank, British & Commonwealth Holdings and the Bricom Group. He was appointed an associate director in 1998 and has overall responsibility for group tax matters. Age 55.

02 Graeme Denison

A qualified chartered secretary, he joined Caledonia in 1989 after working in the publishing and construction industries. He was appointed company secretary in 1992 and an associate director in 1998. Age 44.

03 Jonathan Hale

After qualifying as a chartered accountant with Arthur Andersen & Co, he worked for National Telecom and Alcatel Business Systems before joining Caledonia in 1990. Responsible for group treasury and VAT, he was appointed an associate director in April 2002. Age 42.

04 Tony Hambro

After a 17 year banking career at Samuel Montagu and Grindlays Bank, in 1984 he set up his own corporate finance consultancy, mainly involved in post Big Bang stockbroking consolidation. From 1994 to 2002, he was an executive director of Ockham Holdings and joined Caledonia as an associate director in July 2003, having provided consultancy services to the company for the previous six months. He is a non-executive director of SVB Holdings, Marketform and Oval. Age 57.

05 Paul Whiteley

After qualifying as a chartered accountant with Coopers & Lybrand, he worked for Laporte before joining Caledonia in 1989. He was appointed group finance manager in 1992 and an associate director in 1998. Age 46.

Directors' report

The directors present their report and accounts for the year ended 31 March 2005. This report should be read in conjunction with the directors' remuneration report and the corporate governance report.

Principal activities and results

Caledonia is an investment trust company. A review of the activities of the company and its operating subsidiaries, together with the results for the year, is given in the chairman's statement, the chief executive's report, the investment review and the financial review, which should be regarded as part of this report.

With effect from 1 April 2003, the company has been managing its affairs so as to enable it to comply with the requirements for approval by the Inland Revenue as an investment trust. Approval as an investment trust is granted retrospectively by the Inland Revenue for each financial year for which such status is sought. An application for approval for the year ended 31 March 2004 has been made and an application for approval for the year ended 31 March 2005 will be made subsequent to the approval of these accounts by members of the company.

Annual general meeting

The seventy-sixth annual general meeting of the company will be held at the Crowne Plaza London-St James Hotel, 45-51 Buckingham Gate, London SW1E 6AF on Wednesday, 13 July 2005 at 11.30 am. The notice of the annual general meeting and details of all of the resolutions to be put to shareholders are set out in a separate circular which accompanies this annual report.

Directors and their interests

The directors of the company are shown on pages 28 and 29. All of the directors served throughout the year, with the exception of Mr R Goblet d'Alviella, who was appointed on 19 January 2005, and Messrs J M B Cayzer-Colvin and W P Wyatt, who were appointed on 4 April 2005. Sir David Kinloch and Major M G Wyatt retired from the board on 14 July 2004 and 31 March 2005 respectively.

The interests of the directors and their families in the ordinary share capital of the company at 31 March 2005 were as follows:

	Beneficial		Non-beneficial	
	2005 No	2004 No	2005 No	2004 No
P N Buckley	590,000	582,325	277,841	265,198
T C W Ingram	57,826	50,981	–	–
J H Cartwright	12,810	12,810	–	–
The Hon C W Cayzer	163,822	107,737	83,009	–
J M May	2,600	2,600	–	–
J R H Loudon	9,442	9,442	9,930	9,930
C M Allen-Jones	7,500	7,500	–	–
M E T Davies	–	–	–	–
R Goblet d'Alviella	–	–	–	–
D G F Thompson	2,000	2,000	–	–
M G Wyatt	276,500	276,500	–	–

Comparative figures are at 31 March 2004 or at date of appointment if later.

The Caledonia Investments plc Employee Share Trust acquires and holds shares in the company for subsequent transfer to employees exercising options under the company's executive share option schemes. By virtue of the provisions of the Companies Act 1985, each executive director, as a potential beneficiary, is deemed to have an interest in any shares in the company held by the trust. At 31 March 2005, the trust held 709,748 shares (2004 – 524,150 shares).

Details of the directors' options to acquire ordinary shares in the company at 31 March 2005 are set out in the directors' remuneration report on pages 37 and 38. There have been no changes in directors' interests shown above notified up to the date of approval of these accounts.

The register of directors' interests (which is open to inspection) contains full details of the directors' shareholdings and options.

Substantial interests

As at 19 May 2005, the company has been notified, in accordance with the provisions of sections 198 to 208 of the Companies Act 1985, as amended, of the following interests amounting to 3% or more of the issued ordinary share capital:

	Number of ordinary shares	Percentage of class issued
The Cayzer Trust Company Ltd	21,457,870	33.5%
Sofina sa	3,000,000	4.7%

The interest notified by The Cayzer Trust Company Ltd ('Cayzer Trust') comprised a direct holding of 21,324,432 shares (33.3%) and an interest in a further 133,438 shares (0.2%) arising by virtue of voting and pre-emption arrangements entered into between Cayzer Trust and a group of its former shareholders.

Cayzer Trust, certain directors of Caledonia, the Caledonia Investments plc Employee Share Trust and other members of the wider Cayzer family are deemed to form a concert party for the purposes of the City Code on Takeovers and Mergers. At 19 May 2005, this concert party was interested in 29,288,905 shares, representing 45.7% of the issued ordinary share capital of the company.

Directors' report

continued

Employees

Group companies are encouraged to develop their own consultative policies. These include regular meetings held between local management and employees to allow a free flow of information and ideas.

The group gives full and fair consideration to applications for employment from disabled persons, having regard to their aptitudes and abilities, and group companies make every effort to treat disabled persons equally with others. Where existing employees become disabled, it is the group's policy to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Customers and suppliers

The group's policy in relation to all of its suppliers is to settle the terms of payment when agreeing the terms of the transaction. The group will abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The group does not follow any code or statement on payment practice and Caledonia itself does not have any trade creditors.

Charitable donations

Group companies support chosen community and charitable causes local to their areas of operation. Overall, the group made charitable donations during the year amounting to £113,000.

Auditors

Resolutions will be proposed at the annual general meeting to reappoint KPMG Audit Plc as auditors of the company and to authorise the directors to agree their remuneration. A description of how the Audit Committee ensures the objectivity and independence of the auditors is set out on page 42 within the corporate governance report.

By order of the board
G P Denison
Secretary
19 May 2005

Directors' remuneration report

This report has been prepared to comply with the Directors' Remuneration Report Regulations 2002 (the 'Regulations'). The tables included in the statements below on directors' remuneration, pensions and share options have been audited.

The Remuneration Committee

The Remuneration Committee is a standing committee of the board whose members throughout the year were Mr M E T Davies (chairman), Mr C M Allen-Jones and Mr J R H Loudon.

The Committee, whose written terms of reference are published on the company's website and are available on request from the company secretary, has been established for the following purposes:

- To determine and agree with the board the framework and broad policy for the remuneration of the executive directors and such other members of the executive management as it is requested by the board to consider and to review the ongoing appropriateness and relevance of the remuneration policy.
- To approve the design of, and determine targets for, any performance related pay schemes operated by the company and to approve the total annual payments made under such schemes.
- To review the design of all share incentive plans for approval by the board and shareholders and, for any such plans, to determine each year whether awards will be made and, if so, the overall amount of such awards, the individual awards to executive directors and other senior executives and the performance targets to be used.
- Within the terms of the agreed policy, to determine the total individual remuneration packages of each executive director (and if requested by the board, other senior executives) including, where appropriate, bonuses, incentive payments, share options and other awards.
- To determine the policy for and scope of pension arrangements, service agreements, termination payments and compensation commitments for executive directors and, if requested by the board, other senior executives.
- To review and assess annually the remuneration trends across the company.

References to executive directors also include the chairman.

During the year, the Remuneration Committee received advice from independent remuneration consultants, Towers Perrin and Hay Group. Towers Perrin was appointed by the Remuneration Committee during the year and the Hay Group had been previously appointed by the company. At the request of the Remuneration Committee, Towers Perrin conducted a thorough review of the company's remuneration policy. Hay Group assessed the comparability of senior executive remuneration packages with the market place for the purpose of setting executive directors' salaries for the year commencing 1 April 2004. The Remuneration Committee also received advice from Freshfields Bruckhaus Deringer in relation to the company's executive share option schemes. Hay Group and Towers Perrin only advised in relation to the remuneration of executive directors and senior management and Freshfields Bruckhaus Deringer are the company's main legal advisers. The Remuneration Committee also consulted with the chairman, Mr P N Buckley, and the chief executive, Mr T C W Ingram, in relation to the remuneration of all of the executive directors other than their own. Internal support was provided to the Remuneration Committee by the company secretary.

Remuneration policy for executive directors

During the year, the Remuneration Committee conducted a review of the company's long term incentive arrangements in the light of the group's objectives, and in order to reflect developments in best practice in this area. As a result of this review, the Remuneration Committee has adopted a remuneration policy with the following objectives:

- Performance related remuneration should seek to align the interests of the executive directors with those of the shareholders.
- A significant portion of the executive directors' remuneration packages should be linked to the performance of the company.
- Remuneration packages for the executive directors should be competitive in terms of market practice in order to attract, retain and motivate executive directors of the quality needed to manage and grow the company successfully.

The Remuneration Committee has been guided by these objectives in developing two new executive share plans – a new executive share option scheme (which will replace the current executive share option scheme) and a deferred bonus plan, shareholder approval for both of which will be sought, under separate ordinary resolutions, at the annual general meeting.

It is currently intended that the policy statement set out in this report shall apply for the year to 31 March 2006 and for subsequent years. However, the Remuneration Committee considers that an effective remuneration policy needs to be sufficiently flexible and kept under review in order to take account of future changes in the company's business environment and in remuneration practice. Accordingly, the policy may be further amended in future years. Any changes in policy for financial years after 31 March 2006 will be described in future directors' remuneration reports, which will continue to be subject to an advisory vote of shareholders. All statements in this report in relation to remuneration policy for years after 31 March 2006 should be read in this light.

Policy on individual components of executive directors' remuneration

Basic salary and benefits

Basic salary is determined by the Remuneration Committee by reference to the experience and responsibilities of the director concerned and taking into account external market research. The company's policy is to pay salaries and other benefits which are competitive, but not excessive, in relation to the marketplace. The company provides a range of benefits, such as company cars or cash allowances, life insurance, permanent health insurance, and private medical cover. Company cars were however phased out during the year and replaced entirely by cash allowances.

Bonus

The company operates a discretionary annual bonus scheme for executive directors, which takes into account both the performance of individual directors and the performance of the company over the short and medium term. For the financial year ended 31 March 2005, the bonuses will either be paid in cash or as an employer contribution to Inland Revenue approved pension schemes. The method of payment will be determined by the Remuneration Committee.

Directors' remuneration report

continued

For the financial year ending 31 March 2006, and for future years, the Remuneration Committee intends to change the existing arrangements in two respects – first, by increasing the maximum potential bonus, and second, by satisfying a proportion of the bonus in shares on a deferred basis. It is proposed to increase the maximum potential bonus that may be awarded from 70% to 100% of basic salary. The amount of bonus payable will continue to be dependent on a combination of the level of the outperformance of Caledonia's net asset value per share (with dividends added back) ('NAV per share') over the FTSE All-Share Total Return index, but measured over the financial year, and on the individual director's performance. The Remuneration Committee will have the discretion to reduce the amount of bonus payable if Caledonia's NAV per share growth in the financial year is negative and/or Caledonia's NAV per share outperformance over the financial year is greater than that measured over the previous three financial years. The payment of any such bonus also remains subject to the overriding discretion of the Remuneration Committee.

The revised bonus arrangements are also designed to align the interests of directors with those of shareholders by requiring a proportion of any bonus paid to a director to be compulsorily invested in shares. It is proposed that for any annual bonus paid in the financial year ending 31 March 2006, that part of the bonus, if any, which amounts to more than 50% of a director's basic salary will be invested in shares under the new deferred bonus plan.

In addition, for the financial year ending 31 March 2006, directors will be entitled to convert voluntarily up to half of any remaining cash bonus to a conditional entitlement to shares under the deferred bonus plan. The shares so invested will be eligible for matching, on a one for one basis, subject to the satisfaction of performance conditions over a period of three years. Further information on the deferred bonus plan is set out below.

The Remuneration Committee may also award bonuses outside the terms of the company's annual bonus scheme. No bonus payments are pensionable.

Deferred bonus plan

The Remuneration Committee regards participation in share based incentives as a key element in the executive directors' remuneration packages. To achieve this, the Remuneration Committee is proposing to introduce a deferred bonus plan (the 'Plan'), for which shareholder approval will be sought at the annual general meeting. A detailed summary of the terms of the Plan is set out in a separate circular to shareholders containing the notice of the annual general meeting, which explains the resolutions to be proposed at the annual general meeting and which accompanies this annual report.

In developing the Plan, the Remuneration Committee's primary intention has been to align the interests of the executive directors with those of the shareholders, to increase the degree of performance related reward in the directors' remuneration packages and, further, to encourage retention by incentivising the directors. The main features of the Plan are as follows.

In any financial year in which an executive director or other senior executive receives a bonus under the company's annual bonus scheme, the Remuneration Committee may, in its absolute discretion, determine that a proportion of any such bonus shall take the form of an award of shares under the Plan (the 'Compulsory Investment'). For the year ending 31 March 2006, the Remuneration Committee has determined that any amount of bonus which is above 50% of an executive's basic salary shall normally comprise a Compulsory Investment under the Plan.

In addition to the Compulsory Investment, the Remuneration Committee may invite executive directors and other senior executives to convert a proportion of their bonus into a conditional entitlement to shares (the 'Voluntary Investment'). For the year ending 31 March 2006, executives may elect to convert up to half of the remaining cash annual bonus payable to them. At the end of a three year holding period, the Voluntary Investment will vest, together with an equal number of additional shares (the 'Matching Shares'), if the performance conditions described below are met.

The number of shares comprised in the Compulsory Investment and any Voluntary Investment will be determined by reference to the market value of a share at the time the award is made, which will occur shortly after the announcement of Caledonia's results for the financial year to which the bonus relates (or following the occurrence of exceptional circumstances justifying the making of awards). In both cases, the number of shares will be set on a pre-tax basis (as the shares will be subject to income tax and national insurance on release). The number of Matching Shares will be equal to the number of shares in the Voluntary Investment.

No awards under the Plan will be made to executives within six months of their anticipated retirement. Awards under the Plan are not pensionable.

The shares comprised in a Compulsory Investment will normally only vest (together with an amount equal to the dividends that would have accrued on the shares) if the executive remains an employee of the Caledonia group for a three year period following the award. The number of shares in the Compulsory Investment will be set by reference to annual bonus criteria, and the vesting of these shares will not be subject to a further performance condition.

The shares comprised in the Voluntary Investment will not be subject to a performance condition and will vest (together with an amount equal to the dividends that would have accrued on the shares) at the earlier of three years from the date of the award or the date the executive ceases to be an employee of the Caledonia group for any reason.

The vesting of the Matching Shares will be dependent on the company's performance over a three year period, by reference to two separate performance conditions. Both performance conditions relate to the performance of Caledonia's net asset value per share over the three financial years starting with the year in which the award is made (the 'Prescribed Period'). This performance of net asset value per share will be compared against different indices as follows:

- 50% of the Matching Shares will only vest if Caledonia's net asset value per share over the Prescribed Period outperforms the Retail Price Index by at least 9%.
- The remaining 50% of the Matching Shares will only vest if Caledonia's net asset value per share over the Prescribed Period outperforms the FTSE All-Share index by at least 3%.

There will be no retesting of either performance condition.

The Remuneration Committee may amend the performance target if events occur that would make the amended target a fairer measure of performance and provided that any amended target is no more difficult to satisfy. The Remuneration Committee will also have the ability to impose different performance targets in the future, provided that any targets that are imposed are no less demanding than that described above. Any such amended or different performance targets will be described in the directors' remuneration report for the relevant year.

If an executive leaves employment during the three year period, the shares comprised in his Compulsory Investment will normally lapse. However, if the executive ceases to be an employee of the Caledonia group by reason of death, injury or disability (as determined by the Remuneration Committee), retirement either at or after normal retirement date, the sale of the business or subsidiary for which the executive works, the executive's employing company ceasing to be a member of the Caledonia group or any other reason at the discretion of the Remuneration Committee (a 'good leaver reason') these shares will vest.

If an executive leaves employment during the three year period for any reason, the shares comprised in his Voluntary Investment will vest. In these circumstances, his entitlement to the Matching Shares will normally lapse. However, if the executive ceases to be an employee of the Caledonia group for a good leaver reason, the performance conditions attaching to the Matching Shares will be measured to the date of leaving and the Matching Shares will vest on the basis of performance up to the date of leaving, unless the Remuneration Committee determines otherwise. The Remuneration Committee will have the discretion to adjust the vesting level if it considers that the performance conditions would have been met to a greater or lesser extent at the end of the full three year performance period. The Remuneration Committee will in normal circumstances scale down the vesting level having regard to the time that has elapsed between grant of the Matching Shares and the date of leaving.

Pensions

The company's policy on pension provision is to provide a means whereby executive directors either receive a pension at retirement age from the company, or are funded to operate their own money purchase pension plans or other arrangements. The executive directors, other than Mr T C W Ingram and Mr J M May, participate in the Caledonia Pension Scheme, which is a defined benefits scheme and is contributory for employees who joined the company after 1 April 1988, but which is now closed to new members. The scheme provides a pension of up to two-thirds of final pensionable salary on retirement dependent on length of service and also provides for dependants' pensions and lump sums on death-in-service. All of the executive directors participating in the scheme, other than Mr J H Cartwright, transferred into the scheme from The Union-Castle Line Superannuation Scheme which was non-contributory, and this status has been preserved. Mr Ingram and Mr May do not participate in any company pension scheme, but instead a fixed percentage of basic salary is paid into personal pension arrangements or, in the case of Mr Ingram, as a cash supplement, which is inclusive of associated income tax and national insurance costs. The percentage of basic salary is 25% for Mr Ingram and 10% for Mr May.

It is the company's policy that any future executive directors recruited from outside the company will be funded to operate their own pension arrangements and that the company will not offer participation in any defined benefits arrangements.

Share options

A key objective of the company's remuneration policy is to motivate executive directors to deliver long term shareholder value. The Remuneration Committee believes that this is best achieved through the grant of share options, which are only exercisable if a demanding performance condition is met. The grant of options is considered to be a key element of the remuneration package, alongside annual salary, annual bonus and the proposed deferred bonus plan for which shareholder approval is being sought at the annual general meeting.

In connection with its review of remuneration policy, the Remuneration Committee wishes to obtain shareholder approval to establish a new executive share option scheme to replace the executive share option scheme currently operated by the company. The new share option scheme, to be known as the Caledonia Investments 2005 Executive Share Option Scheme (the '2005 Scheme'), is based on the current executive share option scheme (details of which are set out on pages 38 and 39) but has been updated to reflect current best practice.

Options under the 2005 Scheme will be subject to a more demanding performance target than that which applies to current option grants. This will require that 50% of the shares comprised in the option will vest if Caledonia's net asset value per share outperforms the Retail Price Index by at least 9% over the measurement period. The other 50% of the shares comprised in the option will vest if Caledonia's net asset value per share outperforms the FTSE All-Share index by at least 3% over the measurement period. The measurement period for these purposes will be a period of three financial years measured at the end of the third financial year following the date of grant of the options. There will be no retesting of the performance targets. To the extent that the performance target is not met over this three year period, an option will lapse.

The Remuneration Committee may amend the performance target if events occur that would make the amended target a fairer measure of performance and provided that any amended target is no more difficult to satisfy. The Remuneration Committee will also have the ability to impose different performance targets in the future, provided that any targets that are imposed are no less demanding than described above. Any such amended or different performance targets will be described in the directors' remuneration report for the relevant year.

To the extent that the performance target is met, options may be exercised between the date of vesting and the tenth anniversary of the date of grant, except that only one-third of the shares comprised in an option may normally be exercised after three years from grant, with the remaining two-thirds normally becoming exercisable six years after grant.

In recognition of the more stringent performance targets attaching to options under the 2005 Scheme, the maximum value of options that may be granted in any year to an executive will be increased to 150% of salary. It is anticipated that the initial grants of options to executive directors, following shareholder approval of the 2005 Scheme, will be at this level. The Remuneration Committee may exceed this limit for individual executive directors where it considers it necessary to do so to secure their appointment, provided that the maximum value that may be granted in such circumstances shall not exceed 250% of salary.

Unlike the current executive share option scheme, which imposes a limit of four times an executive's total annual emoluments on the value of options that may be granted to an executive, there will be no ceiling on the aggregate value of options that may be granted to an executive under the 2005 Scheme. However, as with the current scheme, there will be an overall limit on the number of options which may be granted under the 2005 Scheme. To the extent that new shares are issued (or shares held in treasury are transferred) to satisfy options, the number of shares which may be issued (or shares held in treasury transferred) over a ten year period under all of the company's discretionary share schemes will be limited to 5% of the issued ordinary share capital and to 10% under all share schemes. No options will be granted at a discount.

Directors' remuneration report

continued

In other respects, the terms of the 2005 Scheme are similar to those of the current executive share option scheme. A detailed summary of the terms of the 2005 Scheme, for which shareholder approval will be sought at the annual general meeting, is set out in the circular to shareholders containing the notice of the annual general meeting, which explains the resolutions to be proposed at the annual general meeting and which accompanies this annual report.

Policy on executive directors' service contracts

It is the policy of the company that no executive director should be offered a service contract that cannot be terminated within one year or which contains provision for predetermined compensation in excess of one year's total emoluments. All existing directors' service contracts comply with this policy. The Remuneration Committee has regard to compensation commitments and believes that these are best addressed by restricting the term of the contract. In the event of a termination, the Remuneration Committee would consider all the relevant factors and circumstances and seek a just solution.

Policy on external non-executive directorships held by executive directors

It is the company's policy to allow executive directors to hold external non-executive directorships unrelated to the company's business, provided that the time commitment required is not material. Normally the company will retain any fees arising from such non-executive directorships, but may permit the executive director to retain fees in certain circumstances. Details of any such fees retained by executive directors are disclosed in the statement on directors' remuneration below.

Policy on non-executive directors' remuneration and terms of appointment

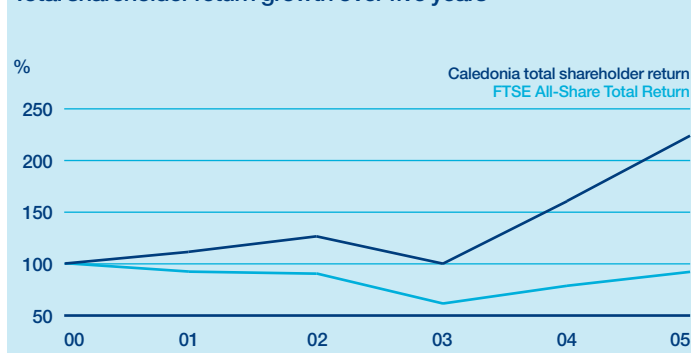
It is the company's policy that non-executive directors should be appointed for fixed periods of no more than three years (from the next general meeting following their initial appointment in the case of new non-executive directors) and that re-appointment at the end of such periods should not be automatic. Non-executive directors are paid an annual fee determined by the board as a whole within the overall limit contained in the articles of association, but do not receive any other benefits for their service as non-executive directors for the company. The basic fee for non-executive directors was £27,000 (2004 – £26,000) and fees of £3,000 per annum (2004 – £3,000) were paid for the chairmanships of the Audit and Remuneration Committees, with a further £3,000 (2004 – £nil) paid to Mr C M Allen-Jones for his role as senior independent non-executive director and chairman of the Governance Committee. Non-executive directors may also be paid additional fees agreed by the board where they have performed services that, in the opinion of the board, are over and above their normal duties.

The company is entitled to terminate a non-executive director's appointment at any time without compensation.

Performance graph

The graph below shows the company's total shareholder return ('TSR') against that of the FTSE All-Share Total Return index for the five financial periods ending on 31 March 2005 and has been prepared in accordance with the Regulations. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. The FTSE All-Share Total Return index has been chosen as it is the benchmark by which the company measures its delivery of shareholder value over the longer term.

Total shareholder return growth over five years



Source: Caledonia and FTSE/Datastream

Statement on directors' remuneration (audited)

Total emoluments of the directors were as follows:

	2005 £'000	2004 £'000
Fees	157	145
Salaries	1,317	1,436
Benefits	101	124
Performance related bonuses ¹	914	921
	2,489	2,626
Gains on exercise of share options	448	100
	2,937	2,726

1. The bonuses will either be paid in cash or as an employer contribution to Inland Revenue approved pension schemes. The method of payment will be determined by the Remuneration Committee.

The emoluments of individual directors were as follows:

	Fees and salaries £'000	Benefits £'000	Bonuses ¹ £'000	Total 2005 £'000	Total 2004 £'000
Executive					
P N Buckley	284	21	199	504	469
T C W Ingram	345	19	241	605	555
Sir David Kinloch ²	–	–	–	–	517
J H Cartwright	241	21	161	423	399
The Hon C W Cayzer	174	22	122	318	284
J M May ³	273	18	191	482	257
Non-executive					
J R H Loudon	27	–	–	27	26
C M Allen-Jones	33	–	–	33	34
M E T Davies	30	–	–	30	29
R Goblet d'Alviella ⁴	5	–	–	5	–
Sir David Kinloch ²	8	–	–	8	4
D G F Thompson	27	–	–	27	26
M G Wyatt	27	–	–	27	26
	1,474	101	914	2,489	2,626

1. See note 1 to the table above.

2. Became a non-executive director with effect from 1 February 2004 and retired on 14 July 2004.

3. Appointed on 1 September 2003.

4. Appointed on 19 January 2005.

Benefits mainly comprised company cars or cash allowances, and private medical cover.

In addition to the amounts shown above, Mr T C W Ingram was paid an amount of £44,758 (2004 – £42,265), before tax, in lieu of contributions to his personal money purchase pension arrangements as described in the statement on directors'

pensions below. Certain executive directors also hold external non-executive directorships unrelated to the company's business, where it has been agreed that they may retain the fees arising therefrom. Mr T C W Ingram is a non-executive director of Sage Group, for which he received fees during the year of £37,500 (2004 – £30,000). Mr Ingram was appointed to

the board of Sage Group before he joined Caledonia. During the year, Mr J M May was chairman of Covenant Healthcare, which paid a fee of £20,000 (2004 – £20,000) for his services to a private company owned by Mr May and his wife. Mr May was appointed to this position prior to his joining Caledonia and resigned from Covenant Healthcare's board on 14 April 2005.

Statement on directors' pensions (audited)

Pension benefits accrued by directors during the year under the company's defined benefits scheme were as follows:

Name	Accrued pension at 31.03.05 (1) £ pa	Increase in accrued pension during the year (2) £ pa	Increase in accrued pension during the year, net of inflation (3) £ pa	Transfer value of increase in accrued pension over the year, net of director contributions (4) £	Transfer value of accrued pension at 31.03.05 (5) £	Transfer value of accrued pension at 31.03.04 (6) £	Change in transfer value over the year, net of director contributions (7) £
P N Buckley	231,566	5,917	1,639	29,416	4,155,976	3,829,722	326,254
J H Cartwright	95,309	8,539	5,763	61,498	1,176,484	1,032,844	134,000
The Hon C W Cayzer	72,050	7,884	5,830	66,806	825,625	708,894	116,731

1. Except for Mr P N Buckley, the accrued pensions were the amounts that would be paid at normal retirement age, ignoring any revaluation, if the director left service at the relevant date. Mr P N Buckley reached normal retirement age on 23 September 2004 and his accrued pension has been calculated as at that date.
2. The increase in accrued pension, net of inflation, in column (3) is calculated by subtracting the pension accrued to 31 March 2004, multiplied by the increase in the Retail Prices Index for the year to 31 March 2005, or earlier normal retirement date, from the accrued pension to 31 March 2005, or earlier normal retirement date.
3. The transfer value shown in column (4) represented the value of the increase in accrued pension during the year, as set out in column (3), minus director's contributions.
4. The change in transfer value over the year shown in column (7) (calculated as column (5) less column (6) and any directors' contributions) reflected the impact on transfer values of factors beyond the control of the company and the directors, such as movements in stock markets. These can cause transfer values at different points in time to fluctuate significantly. Disclosed changes in value may therefore be subject to a large degree of volatility and may even be negative.
5. The transfer values have been calculated in accordance with the guidance note 'GN11', published by the Institute of Actuaries and Faculty of Actuaries.

During the year, the company made contributions to a money purchase personal pension plan for the benefit of Mr T C W Ingram of £35,700 (2004 – £29,700), being the maximum amount permitted for this tax year under Inland Revenue limits. As described above, and in accordance with his service contract,

Mr Ingram elected to receive the balance of his agreed pension entitlement by way of a cash payment of £44,758 (2004 – £42,265), before tax, in lieu of pension contribution. The company also made contributions during the year of £26,415 (2004 – £15,606) to a money purchase pension plan for the benefit of Mr J M May.

Statement on directors' share options (audited)

Options to acquire ordinary shares in the company held by the directors during the year ended 31 March 2005 were as follows:

Grant date	Opening balance	Number of options			Closing balance	Exercise price	Market price at exercise	Exercisable from date	Expiry date
		Granted	Exercised	Lapsed					
P N Buckley									
31.07.96	7,000	–	–	–	7,000	745.0p	–	31.07.99	31.07.06
16.07.97	6,000	–	–	–	6,000	677.5p	–	16.07.00	16.07.07
02.09.98	100,000	–	–	–	100,000	740.0p	–	02.09.01	02.09.08
26.07.99	9,000	–	–	–	9,000	757.5p	–	26.07.02	26.07.09
19.07.00	8,500	–	–	–	8,500	722.5p	–	19.07.03	19.07.10
24.07.01	12,500	–	–	–	12,500	810.0p	–	24.07.04	24.07.11
	143,000	–	–	–	143,000				
Sir David Kinloch									
19.07.94	15,000	–	(15,000)	–	–	693.0p	1075.0p		
22.06.95	3,000	–	–	–	3,000	653.0p	–	22.06.98	22.06.05
18.04.96	79,000	–	–	–	79,000	781.0p	–	18.04.99	18.04.06
31.07.96	5,000	–	–	–	5,000	745.0p	–	31.07.99	31.07.06
16.07.97	6,000	–	–	–	6,000	677.5p	–	16.07.00	16.07.07
02.09.98	8,000	–	–	–	8,000	740.0p	–	02.09.01	02.09.08
26.07.99	8,000	–	–	–	8,000	757.5p	–	26.07.02	26.07.09
19.07.00	17,500	–	–	–	17,500	722.5p	–	19.07.03	19.07.10
	141,500	–	(15,000)	–	126,500				

Directors' remuneration report

continued

Grant date	Opening balance	Number of options			Closing balance	Exercise price	Market price at exercise	Exercisable from date	Expiry date
		Granted	Exercised	Lapsed					
T C W Ingram									
05.07.02	166,000	–	–	–	166,000	782.5p	–	05.07.05	05.07.12
20.11.03	35,400	–	–	–	35,400	945.0p	–	20.11.06	20.11.13
26.05.04	–	32,700	–	–	32,700	1055.0p	–	26.05.07	26.05.14
	201,400	32,700	–	–	234,100				
J H Cartwright									
19.07.94	5,000	–	(5,000)	–	–	693.0p	1017.5p		
22.06.95	3,000	–	(3,000)	–	–	653.0p	1288.0p		
18.04.96	31,500	–	(31,500)	–	–	781.0p	1288.0p		
31.07.96	10,000	–	(10,000)	–	–	745.0p	1288.0p		
16.07.97	12,000	–	(12,000)	–	–	677.5p	1288.0p		
02.09.98	8,000	–	(8,000)	–	–	740.0p	1288.0p		
26.07.99	8,500	–	–	–	8,500	757.5p	–	26.07.02	26.07.09
19.07.00	10,500	–	–	–	10,500	722.5p	–	19.07.03	19.07.10
24.07.01	24,000	–	–	–	24,000	810.0p	–	24.07.04	24.07.11
05.07.02	3,500	–	–	–	3,500	782.5p	–	05.07.05	05.07.12
20.11.03	24,800	–	–	–	24,800	945.0p	–	20.11.06	20.11.13
26.05.04	–	22,800	–	–	22,800	1055.0p	–	26.05.07	26.05.14
	140,800	22,800	(69,500)	–	94,100				
The Hon C W Cayzer									
19.07.94	1,500	–	(1,500)	–	–	693.0p	1055.5p		
22.06.95	3,000	–	(3,000)	–	–	653.0p	1288.0p		
18.04.96	35,500	–	–	–	35,500	781.0p	–	18.04.99	18.04.06
31.07.96	3,500	–	–	–	3,500	745.0p	–	31.07.99	31.07.06
16.07.97	6,000	–	–	–	6,000	677.5p	–	16.07.00	16.07.07
02.09.98	5,000	–	–	–	5,000	740.0p	–	02.09.01	02.09.08
26.07.99	5,500	–	–	–	5,500	757.5p	–	26.07.02	26.07.09
19.07.00	6,000	–	–	–	6,000	722.5p	–	19.07.03	19.07.10
24.07.01	8,500	–	–	–	8,500	810.0p	–	24.07.04	24.07.11
05.07.02	2,500	–	–	–	2,500	782.5p	–	05.07.05	05.07.12
20.11.03	17,100	–	–	–	17,100	945.0p	–	20.11.06	20.11.13
26.05.04	–	16,500	–	–	16,500	1055.0p	–	26.05.07	26.05.14
	94,100	16,500	(4,500)	–	106,100				
J M May									
20.11.03	56,000	–	–	–	56,000	945.0p	–	20.11.06	20.11.13
26.05.04	–	25,900	–	–	25,900	1055.0p	–	26.05.07	26.05.14
	56,000	25,900	–	–	81,900				
M G Wyatt									
18.04.96	17,900	–	–	–	17,900	781.0p	–	18.04.99	18.04.06
31.07.96	1,500	–	–	–	1,500	745.0p	–	31.07.99	31.07.06
16.07.97	3,000	–	–	–	3,000	677.5p	–	16.07.00	16.07.07
	22,400	–	–	–	22,400				

The closing balance shown above represents the number of shares held under option at 31 March 2005 or, in the case of Sir David Kinloch who retired on 14 July 2004, the date of his cessation as a director.

There have been no changes in directors' options to acquire ordinary shares up to the date of this report.

The company currently has two executive share option schemes – an original scheme established in 1988 and which expired in April 1998 for the purposes of new option grants, and a 1998 scheme approved by shareholders in July 1998, under which option grants commenced in September 1998.

Under the terms of both of the above schemes, options may be exercised between three and ten years after the date of grant, although only one-third of the shares comprised in an option may be exercised after three years from grant, with the remaining two-thirds becoming exercisable six years after grant. Options may only be exercised if a performance target is met.

All targets for options granted under the original scheme, which related to the company's earnings per share growth or the performance of its adjusted net asset value per share against external benchmarks, have now been achieved. For options granted from 1998 to 2001 under the 1998 scheme, the target requires the company's adjusted net asset value per share to outperform either the Retail Price Index by 3% per annum, or the average of the increases in the FTSE 250 and the FT Investment Companies indices, over any consecutive three financial years prior to expiry. For options granted in 2002 and 2003, the performance target requires the company's adjusted net asset value per share to outperform either the Retail Price Index by 3% per annum, or the FTSE All-Share index, over any consecutive three financial years prior to expiry.

For options granted in 2004, the performance target is such that 50% of the shares comprised in an option will vest if the company's net asset value per share outperforms the Retail Price Index by 3% per annum over the relevant measurement period, with the other 50% vesting if the company's net asset value per share outperforms the FTSE All-Share index over the relevant measurement period. The performance measure has to be achieved either over the first three years, or over the first four years, after the date of grant. If the performance measure is not achieved four years after the date of grant, the options will lapse.

The performance targets have been met for all options granted under the 1998 scheme from 1998 to 2002. The Remuneration Committee has selected the targets referred to above because it believed they provided an appropriate benchmark of the company's longer term performance.

The company will prepare its accounts under International Financial Reporting Standards ('IFRS') commencing with the year ending 31 March 2006. The principle differences between IFRS and UK GAAP have been identified and, whilst IFRS will result in some change to reported net asset values, these are not expected to vary materially from those which would have been reported under UK GAAP. Accordingly, the Remuneration Committee does not expect the adoption of IFRS to have a material effect on the performance targets for options already granted under the 1998 scheme but, if necessary, will make adjustments to the extent considered appropriate to ensure that the basis of calculation of net asset value per share is consistent over the relevant performance measurement period.

Included in Mr Ingram's options granted on 5 July 2002 are options over 83,000 shares granted outside the 1998 scheme and on the following special performance-related terms. As in the case of options granted under the 1998 scheme, only one-third of the shares under these special options are exercisable three years after grant, with the remaining two-thirds becoming exercisable six years after grant. The special options are subject to a stretching performance condition requiring Caledonia's TSR to outperform the FTSE All-Share Total Return index ('Index') over the measurement period, which commenced on the date of grant. A tranche will vest in full if Caledonia's TSR exceeds that of the Index by an average of at least 2% per annum over the relevant measurement period. If Caledonia's TSR equals that of the Index, none of that tranche will be exercisable and there will be proportionate vesting of a tranche if Caledonia's TSR exceeds that of the Index by an average of between zero and 2% per annum. For the one-third tranche, the performance measure will be first applied three years after grant, with two re-test opportunities four and five years after grant. For the two-thirds tranche, the performance measure will be first applied five years after grant, with two re-test opportunities six and seven years after grant. If Mr Ingram remains in service until retirement at age 62, the option will remain exercisable until ten years from grant if the performance conditions are met. Otherwise, Mr Ingram must normally be in employment to be able to exercise the options.

The shares required to satisfy Mr Ingram's special options will be transferred from the Caledonia Investments plc Employee Share Trust. The remaining terms of the special options are based on the rules of the 1998 scheme, and include provisions that any benefits obtained from the special options will not be pensionable and that the terms of the special options will not normally be capable of amendment to the advantage of the option holder without the prior approval of shareholders in general meeting.

Included in Mr May's options granted on 20 November 2003 are options over 28,000 shares granted outside the 1998 scheme. The performance conditions and other terms of these options are the same as those set out above for Mr Ingram (save that Mr May's options are not subject to preservation on retirement in the manner described above for Mr Ingram).

At 31 March 2005, the market price of the company's shares was 1367p (2004 – 1017p) and the range during the year was 1000p to 1411p.

Statement on directors' service contracts and non-executive directors' letters of appointment

Executive directors have service contracts with Caledonia Group Services Ltd, a wholly-owned subsidiary of the company, details of which are summarised below:

Name	Date of contract	Notice period	Unexpired term
P N Buckley	11.06.02	12 months	Rolling 12 months
T C W Ingram	11.06.02	12 months	Rolling 12 months
J H Cartwright	11.06.02	12 months	Rolling 12 months
The Hon C W Cayzer	11.06.02	12 months	Rolling 12 months
J M May	01.09.03	12 months	Rolling 12 months

Directors' service contracts contain provisions whereby the company may in its discretion terminate the contract without notice and make a payment in lieu of notice to the director and whereby a liquidated sum is payable by the company in the event of termination within one year following a change of control. Any such payment in lieu of notice or liquidated sum would be equivalent to no more than one year's total emoluments.

The service contracts of the directors, other than Mr Ingram's and Mr May's, also contain provisions whereby, in the event of a payment in lieu of notice or payment of a liquidated sum on termination, the director concerned would also be entitled to an increase in his pensionable service equivalent to the unexpired period of notice under his contract.

Non-executive directors do not have service contracts, but are appointed under letters of appointment which provide for termination without notice or compensation.

Executive directors' service contracts and non-executive directors' appointment letters are available for inspection at the registered office of the company.

The directors' remuneration report was approved by the board on 19 May 2005 and signed on its behalf by:

M E T Davies
Chairman of the Remuneration Committee

Corporate governance report

The board recognises the importance of good corporate governance and this report describes how the company has applied the principles of good corporate governance as set out in section one of the Combined Code issued in July 2003 (the 'Combined Code').

Statement of compliance

The directors consider that the company has complied throughout the year with the provisions set out in section one of the Combined Code, other than as follows.

The composition of the board did not comply throughout the year with provision A.3.2 of the Combined Code, which requires that, except for smaller companies, at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. The Remuneration and Audit Committees did not comply with provisions B.2.1 and C.3.1 respectively throughout the year, which require that all members of such committees should be independent non-executive directors. The company also did not comply throughout the year with provision C.3.4 of the Combined Code, which requires audit committees to review arrangements by which staff of a company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters ('whistleblowing arrangements') and to ensure that appropriate follow up procedures are in place, as such whistleblowing arrangements were only formally approved by the Audit Committee on 24 March 2005. The reasons for the company's non-compliance with these provisions are explained below.

The board

Overall responsibility and operation

The board as a whole is responsible for the group's objectives and policies and the management of its resources. It has eleven scheduled meetings a year, but also convenes at additional times when required. The board has adopted a Schedule of Authorities which sets out matters specifically reserved to it for decision. Such matters include the approval of strategy, the annual budget, material capital and revenue transactions and changes in business activities, treasury policies, risk management and internal policy limits relating to the company's investment activities. The Schedule of Authorities also sets out the authorities that are delegated to board committees and to executive management.

All directors receive appropriate and timely information to ensure that they are properly briefed in advance of board meetings and have unlimited access to the advice and services of the company secretary and other senior management should further information be required. Non-executive directors have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors.

Appointment, induction and training

All new directors appointed by the board are required to seek election by shareholders at the next general meeting of the company following their appointment and subsequently all directors are required to retire by rotation at least every three years. Any non-executive director who has served on the board for over nine years is subject to annual re-election. On appointment, new directors are offered induction and training considered appropriate by the board and subsequently as necessary. The company secretary provides details of, and where requested arranges attendance at, external courses to assist in directors' professional development.

Board composition

The directors who served during the year and subsequent changes to the board are described in the directors' report on page 31.

The board currently comprises 12 directors. Excluding the chairman, six of the directors are executive and five non-executive. The non-executive directors considered to be independent are Messrs C M Allen-Jones, M E T Davies, R Goblet d'Alviella and D G F Thompson. Mr Goblet d'Alviella is chief executive officer of Sofina sa, which has a 4.7% shareholding in Caledonia, however the board does not consider this level of shareholding to be significant in judging his independence. Collectively, the directors throughout the year brought a wide range of experience, skills and expertise to the stewardship of the company. The individual biographies of the current directors appear on pages 28 and 29.

The board is led by the chairman, Mr P N Buckley, whose responsibilities have been agreed and set out in writing in the Schedule of Authorities adopted by the board. The chairman's primary role is to ensure that the board and individual directors are able to operate efficiently by setting the agenda, style and tone of board discussions to promote constructive debate and effective decision making. He has overall responsibility for monitoring the development needs of the board as a whole and of individual directors and for ensuring that the performance of the board, its committees and individual directors are evaluated at least once a year. In conjunction with the chief executive, the chairman is responsible for ensuring effective communication with shareholders and that all board members develop an understanding of the views of investors. This is primarily achieved by board briefings following meetings with significant shareholders and private client stockbrokers, some of which are also attended by the senior independent non-executive director.

The chief executive, Mr T C W Ingram, heads the executive management team and is primarily responsible for the implementation of the board's policies and strategies and for managing the activities of the company other than in relation to those matters specifically reserved to the board or delegated to its committees. His responsibilities have also been agreed and set out in writing in the Schedule of Authorities adopted by the board. Except where the board gives specific direction otherwise, the chief executive may delegate any of those matters to other members of the executive management team or to executive committees, but ultimately he is accountable to the board for the overall performance of the company.

A strong independent non-executive representation on the board is headed by the senior independent non-executive director, Mr C M Allen-Jones. The role of the non-executive directors, as set out in their letters of appointment, is to challenge constructively, and contribute to, the development of strategy; to scrutinise the performance of management in meeting agreed goals and objectives and monitor their performance; to satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible; to determine appropriate levels of remuneration for executive directors; and to have a prime role in senior management appointments and succession planning.

The composition of the board is such that, throughout the year, the company did not comply with provision A.3.2 of the Combined Code. The board however believes that the main objectives of board balance and independence set out in the Combined Code – that the board should include a balance of executive and non-executive directors, and in particular independent non-executive directors, such that no individual or small group of individuals can dominate the board's decision taking – are met.

The board is currently broadly comprised of three categories of directors – the four independent non-executive directors; four directors (the chairman and three executive directors, Messrs C W Cayzer, J M B Cayzer-Colvin and W P Wyatt) who are involved in the affairs of The Cayzer Trust Company Ltd ('Cayzer Trust'), Caledonia's largest shareholder; and three other executive directors (Messrs T C W Ingram, J H Cartwright and J M May). Mr J R H Loudon does not fall into any of these categories as his ten year tenure as a non-executive director prevents his meeting the Combined Code criteria for independence (although his length of experience with the company, as well as his business career, are both considered significant assets by the board) and, although a member of the wider Cayzer family, he is not involved in the affairs of Cayzer Trust.

In addition to the balance on the board brought by these categories, the Governance Committee, comprising solely independent non-executive directors, was established in 2003 to keep under review corporate governance and conflict of interest issues relating to the company and the board and has authority to recommend that any director abstains from participating in any decision of the board, or any board committee, where it believes that a conflict of interest could, or could be perceived to, arise. The board believes that this structure ensures the necessary level of board balance demanded by the Combined Code and safeguards against any individual or small group of individuals being able to dominate the board's decision taking. Whilst not in strict compliance with provision A.3.2 of the Combined Code, the board believes this structure is appropriate in the context of a company with a large controlling shareholder whose stability and support is fundamental to Caledonia's business model as a long term, supportive investor, and is therefore in the best interests of all shareholders.

As stated previously, the Combined Code requires that the members of the Remuneration and Audit Committees should all be independent non-executive directors. However, Mr Loudon's membership of these Committees, given that he is not considered independent by virtue of his length of service as a non-executive director, means that provisions B.2.1 and C.3.1 of the Combined Code are not met. However, because of his attributes described above, the board considers his membership of these Committees to be in the best interests of the company.

Board committees

The board has delegated certain specific areas of responsibility to the following standing committees, the terms of reference of which are published on the company's website and are available from the company secretary on written request. The current membership of these committees is noted on page 73.

The Nomination Committee, chaired by Mr P N Buckley, is responsible for the regular review of the structure, size and composition (including the skills, knowledge and experience) of the board and for giving consideration to succession planning for executive directors and, if requested by the board, for other senior executives. It is responsible for identifying, using external search consultants where necessary, candidates to fill board vacancies as and when they arise and for making recommendations to the board in relation thereto and for keeping under review the leadership needs of the company, both executive and non-executive. It reviews annually the time required of non-executive directors and ensures that they receive formal letters of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings.

The Nomination Committee met three times during the year in order to undertake a formal review of the size and composition of the board following the annual board performance evaluation and to make recommendations for the appointments of Messrs R Goblet d'Alviella, J M B Cayzer-Colvin and W P Wyatt to the board. The Committee did not use an external search consultant or open advertising in the appointment of Mr Goblet d'Alviella as a non-executive director, as he became known to the board as a consequence of Sofina's acquisition of a 4.7% shareholding in the company. The Nomination Committee was therefore able to identify at first hand that his considerable knowledge and experience in corporate finance and investment management, particularly in Continental Europe, would provide a valuable additional resource to the board.

The Remuneration Committee, chaired by Mr M E T Davies, is responsible for the review of executive remuneration policy. Within that policy, the Remuneration Committee determines the remuneration packages of executive directors and reviews those of other senior executive management. It is also responsible for the design and grant of awards under the company's share incentive schemes and for the determination of the policy for and scope of pension arrangements, service agreements, termination payments and compensation commitments for executive directors and, if requested by the board, for other senior executives.

The Remuneration Committee met four times during the year and undertook a thorough review of senior executive remuneration, advised by external consultants appointed by the Remuneration Committee, Towers Perrin, to ensure that the company's remuneration policies remain sufficient to enable it to recruit and retain able executives and that its performance related rewards continue to be competitive. Further details of the conclusions of this review and a description of the work of the Remuneration Committee are included in the directors' remuneration report set out on pages 33 to 39.

The Audit Committee, chaired by Mr C M Allen-Jones, is responsible for the monitoring of the integrity of the financial statements of the company and any announcements relating to the company's financial performance and for reviewing any significant financial reporting judgements contained in them. It also reviews the company's systems of internal financial control and considers annually whether an internal audit function is required. The Audit Committee believes that, in the context of the company's business as an investment trust, the key issues on which it has to satisfy itself are the integrity of the application of the company's policy for the valuation of its investments, particularly those which are unquoted, and the robustness of the group's internal financial controls. The valuations of the company's unquoted investments are subject to formal six monthly reviews by an internal challenge committee, independent of the investment executives and observed by the external auditors, and a formal report on the effectiveness of the group's internal financial control is prepared annually for the board by the group financial controller. It is the Audit Committee's current opinion that, in view of these control processes, the size of the entities controlled by Caledonia and the relatively straightforward control considerations in relation to other investments, a separate internal audit function is not necessary.

Corporate governance report

continued

The Audit Committee is also responsible for overseeing the establishment of appropriate whistleblowing arrangements and for ensuring that any concerns raised by staff are properly investigated and appropriate action taken. Formal whistleblowing arrangements were approved by the Audit Committee on 24 March 2005 and therefore, given that such arrangements were not in place throughout the year, the company has only fully complied with provision C.3.4 of the Combined Code from that date.

It is also the Audit Committee's responsibility to review and monitor the independence and objectivity of the external auditors and the effectiveness of the audit process and to develop and implement policy on the engagement of the external auditor to supply non-audit services. In this regard, the Audit Committee has approved a schedule of specific non-audit activities which may not be undertaken by the external auditors, within the broad principles that the external auditors should not audit their own work, should not make management decisions on behalf of the company, should not be put into the role of advocate for the company and that no mutuality of interest should be created between the company and the external auditors. The Audit Committee believes that, by applying these principles, the objectivity and independence of the auditors is maintained, notwithstanding that non-audit work may be undertaken. On an annual basis, the Audit Committee considers and makes a recommendation to the board as to the appointment, re-appointment or removal of the external auditors.

The Combined Code recommends that at least one member of the Audit Committee should have recent and relevant financial experience. The Audit Committee considers that Mr J R H Loudon, who was formerly group finance director of Blue Circle Industries, has such financial experience. The chairman of the Audit Committee, Mr C M Allen-Jones, is also a member of the Financial Reporting Council.

The Audit Committee met four times during the year, twice without any of the executive directors present. During the year, the business considered by the Audit Committee included:

- The scope of the annual audit and agreement with the external auditors of the key areas of focus.
- The reports from the external auditors concerning their audit of the annual financial statements of the company and their review of the interim report.
- The financial disclosures contained in the annual and interim reports to shareholders.
- Reports from management on the effectiveness of the company's system of internal financial control.
- The need or otherwise for an internal audit function.
- The independence and objectivity of the external auditors, including their system of quality controls and the level and nature of non-audit services provided by them.
- The performance of the external auditors and of the Audit Committee itself.
- The company's preparation for the implementation of International Financial Reporting Standards.
- The company's compliance with the requirements for Inland Revenue approval of its investment trust status.
- The development and implementation of formal whistleblowing arrangements.

The Governance Committee, chaired by Mr C M Allen-Jones, keeps under review corporate governance issues relating to the company and is responsible for the monitoring and review of the ability of each director to act in the interests of shareholders as a whole and to exercise independence of judgement free from relationships or circumstances which are likely to, or could appear to, affect his judgement. Where it concludes that such criteria are not satisfied with regard to any director, it may make such recommendations to the board as it may think fit, including that the director abstains from participating in any decision of the board or any of its committees on the matter concerned. The Governance Committee met twice during the year.

Attendance at meetings

The following table identifies the number of board and committee meetings held in the year to 31 March 2005 and the attendance record of individual directors.

	Board	Nomination Committee	Remuneration Committee	Audit Committee	Governance Committee
Number of meetings in the year	11 ¹	3	4	4	2
Attendances by					
P N Buckley	11	3	–	–	–
J R H Loudon	11	3	4	4	–
T C W Ingram	10	–	–	–	–
J H Cartwright	11	–	–	–	–
The Hon C W Cayzer	10	–	–	–	–
J M May	11	–	–	–	–
C M Allen-Jones	11	3	4	4	2
M E T Davies	10	2	4	–	2
R Goblet d'Alviella ²	2	–	–	–	–
Sir David Kinloch ³	3	–	–	–	–
D G F Thompson	11	3	–	4	2
M G Wyatt	9	–	–	–	–

1. Scheduled board meetings.

2. Appointed on 19 January 2005 and therefore could have attended a maximum of three scheduled board meetings.

3. Retired on 14 July 2004 and therefore could have attended a maximum of three scheduled board meetings.

Board evaluation

Since the year end, a formal evaluation of the effectiveness of the board and its committees and of the performance of individual directors in respect of the year ended 31 March 2005 has been undertaken. The evaluation of the board as a whole and of its committees was led by the chairman and was conducted by inviting individual board members to complete a questionnaire regarding the operation and effectiveness of the board as a whole and of its committees, the responses to which were collated by the company secretary and discussed. The evaluation of the performance of the chairman was led by the senior independent non-executive director and involved private discussion with other members of the board of their views on his performance, the results of which were then considered at a meeting of the non-executive directors without the chairman present. The evaluation of the performance of the chief executive was undertaken by the chairman and the non-executive directors. The performance of the non-executive directors was reviewed by the chairman, the chief executive and the senior independent non-executive director, with the senior independent non-executive director absent in respect of his own performance appraisal, and included the completion of self-assessment questionnaires by the non-executive directors. The performance of the executive directors, other than the chief executive, was undertaken by the Remuneration Committee as part of the annual salary review process.

The results of the evaluation of the board as a whole and of its committees for the year ended 31 March 2005 were presented in a report to the board. The Nomination Committee reviewed the size, structure and composition of the board in the light of this report.

Internal control

The board has overall responsibility for the group's system of internal control, although the review of internal financial controls is delegated to the Audit Committee. The group's system of internal control is designed to manage, rather than eliminate, risk of failure to achieve business objectives. It is recognised that such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss. The board confirms that the system of internal control operated by the group accords with the guidance issued in September 1999 by the Institute of Chartered Accountants of England and Wales (the Turnbull Committee guidelines) and has been in place throughout the year and up to the date of approval of these accounts.

Major business risks facing group companies, including social, ethical and environmental issues, are identified in conjunction with operating management and procedures agreed to control these as appropriate. Risks facing the group's material investments are identified and evaluated through board representation or regular contact.

Key risks identified are regularly monitored at group level by members of the executive management committee, who have clear mandates to assess and report on risk in their particular areas of responsibility. From these assessments, an ongoing risk profile of the group's activities is updated half-yearly and reviewed by the board. The board is also provided quarterly with a list of the key risk issues identified by executive management at that particular time. All of the company's larger investments are reviewed at least annually by the board and the smaller portfolio holdings reviewed at least annually by the executive investment committee.

Specific control procedures are in place to ensure that the company continually monitors and complies with the requirements for investment trust status. The board receives monthly compliance reports evidencing that the company is meeting the various tests for investment trust status and also confirming that the investment activities undertaken by executive management are within the overall policy limits set by the board. A compliance committee, comprising the company secretary (chairman), the finance director and three associate directors has been established, which meets weekly to review the company's ongoing compliance with its investment trust status and to monitor and approve all investment activity from an investment trust compliance perspective. The group financial controller also attends such meetings.

Financial performance is continuously measured by comparing total shareholder returns and net asset value movements against the FTSE All-Share index. Performance statistics are reported monthly to the board. Income and expenses are monitored by the board against an approved annual budget and regularly updated forecasts. Valuations of unquoted investments are subject to a rigorous six monthly review process undertaken by a challenge committee independent of the investment executives and observed by the external auditors.

Since the year end, the directors have conducted their annual review of the operation and effectiveness of the group's system of internal control.

Going concern

The directors confirm that they are satisfied that the group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Relations with shareholders

The company welcomes dialogue with institutional shareholders in order to achieve a mutual understanding of objectives. The chief executive and the finance director seek meetings with larger institutional shareholders and private client stockbrokers after the announcement of year end and interim results. The chairman and senior independent non-executive director also attend some of these meetings. The annual general meeting also provides a forum for investors to meet the directors, both formally and informally.

The chairmen of all of the board's committees will be available to answer questions at the annual general meeting of the company.

Directors' responsibility statement

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on a going concern basis unless it is inappropriate to assume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent auditors' report

to the members of Caledonia Investments plc

We have audited the financial statements on pages 46 to 71. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report and the directors' remuneration report. As described on page 44, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the parts of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement on pages 40 to 43 reflects the company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance report and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the parts of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the parts of the directors' remuneration report to be audited.

Opinion

In our opinion:

- The financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2005 and of the profit of the group for the year then ended.
- The financial statements and the parts of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
19 May 2005

Company statement of total return

for the year ended 31 March 2005

	Note	Revenue 2005 £m	Capital 2005 £m	Total 2005 £m	Revenue 2004 £m	Capital 2004 £m	Total 2004 £m
Gains on investments							
Realised		–	99.2	99.2	–	20.1	20.1
Unrealised		–	66.6	66.6	–	254.2	254.2
		–	165.8	165.8	–	274.3	274.3
Income	01	18.9	–	18.9	21.5	–	21.5
Administrative expenses	02	(10.0)	–	(10.0)	(9.1)	–	(9.1)
Costs of settlement proposals	05	(0.4)	–	(0.4)	(2.5)	–	(2.5)
Return before finance costs and tax		8.5	165.8	174.3	9.9	274.3	284.2
Interest payable	06	(1.0)	–	(1.0)	(1.0)	–	(1.0)
Return before tax		7.5	165.8	173.3	8.9	274.3	283.2
Tax on ordinary activities	07	1.8	(1.9)	(0.1)	–	(0.4)	(0.4)
Return attributable to shareholders		9.3	163.9	173.2	8.9	273.9	282.8
Return per ordinary share							
	09						
Basic		14.2p	249.4p	263.6p	12.3p	379.2p	391.5p
Diluted		14.1p	248.6p	262.7p	12.3p	378.4p	390.7p

Company reconciliation of movement in shareholders' funds

	Note	2005 £m	Restated 2004 £m
Revenue return		9.3	8.9
Capital return		163.9	273.9
Total return		173.2	282.8
Dividends	08	(17.9)	(19.4)
Elective special dividend		(88.0)	–
Employee share trust		(4.3)	(0.1)
Purchase of own shares		(1.0)	–
Movement in the year		62.0	263.3
Opening balance		911.0	647.7
Closing balance		973.0	911.0
Dividends per ordinary share			
	08	28.2p	27.0p

Company balance sheet

at 31 March 2005

	Note	2005 £m	Restated 2004 £m
Fixed assets			
Investments	12	951.4	893.0
Current assets			
Debtors	14	9.4	12.7
Short term deposits		36.4	32.8
Cash at bank and in hand		3.2	6.0
		49.0	51.5
Creditors falling due within one year	16	(27.4)	(18.5)
Net current assets		21.6	33.0
Total assets less current liabilities		973.0	926.0
Creditors falling due after more than one year			
Long term borrowings	15	–	(4.8)
Amounts due to subsidiary undertaking		–	(10.2)
		–	(15.0)
Net assets		973.0	911.0
Capital and reserves			
Called up share capital	19	3.6	4.0
Share premium account	19	1.3	1.3
Non-distributable reserves	20	621.9	458.0
Distributable reserves	20	355.3	451.9
Own shares	21	(9.1)	(4.2)
Total shareholders' funds		973.0	911.0
Net asset value per ordinary share	22		
After accrued final dividend		1535p	1264p
Before accrued final dividend		1554p	1282p

The financial statements on pages 46 to 71 were approved by the board on 19 May 2005 and were signed on its behalf by:



Tim Ingram
Chief executive



Jonathan Cartwright
Finance director

Consolidated profit and loss account

for the year ended 31 March 2005

	Note	2005 £m	2004 £m
Turnover	24	122.7	125.8
Operating loss	03	(9.0)	(11.5)
Loss on sale of operations	12	(0.6)	–
Profit on sale of properties		1.1	–
Loss on ordinary activities before investment income		(8.5)	(11.5)
Income from investments	01	16.5	17.3
Interest receivable	01	0.9	1.1
Interest payable	06	(2.3)	(0.8)
Profit on ordinary activities before tax		6.6	6.1
Tax on profit on ordinary activities	07	(0.7)	(2.2)
Profit on ordinary activities after tax		5.9	3.9
Minority interests (equity)		(0.1)	(0.1)
Profit for the financial year		5.8	3.8
Dividends	08	(17.9)	(19.4)
Loss charged for the financial year	20	(12.1)	(15.6)
Earnings per ordinary share	09		
Basic		8.8p	5.3p
Diluted		8.8p	5.3p
Dividends per ordinary share	08	28.2p	27.0p

Consolidated statement of total recognised gains and losses

for the year ended 31 March 2005

	Note	2005 £m	2004 £m
Gains/(losses) on investments			
Realised		99.1	21.3
Unrealised		68.4	270.4
Revaluation of former associates transferred to investments		–	(21.3)
Exchange differences		(0.2)	(3.7)
Taxation	07	(2.2)	(0.4)
Minority interests (equity)		(0.2)	(0.1)
Other recognised gains and losses		164.9	266.2
Profit for the financial year		5.8	3.8
Total recognised gains and losses		170.7	270.0

Consolidated balance sheet

at 31 March 2005

	Note	2005 £m	Restated 2004 £m
Fixed assets			
Intangible assets	10	3.2	4.9
Tangible assets	11	82.0	84.1
Investments	12	898.5	830.5
		983.7	919.5
Current assets			
Stocks	13	23.3	26.4
Debtors	14	34.6	36.6
Short term deposits		38.2	40.2
Cash at bank and in hand		13.1	14.6
		109.2	117.8
Creditors falling due within one year			
Short term borrowings	15	(3.0)	(4.3)
Other creditors	16	(52.1)	(50.0)
		(55.1)	(54.3)
Net current assets		54.1	63.5
Total assets less current liabilities		1,037.8	983.0
Creditors falling due after more than one year			
Long term borrowings	15	(37.9)	(42.3)
Provision for liabilities and charges			
Deferred taxation	17	(0.7)	(1.5)
		999.2	939.2
Minority interests			
Equity		(0.9)	(0.8)
Non-equity		(0.2)	(0.3)
		998.1	938.1
Capital and reserves			
Called up share capital	19	3.6	4.0
Share premium account	19	1.3	1.3
Capital redemption reserve	20	1.2	1.2
Revaluation reserve	20	325.4	270.6
Profit and loss account	20	676.1	665.6
Own shares	21	(9.5)	(4.6)
Total shareholders' funds		998.1	938.1

The financial statements on pages 46 to 71 were approved by the board on 19 May 2005 and were signed on its behalf by:



Tim Ingram
Chief executive



Jonathan Cartwright
Finance director

Company and consolidated cash flows

for the year ended 31 March 2005

	Note	Company		Group	
		2005 £m	2004 £m	2005 £m	2004 £m
Net cash inflow from operating activities	25	8.6	3.1	19.7	(0.2)
Servicing of finance					
Interest paid		(1.0)	(1.0)	(2.2)	(0.7)
Dividends paid to minority shareholders		–	–	(0.1)	(0.1)
		(1.0)	(1.0)	(2.3)	(0.8)
Taxation					
Group relief received		1.5	–	–	–
UK tax paid		–	(1.3)	(1.3)	(1.3)
Overseas tax paid		–	–	(0.7)	(0.5)
		1.5	(1.3)	(2.0)	(1.8)
Capital expenditure and financial investment					
Purchase of investments		(127.4)	(107.3)	(126.0)	(96.7)
Sale of investments		218.5	125.8	217.6	109.2
Dividends received		8.8	–	–	–
Liquidation of subsidiary undertakings		–	6.9	–	–
Purchase of tangible fixed assets		–	–	(4.7)	(6.6)
Sale of tangible fixed assets		–	–	2.6	0.4
		99.9	25.4	89.5	6.3
Acquisitions and disposals					
Purchase of subsidiary undertakings		–	–	(2.4)	(9.2)
Cash acquired with subsidiary undertakings		–	–	–	0.6
Sale of subsidiary undertakings		–	–	3.3	–
		–	–	0.9	(8.6)
Equity dividends paid		(18.9)	(19.1)	(18.9)	(19.1)
Net cash inflow before management of liquid resources		90.1	7.1	86.9	(24.2)
Management of liquid resources	26	(3.6)	6.1	2.0	3.7
Financing					
Repayment of short term loans		–	–	(0.1)	(0.3)
Repayment of long term loans		(4.8)	–	(4.8)	–
Issue of long term loans		–	–	–	27.4
Purchase of own shares		(1.0)	–	(1.0)	–
Elective special dividend		(88.0)	–	(88.0)	–
Sale of forward currency contracts		8.8	–	8.8	–
Employee share trust		(4.3)	–	(4.3)	–
Issue of shares by subsidiary undertakings		–	–	–	0.1
		(89.3)	–	(89.4)	27.2
Decrease in cash in the year		(2.8)	13.2	(0.5)	6.7

Reconciliation of net cash flows to movement in net funds

	Note	Company		Group	
		2005 £m	2004 £m	2005 £m	2004 £m
Decrease in cash in the year		(2.8)	13.2	(0.5)	6.7
Cash outflow from decrease in debt		4.8	–	4.9	(27.1)
Cash outflow from increase in deposits		3.6	(6.1)	(2.0)	(3.7)
Change in net funds resulting from cash flows	27	5.6	7.1	2.4	(24.1)
Acquisitions		–	–	0.2	(10.4)
Exchange differences		–	–	(0.4)	(0.5)
Movement in net funds in the year		5.6	7.1	2.2	(35.0)
Opening balance of net funds		34.0	26.9	8.2	43.2
Closing balance of net funds		39.6	34.0	10.4	8.2

The accounting policies and notes on pages 51 to 71 form part of these financial statements.

Accounting policies

Basis of preparation

The accounts have been prepared under the historical cost convention, modified to include the revaluation of investments, and in accordance with applicable accounting standards.

Investment trust companies generally report under the Statement of Recommended Practice – Financial Statements of Investment Trust Companies ('IT SORP'), dated January 2003 and published by the Association of Investment Trust Companies. The IT SORP assumes, however, that an investment trust is also an investment company and can take advantage of the special provisions given to investment companies under company law and accounting standards. Caledonia is not an investment company and, in these circumstances, the IT SORP states that an investment trust company should prepare its financial statements in accordance with the normal rules contained in Schedule 4 to the Companies Act 1985 and accounting standards.

Caledonia recognises, however, that presenting information that is comparable with other investment trusts is important to investors. It therefore augments its financial statements with the information and disclosures required by the IT SORP in respect of the performance of the holding company. This is because the company balance sheet (unlike that of the group) can reflect full net asset value, and the movement in this figure is a key measure of Caledonia's performance. A statement of total return on an IT SORP basis is also presented to explain this movement.

The group has implemented UITF 37 'Purchases and Sales of Own Shares' and UITF 38 'Accounting for ESOP Trusts', which require the cost of shares in the company held by the group to be shown as deductions from shareholders' funds. Previously, own shares were shown as fixed asset investments. This change has not materially affected previously reported profits and losses, but comparative figures have been restated in the balance sheet and related notes.

The group has also implemented UITF 17 (Revised 2003) 'Employee Share Schemes', which requires the minimum profit and loss charge for share options granted to be determined as the intrinsic value. Previously, the charge was based on either intrinsic value or, where purchases of shares were made by an ESOP trust at fair value, by reference to the cost of shares available for the award less any contributions payable by the employees. The implementation of the revised UITF 17 had no material impact on the group's previously reported profits and losses.

Basis of consolidation

The consolidated financial statements consolidate the results of the company and all of its subsidiary undertakings drawn up to 31 March each year. The results of subsidiary undertakings acquired or sold during the year are included in the financial statements from the date of acquisition or to the date of sale. As permitted by section 230 of the Companies Act 1985, the profit and loss account of the company has not been included in these financial statements.

In the company financial statements, investments in subsidiary undertakings are stated in accordance with the 'valuation of investments' and 'income' policies outlined below. Subsidiary undertakings include equity and loan interest elements.

Joint ventures and associated undertakings

Investments in which the group has a long term interest and over whose operating and financial policies it exerts significant influence, but which are held as part of an investment portfolio, the value of which is through their marketable value as part of a basket of investments, are not regarded as joint ventures or associated undertakings. The directors believe that equity accounting for such investments, that may come within the Companies Act definition of associated undertakings, would not give a true and fair view of the income from investment activities of the group, since this is better measured by the inclusion of dividends and interest income. It is impracticable to quantify the effects of this departure. The treatment adopted is in accordance with FRS 9 'Associates and Joint Ventures'.

Valuation of investments

Investments are included according to the following guidelines, which have been drawn up having regard to the British Venture Capital Association ('BVCA') guidelines.

Quoted investments, for which an active market exists, are valued at mid-market price.

Unquoted equity investments are valued by the directors on a number of bases depending on the nature of each investment. Early-stage investments will generally be valued at cost, less a provision if performance is substantially below expectations, for one year or until the investment starts to earn significant maintainable profits. Investments earning significant maintainable profits are generally valued using an earnings multiple, based on current year profit after tax and an earnings multiple for a comparable quoted company or sector average. A discount will be applied to recognise the absence of a ready market on which the holding can be sold. The liquidity discount will normally be 30%, but may be reduced to 10% if an initial public offering or realisation is imminent. For some asset-backed businesses, such as where there is a significant property element, the earnings multiple method of valuation is inappropriate, and a net realisable asset basis is applied. It may also be appropriate to use the net realisable asset basis of valuation if this results in a higher valuation than the earnings method, or the company is incurring losses. A third party valuation, such as an independent valuation report or a material arm's length transaction, will provide prima facie evidence of fair value and will usually take precedence over other methods.

Unquoted fixed income shares and loan investments are valued at the lower of cost or recoverable amount. Investments in unquoted funds are valued at the net asset value of the fund, with an appropriate adjustment where the net asset value has not been calculated in accordance with BVCA guidelines.

Realised surpluses or deficits on the disposal of investments are taken to the realised capital reserve of the company, and unrealised surpluses and deficits on the revaluation of investments are taken to the unrealised capital reserve as explained further below.

Accounting policies

continued

Income

Dividends receivable from equity shares are brought into account on the ex-dividend date or, where no ex-dividend date is quoted, when the company's right to receive payment is established. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the shares and debt securities. Other returns are recognised when the right to the return is established.

Expenses

Expenses are accounted for on an accruals basis and are charged to the revenue account except that expenses which are incidental to the acquisition or disposal of an investment are included within the cost of the investment or deducted from the disposal proceeds on sale of the investment.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for accounting and taxation purposes. Any charge for taxation on the disposal of investments is dealt with in the capital reserve.

Deferred taxation is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. In particular, FRS 19 does not allow deferred tax to be provided in respect of investment revaluations. No discounting is applied.

Foreign currency

In the company financial statements, transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the date of the transaction or, where appropriate, at the rate of exchange in a related forward exchange contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, where appropriate, at the rate of exchange in a related forward exchange contract. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the capital reserve or in the revenue account depending on whether the gain or loss is of a capital or revenue nature respectively.

In the consolidated financial statements, assets, liabilities and results of subsidiaries accounting in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. The exchange differences arising on retranslating opening net assets are taken directly to reserves. All other translation differences are taken to the profit and loss account, with the exception of differences on the revaluation of fixed asset investments denominated in foreign currencies, which are taken directly to the revaluation reserve.

Capital reserves

The following are accounted for in the realised capital reserve of the company:

- Gains and losses on the realisation of investments.
- Realised exchange differences of a capital nature.
- Expenses and finance costs charged to this reserve in accordance with the above policies.
- Realised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

The following are accounted for in the unrealised capital reserve of the company:

- Increases and decreases in the valuation of investments held at the year end.
- Unrealised exchange differences of a capital nature.
- Unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

Goodwill

Goodwill arising on acquisitions is capitalised and amortised over its estimated useful economic life. Negative goodwill arising on acquisitions is capitalised and written back through the profit and loss account in the period in which the non-monetary assets acquired are recovered.

Up to 31 March 1998, depending on the circumstances of each acquisition, goodwill arising on acquisitions was either set off directly against reserves or amortised through the profit and loss account over the directors' estimate of its useful life. Goodwill previously eliminated against reserves was not reinstated on implementation of FRS 10.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land and assets in the course of construction, at rates calculated to write off the cost less estimated residual value of each asset evenly over its expected useful life, as follows:

Freehold and leasehold properties	50 years or the period of lease if shorter
Plant and machinery	5 to 25 years
Fixtures, fittings and equipment	3 to 10 years

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and includes production overheads as appropriate. Net realisable value is the estimated price at which stocks could be sold in the normal course of business, after allowing for all further costs of completion and sale.

Payments received on account are deducted from work in progress. Where such receipts exceed the valuation, the excess is taken to creditors.

Leases

Rentals payable and receivable under operating leases are charged or credited to the profit and loss account on a straight line basis over the terms of the leases.

Pensions

The group principally operates defined benefits pension schemes in the UK, USA and Germany. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over the working lives of the employees within the schemes. In addition, contributions are made to grouped personal pension plans and other arrangements, which are charged to the profit and loss account when payable. The transition rules of FRS 17 have been applied in drawing up these financial statements.

Long term contracts

Profit on long term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit is calculated on a prudent basis to reflect the proportion of the work completed at the year end and full provision is made for all foreseeable losses.

Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the group's ordinary activities, stated net of value added tax.

Employee share trust

The cost of shares in the company held by an employee share trust is accounted for as a deduction in arriving at shareholders' funds, until the shares vest unconditionally to employees.

Treasury shares and own shares held by the group

The cost of shares in the company held by the the group is accounted for as a deduction in arriving at shareholders' funds. No profits or losses are recognised in respect of dealings in own shares and no loss is recognised when share values reduce.

Derivative financial instruments

Derivative financial instruments are used to manage exposure to foreign exchange and interest rate risks and are not used for trading purposes. Instruments qualify for hedge accounting where the underlying asset or liability has characteristics which can be directly related to the instrument transacted.

The sterling equivalent of forward foreign exchange contracts used to hedge foreign currency investments are recorded in debtors or creditors at valuation. Movements in the valuation of these contracts are included initially in the unrealised capital reserve of the company or the revaluation reserve of the group. When the underlying investment is sold, or the contracts mature, the unrealised gains or losses on these contracts are recognised in the realised capital reserve of the company or the profit and loss account of the group.

Premiums paid on interest rate caps and collars are recognised on the balance sheet as debtors. The options are not revalued to fair value in the balance sheet. Premiums on the options, net of any realised gains, are taken to interest payable, spread evenly over the life of the cap and collar.

Notes to the accounts

01 Income

	Company		Group	
	2005 £m	2004 £m	2005 £m	2004 £m
Income from investments				
UK listed investments				
Dividends	10.7	11.9	10.7	12.1
Interest	0.3	–	0.3	–
Overseas listed investments				
Dividends	0.1	–	0.1	–
Interest	–	0.2	–	0.2
Unlisted investments				
Dividends	1.3	1.6	2.1	2.8
Interest	2.2	1.1	2.2	1.2
Other	0.7	0.3	0.7	0.3
Income from group undertakings				
Dividends	1.7	3.7	–	–
Interest	0.9	1.0	–	–
Private equity limited partnerships				
	0.4	0.7	0.4	0.7
	18.3	20.5	16.5	17.3
Interest income				
Interest on bank deposits	0.6	0.9	0.9	1.0
Exchange gains	–	0.1	–	0.1
	0.6	1.0	0.9	1.1
Total income	18.9	21.5	17.4	18.4

02 Administrative expenses

	Company	
	2005 £m	2004 £m
Management charge from Caledonia Group Services		
Staff costs (note 4)	6.1	5.5
Other administrative expenses	3.2	2.5
Depreciation	0.3	0.3
	9.6	8.3
Irrecoverable VAT	0.3	0.6
Other	0.1	0.2
	10.0	9.1

Caledonia Group Services, a wholly owned subsidiary undertaking, provided management services to the company.

03 Operating loss

	Group	
	2005 £m	2004 £m
Turnover	122.7	125.8
Changes in stocks and in work in progress	(4.4)	(14.9)
Other operating income	1.1	2.2
Raw materials	(47.0)	(41.4)
Staff costs (note 4)	(42.7)	(42.2)
Depreciation and amortisation	(7.8)	(7.4)
Other operating charges before exceptional items	(30.5)	(31.1)
Exceptional items (note 5)	(0.4)	(2.5)
Operating loss	(9.0)	(11.5)

Results for both the current and prior years are from continuing operations. There were no material acquisitions or discontinued operations during the year.

03 Operating loss continued

Operating loss was stated after charging/(crediting) the following:

	Group	
	2005 £m	2004 £m
Auditors' remuneration		
Audit services	0.5	0.4
Non-audit services		
Taxation	0.1	0.1
Due diligence	0.2	0.2
Other	–	0.1
Depreciation of owned assets (note 11)	5.3	5.6
Amortisation and impairment of goodwill (note 10)	2.5	1.8
Operating lease rentals		
Plant and machinery	0.4	0.6
Other (mainly properties)	1.1	0.7
Exchange losses	–	0.5
Net rental income from land	–	(0.1)

04 Staff costs

	Company		Group	
	2005 £m	2004 £m	2005 £m	2004 £m
Wages and salaries	4.6	4.4	34.7	34.8
Social security costs	0.5	0.7	4.6	4.9
Other pension costs	1.0	0.4	3.4	2.5
	6.1	5.5	42.7	42.2
Average number of employees (including executive directors)	38	41	1,609	1,582

The staff costs shown for the company represent those costs incurred by Caledonia Group Services and charged to the company.

The above figures include directors' emoluments, details of which are shown in the directors' remuneration report under the heading of 'Statement on directors' remuneration (audited)' on page 36.

05 Exceptional items

The exceptional items in 2005 and 2004 of £0.4m and £2.5m respectively referred to the review of a proposal received to liquidate the company, which was subsequently withdrawn, and to the formulation of proposals for an elective special dividend and associated reduction of capital.

06 Interest payable

	Company		Group	
	2005 £m	2004 £m	2005 £m	2004 £m
Bank loans and overdrafts	0.2	–	2.3	0.6
Loan notes	–	0.2	–	0.2
Subsidiary undertakings	0.8	0.8	–	–
	1.0	1.0	2.3	0.8

Notes to the accounts

continued

07 Taxation

Company

	Revenue 2005 £m	Capital 2005 £m	Total 2005 £m	Revenue 2004 £m	Capital 2004 £m	Total 2004 £m
UK corporation tax						
Current tax on profits of the period	(1.4)	1.9	0.5	(1.3)	0.6	(0.7)
Adjustments in respect of previous periods	(0.4)	–	(0.4)	1.3	(0.2)	1.1
Tax on profit on ordinary activities	(1.8)	1.9	0.1	–	0.4	0.4

Group

	Profit and loss account 2005 £m	Other gains and losses 2005 £m	Total 2005 £m	Profit and loss account 2004 £m	Other gains and losses 2004 £m	Total 2004 £m
UK corporation tax						
Current tax on profits of the period	0.3	1.9	2.2	0.3	0.6	0.9
Adjustments in respect of previous periods	(0.4)	0.3	(0.1)	1.2	(0.2)	1.0
	(0.1)	2.2	2.1	1.5	0.4	1.9
Foreign tax						
Current tax on profits of the period	1.3	–	1.3	0.6	–	0.6
Total current tax	1.2	2.2	3.4	2.1	0.4	2.5
Deferred tax						
Origination and reversal of timing differences	(0.5)	–	(0.5)	0.1	–	0.1
Tax on profit on ordinary activities	0.7	2.2	2.9	2.2	0.4	2.6

Factors affecting the tax charge for the period

The revenue tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30%. The difference is explained as follows:

	Company		Group	
	2005 £m	2004 £m	2005 £m	2004 £m
Profit on ordinary activities before taxation	7.5	8.9	6.6	6.1
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2004 – 30%)	2.2	2.7	2.0	1.8
Effects of				
Expenses not deductible for tax purposes	0.1	0.1	0.5	0.6
Utilisation of tax losses	–	–	(0.1)	(0.1)
Higher tax rates on overseas earnings	–	–	0.1	0.1
Allocation of group relief at a reduced rate	0.2	0.2	–	–
Other timing differences	0.1	–	–	(0.1)
Losses for the year unrelieved	–	0.7	1.9	2.0
Non-allowable depreciation and amortisation	–	–	1.0	0.8
Non-taxable UK dividend income	(4.0)	(5.0)	(3.8)	(4.2)
Adjustments in respect of previous periods	(0.4)	1.3	(0.4)	1.2
Current tax on profits for the period	(1.8)	–	1.2	2.1

The capital tax assessed for the period relates to gains that were not covered by the exemption from corporation tax on chargeable gains available to investment trusts.

Factors that may affect future tax charges

No unprovided deferred tax has been disclosed for 2005 (2004 – £nil) as the company expects to be able to conduct its affairs so as to meet the requirements for investment trust status, thereby not being liable to corporation tax on chargeable gains. Deferred tax on revaluations is not permitted, in accordance with FRS 19.

Exceptional items

The tax effect in the profit and loss account relating to the exceptional items, described in note 5, was £nil (2004 – £0.3m credit).

08 Dividends

	2005 pence	2004 pence	2005 £m	2004 £m
Interim paid	8.7	8.4	5.5	6.0
Final proposed	19.5	18.6	12.4	13.4
	28.2	27.0	17.9	19.4

The proposed final dividend will be paid on 28 July 2005 to shareholders on the register at the close of business on 1 July 2005.

09 Returns per ordinary share

The calculation of returns per ordinary share was based on the following:

	Company		Group	
	2005 £m	2004 £m	2005 £m	2004 £m
Revenue return	9.3	8.9	5.8	3.8
Capital return	163.9	273.9		
	'000	'000	'000	'000
Weighted average number of ordinary shares				
Basic	65,697	72,235	65,647	72,235
Diluted	65,921	72,379	65,871	72,379

The weighted average number of ordinary shares in issue during the year, used to calculate the company's returns per ordinary share, excluded shares held during the year by the Caledonia Investments plc Employee Share Trust and shares held in treasury.

The weighted average number of ordinary shares in issue during the year, used to calculate the group's earnings per ordinary share, also excluded shares held during the year by a subsidiary undertaking.

The difference between the basic and diluted number of ordinary shares was the potential dilutive effect of share options.

10 Intangible fixed assets

Group

	Purchased goodwill £m
Opening balance	4.9
Acquisition of operations (note 12)	0.9
Charge for the year (note 3)	(0.5)
Provision for impairment (note 3)	(2.0)
Disposal of operations (note 12)	(0.1)
Closing balance	3.2

Goodwill arising on acquisitions is being amortised evenly over the directors' estimate of its useful economic life of 20 years.

The provision for impairment is an exceptional write off of goodwill.

11 Tangible fixed assets

Group

The net book value of land and buildings was as follows:

	2005 £m	2004 £m
Freehold	51.7	53.2
Long leasehold	14.5	15.0
Short leasehold	1.5	1.5
	67.7	69.7

Notes to the accounts

continued

11 Tangible fixed assets continued

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost				
Opening balance	80.0	20.6	13.5	114.1
Exchange differences	0.6	–	–	0.6
Additions	0.7	1.8	2.2	4.7
Disposals	(1.6)	(1.1)	(0.9)	(3.6)
Acquisition of operations (note 12)	0.2	0.1	0.4	0.7
Disposal of operations (note 12)	(0.6)	(5.6)	(0.4)	(6.6)
Closing balance	79.3	15.8	14.8	109.9
Depreciation				
Opening balance	10.3	11.4	8.3	30.0
Charge for the year (note 3)	2.1	1.8	1.4	5.3
Disposals	(0.4)	(0.7)	(0.9)	(2.0)
Disposal of operations (note 12)	(0.4)	(4.7)	(0.3)	(5.4)
Closing balance	11.6	7.8	8.5	27.9
Net book value				
Closing balance	67.7	8.0	6.3	82.0
Opening balance	69.7	9.2	5.2	84.1

12 Investments

Company

	Subsidiary undertakings £m	UK listed investments £m	Other listed investments £m	Other investments £m	Total £m
Opening balance (restated – note 21)					
Cost	143.5	199.4	80.6	162.2	585.7
Provision	(33.6)	(15.0)	(26.4)	(12.6)	(87.6)
Unrealised gains	(28.2)	300.7	107.3	15.1	394.9
Opening valuation	81.7	485.1	161.5	164.7	893.0
Transfer of currency hedge	–	–	(3.8)	–	(3.8)
Additions	1.2	25.7	7.4	89.5	123.8
Disposals					
Proceeds	(1.0)	(78.7)	(62.0)	(76.0)	(217.7)
Realised gains	0.1	30.9	45.8	13.6	90.4
Group reorganisation	(1.1)	–	1.1	–	–
Capital distributions	(4.0)	–	–	–	(4.0)
Reclassifications	–	–	(1.3)	1.3	–
Movement in provision	–	15.0	–	–	15.0
Movement in unrealised gains	5.3	26.2	1.0	22.2	54.7
Closing valuation	82.2	504.2	149.7	215.3	951.4
Closing balance					
Cost	138.7	177.3	67.6	194.6	578.2
Provision	(33.6)	–	(26.4)	(12.6)	(72.6)
Unrealised gains	(22.9)	326.9	108.5	33.3	445.8
Closing valuation	82.2	504.2	149.7	215.3	951.4

Included in subsidiary undertakings are loans of £15.8m (2004 – £15.7m).

12 Investments continued

The group reorganisation represents the distribution of assets from a subsidiary undertaking and the liquidation of that subsidiary undertaking.

Group

	UK listed investments £m	Other listed investments £m	Other investments £m	Total £m
Opening balance (restated – note 21)				
Cost	298.2	171.6	196.3	666.1
Provision	(15.0)	(26.4)	(11.6)	(53.0)
Unrealised gains	202.2	20.8	(5.6)	217.4
Opening valuation	485.4	166.0	179.1	830.5
Exchange differences	–	(0.1)	(0.3)	(0.4)
Additions	25.8	7.4	94.0	127.2
Disposals				
Proceeds	(78.6)	(62.1)	(76.0)	(216.7)
Realised gains	30.9	45.8	13.6	90.3
Reclassifications	(0.5)	(1.8)	2.3	–
Movement in unrealised gains	26.2	0.6	29.7	56.5
Movement in provision	15.0	–	–	15.0
Transfers	–	(3.8)	(0.1)	(3.9)
Closing valuation	504.2	152.0	242.3	898.5
Closing balance				
Cost	274.3	165.9	233.0	673.2
Provision	–	(26.4)	(11.6)	(38.0)
Unrealised gains	229.9	12.5	20.9	263.3
Closing valuation	504.2	152.0	242.3	898.5

Principal subsidiaries and other investments

The directors consider that to give full particulars of all subsidiaries and other investments in which the group held more than 20% would lead to a statement of excessive length. The details given below relate only to those interests that, in the opinion of the directors, significantly affected the profits or assets shown in these financial statements.

The following table lists subsidiary undertakings and other investments under the country of registration (or incorporation) which is also the country of operation, except for The Edinburgh Crystal Glass Company Ltd, whose operations are in Scotland and Easybox SCA, whose operations are in Spain and Italy:

Name	Country	Type of holding	Group share %	Activity
Subsidiary undertakings				
Amber Industrial Holdings PLC	England	Ordinary	100	Speciality chemicals
		Preference	100	
Caledonia Group Services Ltd	England	Ordinary	100 ¹	Management services
Easybox SCA	Luxembourg		99.2 ¹	Self storage
The Edinburgh Crystal Glass Company Ltd	England	Ordinary	92.9 ¹	Crystal glass manufacture
		Preference	100 ¹	
Edinmore Holdings Ltd	England	Ordinary	100	Property trading
St Lawrence Properties Ltd	England	Ordinary	75.0 ¹	Property
The Sloane Club Holdings Ltd	England	Ordinary	100 ¹	Residential club
Sterling Industries PLC	England	Ordinary	100	Engineering
		Preference	79.9	
Other significant holdings				
Close Brothers Group plc	England	Ordinary	12.5 ¹	Merchant banking
Kerzner International Ltd	Bahamas	Ordinary	10.1 ¹	Resort owner/operator

1. Held directly by the company.

Notes to the accounts

continued

12 Investments continued

Acquisitions

During the year, the group spent £2.6m on a number of small acquisitions. These purchases were accounted for using the acquisition method. There were no differences between the book values and fair values of assets acquired. The fair values, attributable to the net tangible assets on acquisition were as follows:

	£m
Fixed assets	0.7
Stocks	1.1
Cash	0.2
Creditors	(0.4)
Net assets acquired	1.6
Minority interest	0.1
Goodwill arising on acquisitions	0.9
Consideration	2.6

The consideration was discharged by cash of £2.4m and a transfer from investments of £0.2m.

Disposals

During the year, the group made a number of small disposals of certain of its operations for £3.3m, as follows:

	£m
Fixed assets	1.3
Stocks	1.4
Debtors	0.4
Creditors	(0.2)
Net assets disposed	2.9
Goodwill	0.5
Minority interests	(0.1)
Associated costs	0.6
Loss on disposals	(0.6)
Consideration	3.3

£3.3m of the consideration was settled in cash, £0.1m remains payable and £0.1m remains receivable.

13 Stocks

	Group	
	2005 £m	2004 £m
Raw materials and consumables	4.1	4.1
Work in progress	1.9	2.1
Finished goods and goods for resale	9.4	7.9
Property and other assets held for resale	7.9	12.3
	23.3	26.4

Work in progress is shown net of payments on account of £0.3m (2004 – £0.6m).

14 Debtors

	Company		Group	
	2005 £m	Restated 2004 £m	2005 £m	2004 £m
Trade debtors	–	0.5	21.4	21.7
Amounts owed by subsidiary undertakings	1.8	2.3	–	–
Investments sold	–	0.8	0.1	0.8
Overseas tax recoverable	–	–	–	0.3
Corporation tax recoverable	0.8	2.8	1.9	3.8
Group relief receivable	1.4	1.3	–	–
Other taxes and social security costs	–	–	0.6	0.9
Other debtors	1.4	–	3.6	2.1
Pension prepayments	–	–	0.1	0.1
Other prepayments and accrued income	4.0	5.0	6.9	6.9
	9.4	12.7	34.6	36.6

Included in the group's other debtors is an amount of £1.4m (2004 – £1.4m) which is due after more than one year.

15 Borrowings

	Company		Group	
	2005 £m	2004 £m	2005 £m	2004 £m
Due within one year				
Bank overdrafts	–	–	2.9	4.1
Bank loans	–	–	0.1	0.2
	–	–	3.0	4.3
Due after more than one year				
Bank loans	–	–	37.9	37.5
Variable rate unsecured loan notes 2010	–	4.8	–	4.8
	–	4.8	37.9	42.3
Total borrowings	–	4.8	40.9	46.6
Borrowings are repayable				
Within one year	–	–	3.0	4.3
Between one and two years	–	–	13.4	2.2
Between two and five years	–	–	24.5	35.3
After five years	–	4.8	–	4.8
	–	4.8	40.9	46.6

The variable rate unsecured loan notes 2010 were redeemed during the year.

Bank loans of £33.7m (2004 – £36.8m) were secured by charges over group properties and other assets.

16 Other creditors falling due within one year

	Company		Group	
	2005 £m	2004 £m	2005 £m	2004 £m
Contract payments on account	–	–	1.4	0.5
Trade creditors	–	–	9.8	9.0
Amounts owed to subsidiary undertakings	11.4	2.8	–	–
Investments purchased	2.7	1.5	2.7	1.5
Corporation tax	–	0.6	9.6	10.5
Overseas tax	–	–	0.4	0.1
Other taxes and social security costs	–	–	1.3	1.1
Other creditors	0.8	–	1.7	0.8
Other accruals and deferred income	0.1	0.2	12.8	13.1
Dividends payable	12.4	13.4	12.4	13.4
	27.4	18.5	52.1	50.0

Notes to the accounts

continued

17 Deferred taxation

	Company		Group	
	2005 £m	2004 £m	2005 £m	2004 £m
Accelerated capital allowances	–	–	1.6	1.4
Other timing differences	–	–	(0.6)	0.1
Losses	–	–	(0.3)	–
	–	–	0.7	1.5
Movement in deferred taxation				
Opening balance	–	–	1.5	1.4
Credited to the profit and loss account	–	–	(0.5)	0.1
Transfer to creditors	–	–	(0.3)	–
Closing balance	–	–	0.7	1.5

18 Financial instruments

An explanation of the group's objectives, policies and strategies in using financial instruments and the risks that arise in connection with financial instruments and how they are managed can be found in the financial review under the headings of 'Treasury operations and controls' to 'Foreign currency risk' on pages 25 and 26.

Interest rate risk profile

The interest rate profile of the financial liabilities of the group was as follows:

	Floating rate financial liabilities £m	Fixed rate financial liabilities			Total £m
		Amount £m	Weighted average interest rate %	Weighted average time rate is fixed Years	
2005					
Sterling	39.2	0.1	13.0	2.3	39.3
US dollar	0.2	0.6	6.6	1.4	0.8
Euro	0.7	0.1	4.8	4.8	0.8
	40.1	0.8	6.9	1.8	40.9
2004					
Sterling	45.5	0.2	13.0	3.8	45.7
US dollar	–	0.7	6.8	1.6	0.7
Euro	0.1	0.1	4.8	4.8	0.2
	45.6	1.0	8.0	1.8	46.6

The interest rate profile of the financial assets of the group was as follows:

	Floating rate financial assets £m	Fixed rate financial assets			No interest financial assets £m	Total £m
		Amount £m	Weighted average interest rate %	Weighted average time rate is fixed Years		
2005						
Sterling	12.7	51.0	5.5	1.6	824.5	888.2
Euro	2.4	–	–	–	30.9	33.3
Hong Kong dollar	–	–	–	–	15.7	15.7
Indian rupee	–	–	–	–	8.4	8.4
Other	1.2	–	–	–	3.0	4.2
	16.3	51.0	5.5	1.6	882.5	949.8
2004 (restated – note 21)						
Sterling	50.4	11.6	8.6	2.9	711.8	773.8
US dollar	3.0	–	–	–	88.5	91.5
Hong Kong dollar	–	–	–	–	10.7	10.7
Euro	1.4	–	–	–	4.7	6.1
Other	–	–	–	–	7.1	7.1
	54.8	11.6	8.6	2.9	822.8	889.2

18 Financial instruments continued

The 'no interest' financial assets do not have a maturity date. They principally comprised equity investments.

Currency risk profile

The table below shows the group's transactional currency exposures that gave rise to the net currency gains and losses recognised in the profit and loss account. These exposures comprised the monetary assets less monetary liabilities of the group that were not denominated in the operating currency of the reporting units involved.

Functional currency of group operation	Sterling £m	Net foreign US dollar £m	currency Euro £m	monetary net assets Other £m	Total £m
2005					
Sterling	–	3.1	0.8	0.2	4.1
US dollar	1.2	–	–	–	1.2
	1.2	3.1	0.8	0.2	5.3
2004					
Sterling	–	1.9	1.5	0.2	3.6
US dollar	1.0	–	15.6	–	16.6
	1.0	1.9	17.1	0.2	20.2

Liquidity risk profile

The maturity profile of the group's financial liabilities, other than short term creditors, was as follows:

	2005 £m	2004 £m
In one year or less or on demand	3.0	4.3
In more than one year but not more than two years	13.4	–
In more than two years but not more than five years	24.5	37.5
In more than five years	–	4.8
	40.9	46.6

The group had undrawn committed facilities available at the year end in respect of which all conditions precedent had been met as follows:

	2005 £m	2004 £m
Expiring in one year or less	32.7	70.0
Expiring in more than one year but not more than two years	54.0	–
Expiring in more than two years but not more than five years	–	144.7
	86.7	214.7

Fair values

The table below compares the book values and fair values of the group's financial assets and financial liabilities:

	2005		Restated 2004	
	Book values £m	Fair values £m	Book values £m	Fair values £m
Investments	898.5	898.5	826.7	826.7
Forward currency contracts	0.7	0.7	3.8	3.8
Cash and deposits	51.3	51.3	54.8	54.8
Short term borrowings and current portion of long term borrowings	(3.0)	51.3	(4.3)	(4.3)
Long term borrowings	(37.9)	(37.9)	(42.3)	(42.3)

Notes to the accounts

continued

18 Financial instruments continued

Hedging

The gains on currency hedging activities and the fair value of the gain recognised in realised and unrealised reserves at 31 March 2005 was as follows:

	2005 £m	2004 £m
Gains recognised in realised reserves	8.8	–
Gains recognised in unrealised reserves	0.7	3.8

£8.8m of the currency gains in 2005 related to contracts in place at 31 March 2004. Of the currency hedging gains recognised in unrealised reserves at 31 March 2005, £0.7m related to the year ending 31 March 2006 (2004 – £3.8m related to the year ending 31 March 2005).

The gains and losses of interest caps and floors during the year and the value at the year end is immaterial.

19 Share capital and premium

	Share capital £m	Share premium account £m
Opening balance	4.0	1.3
Cancellation of shares	(0.4)	–
Closing balance	3.6	1.3

The authorised and issued and fully paid amounts of share capital were as follows:

	2005 000's	Number 2004 000's	Nominal value 2005 £m	2004 £m
Authorised				
Ordinary shares of 5p each	112,592	121,000	5.6	6.1
Deferred ordinary shares of 5p each	8,000	8,000	0.4	0.4
			6.0	6.5
Allotted, issued and fully paid				
Ordinary shares of 5p each	64,206	72,613	3.2	3.6
Deferred ordinary shares of 5p each	8,000	8,000	0.4	0.4
			3.6	4.0

The deferred ordinary shares carry no voting rights. The deferred ordinary shares carry the right to a fixed cumulative preference dividend of 1% per annum (exclusive of any associated tax credit) of the nominal value of such deferred ordinary shares, being 0.05p per share or £4,000 in aggregate for all such shares currently in issue. On a winding-up or other return of capital, the deferred ordinary shares carry the right to the payment of the amount paid up on such shares only after holders of the ordinary shares have received the sum of £100,000 in respect of each such ordinary share. All of the deferred shares are held by Sterling Industries PLC, a wholly owned subsidiary undertaking of Caledonia.

By a special resolution of the company passed on 11 June 2004 and confirmed by an order of the High Court of Justice in England and Wales dated 29 June 2004, the authorised and issued share capital of the company was reduced by £420,384, being the nominal amount of the 8,407,676 ordinary shares on which shareholders elected to receive the special dividend referred to in note 20, which were then cancelled.

Authority to purchase own shares

On 11 June 2004, the company obtained shareholders' approval for the authority to make market purchases of up to 7,260,000 of its own ordinary shares, being approximately 10% of the ordinary share capital then in issue, at a price not more than 5% greater than the average of the middle market quotations for such ordinary shares during the five business days preceding any such purchase. The authority expires on 1 January 2006 or, if earlier, at the conclusion of the next annual general meeting.

On the same date, independent shareholders gave their approval for a waiver by the Panel on Takeovers and Mergers of the obligation that could arise on the Cayzer concert party under Rule 9 of the City Code on Takeovers and Mergers to make a general offer for Caledonia on the implementation by the company of the above authority to purchase its own shares. The approval was subject to a maximum percentage of voting rights held by the concert party not exceeding 49.9% of the issued ordinary share capital of the company as a result of the exercise by the company of the authority to purchase its own ordinary shares. This waiver expires on 11 June 2005.

Pursuant to the above authority, the company purchased 100,000 of its ordinary shares on 22 July 2004 at a price of 1015p per share. These shares are held in treasury, as set out in note 21.

19 Share capital and premium *continued*

Options

The company has share option schemes and special option arrangements under which options to acquire shares in the company have been granted to certain executives, exercisable between three and ten years from the date of grant. Options outstanding at 31 March 2005 were as follows:

Date of grant	Number of shares under option	Exercise price
22 Jun 1995	3,000	653.0p
18 Apr 1996	132,400	781.0p
31 Jul 1996	17,000	745.0p
16 Jul 1997	21,000	677.5p
18 Jul 1997	1,000	657.0p
2 Sep 1998	115,000	740.0p
26 Jul 1999	42,334	757.5p
19 Jul 2000	72,249	722.5p
24 Jul 2001	112,501	810.0p
5 Jul 2002	205,500	782.5p
20 Nov 2003	198,700	945.0p
26 May 2004	163,600	1055.0p

20 Reserves

Company

	2005 £m	Restated 2004 £m
Non-distributable reserves		
Capital redemption reserve	1.2	1.2
Capital reserve – realised	174.2	61.9
Capital reserve – unrealised	446.5	394.9
	621.9	458.0
Distributable reserves		
Special reserve	283.3	379.5
Revenue reserve	72.0	72.4
	355.3	451.9

The movement in the reserves was as follows:

	Capital redemption reserve £m	Capital reserve realised £m	Capital reserve unrealised £m	Special reserve £m	Revenue reserve £m
Opening balance	1.2	61.9	394.9	379.5	71.8
Prior year adjustment (note 21)	–	–	–	–	0.6
	1.2	61.9	394.9	379.5	72.4
Realised gains on sale of investments	–	90.4	(90.4)	–	–
Movement in foreign currency hedge	–	8.8	(3.1)	–	–
Taxation	–	(1.9)	–	–	–
Movement in provision against investments	–	15.0	–	–	–
Revaluation of investments	–	–	145.1	–	–
Cancellation of shares	–	–	–	0.4	–
Elective special dividend	–	–	–	(88.0)	–
Employee share trust	–	–	–	–	(0.4)
Profit for the financial year	–	–	–	–	9.3
Dividends	–	–	–	(8.6)	(9.3)
Closing balance	1.2	174.2	446.5	283.3	72.0

The special reserve arose as a result of a capitalisation issue and subsequent Court approved reduction of capital undertaken in 2003. The elective special dividend of £88.0m was paid on 2 July 2004 on the 8,407,676 ordinary shares on which shareholders elected to receive such dividend. These shares were cancelled pursuant to a Court approved reduction of capital.

The profit for the year dealt with in the financial statements of Caledonia Investments plc was £9.3m (2004 – £8.9m).

Notes to the accounts

continued

20 Reserves continued

Group

	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m
Opening balance	1.2	270.7	665.3
Prior year adjustment (note 21)	–	(0.1)	0.3
	1.2	270.6	665.6
Exchange differences	–	1.6	(1.8)
Realised gains on sale of investments	–	(90.3)	90.3
Movement in foreign currency hedge	–	(3.1)	8.8
Revaluation of investments	–	146.8	–
Elective special dividend	–	–	(88.0)
Taxation	–	–	(2.2)
Movement in provision against investments	–	–	15.0
Goodwill on disposals written back	–	–	0.5
Minority interests	–	(0.2)	–
Cancellation of shares	–	–	0.4
Employee share trust	–	–	(0.4)
Retained loss for the year	–	–	(12.1)
Closing balance	1.2	325.4	676.1

The cumulative amount of positive goodwill written off at 31 March 2005 was £5.5m (2004 – £6.0m).

21 Own shares

	Employee share trust £m	Company Treasury shares £m	Total £m	Employee share trust £m	Group Treasury shares £m	Shares held by subsidiary £m	Total £m
Opening balance	–	–	–	–	–	–	–
Prior year adjustment	4.2	–	4.2	4.2	–	0.4	4.6
Opening balance as restated	4.2	–	4.2	4.2	–	0.4	4.6
Net purchase of shares	3.9	1.0	4.9	3.9	1.0	–	4.9
Closing balance	8.1	1.0	9.1	8.1	1.0	0.4	9.5

At 31 March 2005, the trustee of the Caledonia Investments Employee Share Trust held 709,748 ordinary shares, with a market value of £9.7m (2004 – 524,150 shares, market value £5.3m).

Prior year adjustments for UITF 37 and UITF 38

The balance sheet at 31 March 2004 has been restated following the adoption of UITF 37 'Purchases and Sales of Own Shares' and UITF 38 'Accounting for ESOP Trusts'. The impact on the company at 31 March 2004 has been to reduce fixed asset investments by £3.9m, being the carrying value of shares held by the employee share trust, increase debtors by £0.3m, being assets in the employee share trust, increase the revenue reserve by £0.6m, being the provision charged against own shares and other assets held by the employee share trust, and deduct the net £4.2m from shareholders' funds. The impact on the group is the same as for the company except for the restatement of debtors. In addition, £0.5m has been deducted from fixed asset investments, £0.1m written off the revaluation reserve and £0.4m deducted from shareholders' funds, being the book cost of own shares held by a subsidiary undertaking.

22 Net asset value per ordinary share

The company's net asset value per ordinary share is based on the number of ordinary shares in issue, less shares held by the Caledonia Investments plc Employee Share Trust and shares held in treasury, as follows:

	2005 000's	2004 000's
Ordinary shares in issue	64,206	72,613
Employee share trust shares	(710)	(524)
Treasury shares	(100)	–
Adjusted ordinary shares in issue	63,396	72,089

Net asset value per share has also been based on the company's net assets, both before and after deducting the accrual for the proposed final dividend, as follows.

	2005 £m	Restated 2004 £m
Net assets before the final dividend accrual	985.4	924.4
Accrual for proposed final dividend	(12.4)	(13.4)
Net assets after final dividend accrual	973.0	911.0

23 Reconciliation of shareholders' funds

Group

	2005 £m	Restated 2004 £m
Total recognised gains and losses for the financial year	170.7	270.0
Dividends	(17.9)	(19.4)
	152.8	250.6
Elective special dividend	(88.0)	–
Movement in own shares	(5.3)	(0.5)
Goodwill written back on transfer of associates to investments	–	36.4
Goodwill on disposals written back	0.5	–
Net movement in shareholders' funds	60.0	286.5
Opening balance of shareholders' funds	938.1	651.6
Closing balance of shareholders' funds	998.1	938.1

24 Segmental analysis

By geographical area

	Turnover by destination £m	Turnover by origin £m	Profit before tax £m	Net assets £m
2005				
United Kingdom	53.8	63.9	5.6	707.4
Continental Europe	27.9	20.5	(1.1)	75.6
North America	32.4	32.3	1.6	180.4
Rest of the world	8.6	6.0	0.5	35.8
	122.7	122.7	6.6	999.2
2004 (restated)				
United Kingdom	62.3	69.0	7.7	685.6
Continental Europe	26.2	21.7	(1.1)	44.1
North America	26.4	27.9	(1.8)	190.5
Rest of the world	10.9	7.2	1.3	19.0
	125.8	125.8	6.1	939.2

By activity

The group has investment and trading operations. The investment segment had profits of £5.7m (2004 – £4.9m) and net assets of £869.2m (2004 – £810.3m) and the trading segment had profits of £0.9m (2004 – £1.2m) and net assets of £130.0m (2004 – £128.9m).

Notes to the accounts

continued

25 Reconciliation of operating profit to operating cash flows

	Company		Group	
	2005 £m	2004 £m	2005 £m	2004 £m
Operating profit	8.5	9.9	(9.0)	(11.5)
Income from investments	–	–	16.5	17.3
Interest receivable	–	–	0.9	1.1
Depreciation and amortisation	–	–	7.8	7.4
Investment income and interest accruals decrease	0.7	(1.0)	0.7	(0.9)
Stocks decrease	–	–	1.6	(6.1)
Debtors decrease	0.7	0.3	0.4	(1.2)
Creditors decrease	(1.7)	(6.1)	0.8	(6.3)
Net cash inflow from operating activities	8.2	3.1	19.7	(0.2)

26 Management of liquid resources

In the current and prior years, liquid resources comprised term deposits with a maturity of less than one year.

27 Analysis of changes in net funds

Company

	Opening balance £m	Cash flow £m	Closing balance £m
Cash at bank and in hand	6.0	(2.8)	3.2
Short term deposits	32.8	3.6	36.4
Debt due after more than one year	(4.8)	4.8	–
	34.0	5.6	39.6

Group

	Opening balance £m	Cash flow £m	Acquisitions £m	Exchange differences £m	Closing balance £m
Cash at bank and in hand	14.6	(1.7)	0.2	–	13.1
Bank overdrafts	(4.1)	1.2	–	–	(2.9)
	10.5	(0.5)	0.2	–	10.2
Short term deposits	40.2	(2.0)	–	–	38.2
Debt due within one year	(0.2)	0.1	–	–	(0.1)
Debt due after more than one year	(42.3)	4.8	–	(0.4)	(37.9)
	8.2	2.4	0.2	(0.4)	10.4

28 Capital commitments

	Company		Group	
	2005 £m	2004 £m	2005 £m	2004 £m
Tangible assets				
Contracted but not delivered	–	–	0.2	1.6
Investments				
Contracted but not called	51.8	40.4	51.8	40.4
Conditionally contracted	–	30.6	–	30.6
	51.8	71.0	52.0	72.6

29 Operating lease commitments

Group

Commitments in the next year under non-cancellable operating leases were as follows:

	Land and buildings 2005 £m	2004 £m	Other 2005 £m	2004 £m
Operating leases which expire				
Within one year	0.1	0.1	0.1	0.1
Within two to five years	0.4	0.4	0.2	0.4
In over five years	1.8	1.8	–	–
	2.3	2.3	0.3	0.5

30 Contingent liabilities

The company and certain subsidiaries have entered into cross guarantees in respect of group banking arrangements and VAT grouping.

31 Related party transactions

Transactions with related parties, as defined by FRS 8 are described below.

Administration fees of £0.1m (2004 – £0.1m) were receivable from The Cayzer Trust Company Ltd, which held 33.3% of the issued ordinary share capital of the company at 31 March 2005 (2004 – 37.8% held by Cayzer Ltd, formerly named The Cayzer Trust Company Ltd). £4.7m of the variable rate unsecured loan notes 2010 was held by Cayzer Ltd in 2004, and repaid during the year, on which £0.2m of interest was paid in 2004. Dividends were payable to Cayzer family members, trusts and controlled companies who, together, held 45.7% of the issued ordinary share capital of Caledonia at 31 March 2005 (2004 – 49.3%).

Included in normal business transactions was a management fee of £0.1m (2004 – £0.1m) payable to Landsdown Ltd, which owned 25% of St Lawrence Properties Ltd, and in which the group has a 50% interest.

Messrs J M B Cayzer-Colvin and W P Wyatt, relatives of certain directors of the company during the year, are directors of some group companies.

Cayzer Ltd and certain other members of the Cayzer concert party elected to receive the special dividend paid on 2 July 2004 and for those shares on which the special dividend was paid to be cancelled pursuant to the Court approved reduction of capital. The total amount paid to these members of the Cayzer concert party was £65.2m, in respect of which 6,223,214 shares were cancelled.

32 Pensions

The group operates a number of pension schemes in the UK, USA and Germany. The principal schemes, based in the UK, are the Caledonia, Sterling, Amber and Edinburgh Crystal pension schemes. These schemes are of the defined benefits type, with assets held in separate trustee administered funds. Contributions to the schemes are made in accordance with the recommendations of the schemes' actuaries. In addition, contributions are made to independently operated personal pension plans.

For the year ended 31 March 2005, the total pension cost for the group was £3.4m (2004 – £2.5m).

Pension cost relating to the principal UK defined benefit schemes is assessed in accordance with the advice of qualified actuaries, using the attained age and projected unit methods. The latest actuarial valuations of the Caledonia, Sterling, Amber and Edinburgh Crystal pension schemes (which are now closed to new members) were at 31 March 2003, 1 October 2002, 6 April 2003 and 31 March 2002 respectively. The main actuarial assumptions made in the valuations were that long term investment returns would be 0.25% to 3.60% per annum higher than the annual increase in pensionable salaries and that pensions would increase at the lesser of 5% per annum or the increase in the Retail Price Index.

The market value of the assets on the dates of the most recent actuarial valuations for the Caledonia, Sterling, Amber and Edinburgh Crystal schemes totalled £10.5m, £6.9m, £3.1m and £4.6m respectively. The levels of funding for the schemes shown by the valuations, being the actuarial value of assets expressed as a percentage of accrued benefits at the valuation date, allowing for expected future increases in salaries, were 62% for Caledonia, 67% for Sterling, 53% for Amber and 91% for Edinburgh Crystal. To address these funding shortfalls, revised schedules of contributions have been entered into between the trustees and the participating employers of each of the schemes on the advice of the schemes' actuaries. The schedules of contributions, other than in relation to Edinburgh Crystal, include lump sum payments in addition to increased percentages of pensionable salaries.

The above actuarial valuations showed an aggregated deficit of £13.0m.

Notes to the accounts

continued

32 Pensions continued

FRS17 disclosures

Although the company continues to account for pension costs in accordance with SSAP 24 'Accounting for Pension Costs', the following transitional disclosures are made in accordance with FRS 17 'Retirement Benefits'.

The group operates a number of defined benefit pension schemes. The principal schemes, based in the UK and USA, are the Caledonia, Sterling, Amber and Edinburgh Crystal pension schemes. Where appropriate, this note presents an aggregation of information for these schemes.

Full actuarial valuations of the Caledonia, Sterling, Amber and Edinburgh Crystal schemes were carried out at 31 March 2003, 1 October 2002, 6 April 2003 and 31 March 2002 respectively. FRS 17 based analyses of the schemes at 31 March 2005 have been prepared by independent qualified actuaries.

All of the principal schemes are now closed to new members. As a consequence, under the projected unit method, the current service costs will increase as the members of the schemes approach retirement.

The major assumptions used by the actuaries in valuing the schemes' liabilities were as follows:

	2005 %	2004 %	2003 %
Rate of increase in salaries	4.3	4.5	4.3
Rate of increase in pensions in payment	3.0	3.0	3.0
Discount rate	5.4	5.6	5.6
Inflation rate	3.0	3.0	3.0

The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were as follows:

	Long term return expected at Mar 05 %	Valuation at Mar 05 £m	Long term return expected at Mar 04 %	Valuation at Mar 04 £m	Long term return expected at Mar 03 %	Valuation at Mar 03 £m
Company						
Equities	8.3	10.4	8.5	10.1	9.0	7.3
Bonds	5.0	0.8	5.0	0.9	4.8	0.9
Other	4.8	3.5	4.8	1.3	4.6	1.6
Total market value of assets		14.7		12.3		9.8
Present value of scheme's liabilities		(16.6)		(15.6)		(14.8)
Deficit in the scheme		(1.9)		(3.3)		(5.0)
Related deferred tax asset		0.6		1.0		1.5
Net pension liability		(1.3)		(2.3)		(3.5)
Group						
Equities	8.0	32.2	8.1	30.3	8.2	22.7
Bonds	4.9	3.3	5.0	3.3	4.8	2.7
Other	4.8	5.5	4.4	2.6	6.1	4.3
Total market value of assets		41.0		36.2		29.7
Present value of schemes' liabilities		(55.2)		(51.6)		(48.5)
Deficit in the schemes		(14.2)		(15.4)		(18.8)
Related deferred tax asset		4.2		4.6		5.6
Net pension liability		(10.0)		(10.8)		(13.2)

32 Pensions continued

The analysis of movements within the group's schemes was as follows:

	2005 £m	2004 £m	2003 £m
Analysis of amount charged to operating profit			
Current service cost	1.2	1.5	1.6
Settlements and curtailments	0.1	–	–
Total operating charge	1.3	1.5	1.6
Analysis of amount credited to other finance income			
Expected return on pension schemes' assets	2.8	2.2	3.0
Interest on pension schemes' liabilities	(2.8)	(2.7)	(2.7)
Net return	–	(0.5)	(0.3)
Analysis of amount recognised in statement of total recognised gains and losses			
Actual return less expected return on pension schemes' assets	1.1	4.4	(11.8)
Experience gains and losses arising on the schemes' liabilities	–	3.0	3.5
Changes in assumptions underlying the present value of schemes' liabilities	(0.9)	(3.4)	(5.0)
Actuarial gain recognised in statement of total recognised gains and losses	0.2	4.0	(13.3)
Movement in deficit during the year			
Deficit in schemes at the beginning of the year	(15.4)	(18.8)	(5.3)
Movement in the year			
Current service cost	(1.2)	(1.5)	(1.6)
Contributions	2.3	1.4	1.1
Settlements and curtailments	(0.1)	–	–
Other finance income	–	(0.5)	0.3
Actuarial surplus	0.2	4.0	(13.3)
Deficit in schemes at the end of the year	(14.2)	(15.4)	(18.8)
History of experience gains and losses			
Difference between the expected and actual return on schemes' assets			
Amount	1.1	4.4	(11.8)
Percentage of schemes' assets	3%	12%	-40%
Experience gains and losses on schemes' liabilities			
Amount	–	3.0	3.5
Percentage of the present value of the schemes' liabilities	–	6%	7%
Total amount recognised in statement of total recognised gains and losses			
Amount	0.2	4.0	(13.3)
Percentage of the present value of the schemes' liabilities	–	8%	-27%

33 Capital gains tax

As stated in the Dun & Bradstreet Capital Gains Tax Service, the market value of the company's ordinary shares at 31 March 1982, adjusted for the capitalisation issue in August 1982 and the sub-division in July 1984, was 65.90909p.

Investor information

Dividends

Shareholders 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 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 should notify Capita Registrars at the address given above, under the signature of the registered holder.

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	29 June 2005
Dividend record date	1 July 2005
Annual general meeting	13 July 2005
Final dividend paid	28 July 2005
Interim results announced	November 2005
Interim report published	November 2005
Interim dividend paid	January 2006
Annual results announces	May 2006
Annual report published	June 2006

Caledonia Investments ISA

The Caledonia Investments Individual Savings Account ('ISA') is a tax efficient savings account that allows you to invest up to £7,000 each tax year until April 2006 and £5,000 thereafter. 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, which can be contacted at Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0GA or telephone 020 7556 8800.

Documentation for ISA is 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 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.