CALEDONIA
INVESTMENTS

Performance driven

Annual report 2006
Year ended 31 March 2006

identify
invest
involve

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

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

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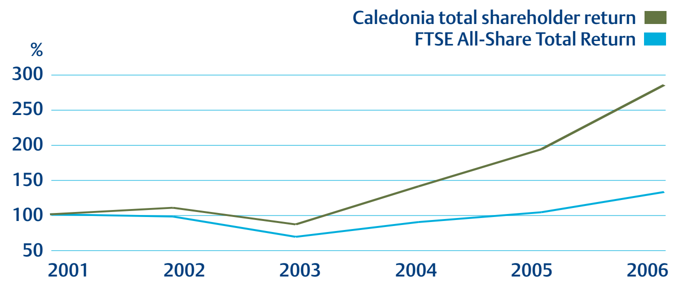
	31 March 2006	31 March 2005	Change %
Total shareholders' funds	**£1,307m**	£978m	33.6
Net asset value per ordinary share	**2061p**	1543p	33.6
Share price	**1980p**	1367p	44.8
Discount	**3.9%**	11.4%	65.8
FTSE All-Share index	**3048**	2458	24.0
Annual dividend per ordinary share	**29.6p**	28.2p	5.0

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

Performance

	10 year %	5 year %	1 year %
Share price total return	302.0	183.8	147.5
FTSE All-Share Total Return	123.4	31.7	128.0
Total return outperformance	178.6	152.1	19.5

Total shareholder return growth over five years



302%
Share price total return over ten years

179%
Outperformance against the FTSE All-Share Total Return index

184%
Share price total return over five years

152%
Outperformance against the FTSE All-Share Total Return index

33.6%
NAV per share increase over the year

9.6%
Outperformance against the FTSE All-Share index

5.0%
Increase in annual dividend – 39 years of increases

What we do

Caledonia's strategy is to identify opportunities through our extensive network, to invest in significant stakes for the long term and to involve ourselves with the managements of investee companies. We aim to be a long term supportive shareholder with investments in a number of businesses that we believe will deliver shareholder value over the medium to longer term. Our initial investment commitments range typically between £10m and £25m.

Our approach attracts a flow of investment opportunities not always available to others. We back proven management teams and look for opportunities where our investment style and involvement will be welcome.

identify

Identify investment opportunities

Caledonia's reputation, size and extensive network gives us a flow of investment opportunities. This enables us to be highly selective in the businesses that we back. We use our experience and expertise to analyse potential investments and we will take particular care in appraising the track record and commitment of potential investee management teams.

invest

Invest in significant stakes for the longer term

Caledonia holds a portfolio of significant stakes in listed and unlisted companies. We are opportunistic, with investments in a range of sectors and territories. We usually seek substantial minority stakes but will invest for a majority holding if we believe this to be in the best interests of shareholders.

involve

Involvement with investee management teams

Caledonia is a supportive investor, working in partnership with the management teams of investee companies to assist in maximising the potential of their businesses. We usually have a Caledonia executive on the board of investee companies.

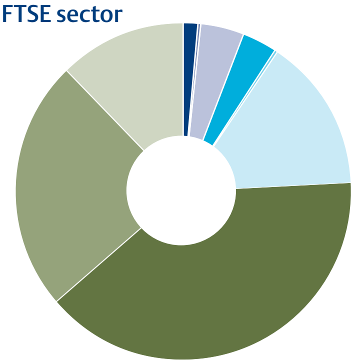
Our portfolio

Name	Equity holding %	Country of incorporation	Nature of business	Total £m	Proportion of net assets %
Close Brothers[1,2]	12.3	UK	Merchant banking	191.9	14.7
British Empire Securities[1,2]	18.3	UK	Investment trust company	141.7	10.8
Kerzner International[1,2]	8.0	Bahamas	Resorts owner/operator	131.1	10.0
Quintain Estates & Development[1]	7.0	UK	Property holding and development	61.0	4.7
Rathbone Brothers[1,2]	11.1	UK	Fund management	53.6	4.1
Sterling Industries[2]	100	UK	Engineering	33.1	2.5
Polar funds[2]		Ireland/Cayman	Hedge and long-only funds	30.2	2.3
Cobepa[2]	9.4	Belgium	Investment company	30.1	2.3
Savills[1,2]	2.9	UK	Property agency	24.1	1.8
Bristow Group[1,2]	5.6	US/UK	Helicopter services	24.0	1.8
Oval Financial[2]	32.3	UK	Insurance services	23.8	1.8
Edinmore[2]	100	UK	Property trading and investment	21.5	1.6
Melrose Resources[1]	7.5	UK	Oil and gas exploration	21.4	1.6
Eddington Triple Alpha Fund[2]		Cayman	Fund of hedge funds	20.5	1.6
India Capital Growth Fund[1,2]	22.0	Guernsey	Investment company	18.0	1.4
Satellite Information Services[2]	24.3	UK	Betting information distribution	18.0	1.4
Incisive Media[1,2]	10.5	UK	Publishing	18.0	1.4
Alok Industries[1,2]	11.8	India	Textiles	17.7	1.4
A G Barr[1]	9.4	UK	Soft drinks	17.7	1.4
Polar Capital Partners[2]	24.6	UK	Fund management	15.2	1.2
Buckingham Gate[2]	100	UK	Property holding	13.5	1.0
Other investments				221.9	17.0
Total investments				1,148.0	87.8
Net liquid assets				159.0	12.2
Net assets				1,307.0	100.0

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

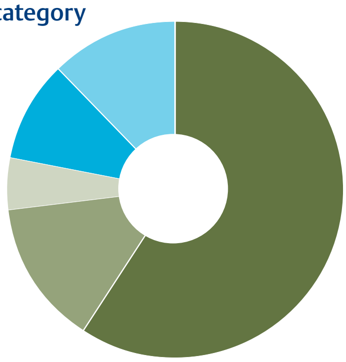
The table above shows holdings representing 1% or more of net assets.

Net assets by FTSE sector



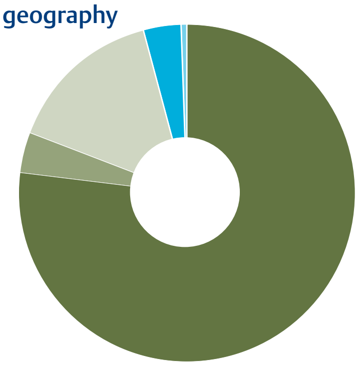
	£m	%
Oil and gas	21.4	1.6
Basic materials	3.5	0.3
Industrials	55.3	4.2
Consumer goods	40.4	3.1
Healthcare	6.1	0.5
Consumer services	192.3	14.7
Financials (ex inv co)	514.5	39.4
Investment companies	314.5	24.0
Net liquid assets	159.0	12.2
Total	1,307.0	100.0

Net assets by category



	£m	%
Equities quoted	773.4	59.2
Equities unquoted	183.3	14.0
Loans and fixed income	66.3	5.0
Hedge and other funds	125.0	9.6
Net liquid assets	159.0	12.2
Total	1,307.0	100.0

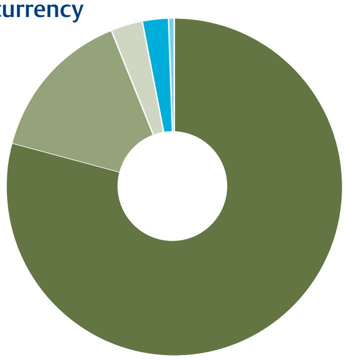
Net assets by geography



	£m	%
United Kingdom	1,006.6	77.0
Continental Europe	51.6	3.9
North America	196.7	15.1
Asia and Far East	48.6	3.7
Latin America	3.5	0.3
Total	1,307.0	100.0

Based on country of domicile or underlying spread for funds.

Net assets by currency



	£m	%
Pounds sterling	1,038.5	79.4
US dollar	189.1	14.5
Euro	42.7	3.3
Indian rupee	29.7	2.3
Other currencies	7.0	0.5
Total	1,307.0	100.0

Based on currency of investment, net of currency hedges.

Chairman's statement

Peter Buckley

Another successful year

Results
Our third year as an investment trust company has seen a continuation of the strong growth shown in the first two. Our total shareholder return over five and ten years has outpaced our benchmark of the FTSE All-Share Total Return index by 152% and 179% respectively and both these measures show a further worthwhile advance on the 133% and 111% shown a year ago. We believe that our long established investment strategy of taking sizeable stakes, though usually minority ones, in promising listed and unlisted companies at sensible prices, and working closely with proven managements to achieve their goals over a longer term, differentiates us from most other investment companies and has been a key contributor to this good performance.

Share price
Our share price during the year has risen from £13.67 to £19.80, driven principally by an increase in net assets per share of 34%, but also helped by the further reduction in the discount of our share price to the underlying net asset value per share. This reduced over the year from 11% to 4% and at times moved to a nil discount or very small premium. Last year I cautioned that it would prove challenging to maintain a continued reduction in this discount, which had fallen during the previous year from 21% to 11%, but I am pleased that this has not been the case. Whilst narrower discounts are not out of keeping with other investment trusts with good track records, the recent market volatility has seen our discount widen again and is a salutary reminder that our share price is not within our control.

Dividend
For the thirty-ninth year in succession, we are pleased to increase our annual dividend by recommending a final dividend for the year of 20.5 pence per share. This will bring the total dividend for the year to 29.6 pence representing an increase of 5% and costing £18.8m.

Elective special dividend
In 2004, we paid an elective special dividend to help resolve shareholder issues within The Cayzer Trust Company, our largest shareholder, which were affecting our stability and long term investment approach. I am happy to say that these matters are now fully behind us. In March this year, we were pleased to announce proposals for another elective special dividend to celebrate a long period of good investment performance and to enable shareholders, if they so choose,

to participate in our resultant strong cash position. The special dividend is intended to distribute around £128m depending, inter alia, on the level of take up and the value of our net assets at the strike date. Payment is scheduled on or about 13 July. The options offered to shareholders are summarised on page 19 of these financial statements and a circular setting out the detailed terms of the elective special dividend was posted to shareholders on 31 May.

Portfolio

The year under review has seen considerable activity within our portfolio and highlights are shown in the Chief Executive's statement and the pages following. Markets moved strongly upwards during the year which was good for realisations. These totalled £307m, of which Paladin Resources, the independent oil exploration company, was our largest, yielding proceeds of £108m. Higher market prices suggested a less favourable climate for making new investments, but we have nevertheless committed £155m to new and follow on investments on sensible terms, with a continuing healthy flow of proposals to review. Since the end of the year, Kerzner International has announced that it has agreed to an offer from an investment group led by its management to purchase the company. This offer is expected to be voted on by its shareholders by early July and, if approved, will result in cash proceeds for Caledonia of $237m, supplementing earlier realisation proceeds of $159m.

Economic and political background

The recent market downturn has not come as such a surprise to us for we had been puzzled by the apparent strength of the UK and US economies following the very significant rise in oil and commodity prices and have recently been holding significant levels of liquidity. Our instincts are to remain cautious as there are signs of inflation creeping in, which is leading to higher interest rates. The US deficit remains worryingly high and UK government spending continues to rise with seemingly little improvement from services delivered and an almost daily dose of burdensome and costly legislation to hinder our efficiency in world markets. In particular, the imposition of draconian measures on private sector pension funds through the Pensions Regulator which, combined with the earlier and mindless removal of the tax credit for pension funds, has wantonly wrecked a jewel in this country's essential savings movements. The supreme irony of what amounts to an irresponsible demolition of private sector pension provision is the fact that the Government has utterly failed to curb the excesses in public sector pensions. This will inevitably rebound in higher taxes to fund the consequent financial black hole, which now exceeds the National Debt. Hopefully the electorate of this country will wake up to the shortcomings of this Government so devoid of competence or integrity, before more harm is done.

At the time of writing last year, we were on the eve of referenda in France and Holland on the topic of the proposed new European constitution. Thankfully they returned a firm 'Non' but this gave a welcome excuse to the Government in Britain to duck the issue. Seemingly this message from the people of Europe has gone unheeded by the politicians who seem to be turning a blind eye to the continued scheming for new constitutions and legislation in Brussels to the ultimate detriment of the economies across Europe. We shall continue to pay some attention to the economies of India and beyond, where higher rates of growth seem more likely.

Staff

I would like to pay a fulsome tribute to all our staff for their efforts throughout the year on behalf of shareholders. They do battle with an ever growing jungle of legislation much of which is of questionable value. On the accounting front, the task of dealing with the new IFRS rules has been time consuming and expensive and the increasing requirements for more detailed and ever lengthier reporting seem to be losing the respect of many senior professionals and running the danger that shareholders will find it increasingly difficult to identify the key issues. On the wider front, the concept of responsibility is losing out to the cult of blaming others and this regrettably seems to be increasingly the focus of the growing army of regulators who seek comfort from the number of boxes ticked. All of this adds to the pressure on our hard worked staff. I thank them all for the tremendous contribution which they have made.

Outlook

We have been fortunate to enjoy a long run of good performance, but market highs have recently suffered an unsurprising check. We are not immune from these market downturns, but our long held investment strategy described in my opening paragraph is less susceptible to the market cycle. Therefore we believe that our continuing strong deal flow, coupled with our investment philosophy, will continue to stand us in good stead.

Peter Buckley

Peter Buckley
Chairman

Chief Executive's statement

Tim Ingram

Building on our competitive advantage

2005/06 has again been a good year for Caledonia's shareholders, with NAV per share increasing by 33.6% to 2061p per share at 31 March 2006. This is 9.6% more than the increase in the FTSE All-Share index over the same period. The growth of NAV per share compared to the FTSE All-Share index over the years since we converted to investment trust status is shown in the graph on page 9.

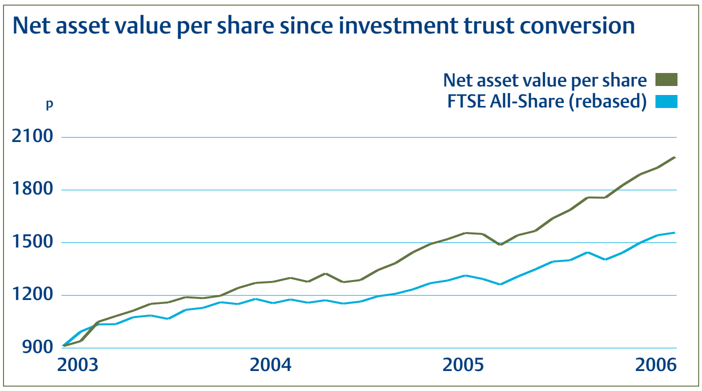
Investment activity

The last year has seen strong increases generally in share prices across the globe. This has inevitably meant that it has become an easier market in which to achieve realisations and it has become more difficult to find new investments at an entry price which we believe presents sufficient value creation potential for our own shareholders: however, our distinctive style does still mean that we are continuing to find some new opportunities at acceptable prices, although recently this is tending more to be in the unquoted segment.

During the course of our financial year our investment committee evaluated around 125 potential new investment opportunities. These were short listed down to a more manageable number which were then intensely evaluated, and from which we made eight new investments for a total amount of £70m. In addition, we invested a further £85m as follow-on funding in existing investments, making a total of £155m of investment during the year. More detail on investments is included in table 3 on page 18. This includes a further £34.5m invested in India (including the UK listed India Capital Growth Fund) bringing the total value of Indian investments to around £48m at 31 March 2006.

We have again been actively and constructively involved with all our investee companies, which we believe continues to aid our outperformance. 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. During the year, we have had a Caledonia executive as a director on the board (or appropriate committee) of 17 of our top 20 investments. Whether we have representation on the board or not, efforts are made to influence constructively the operations and strategy of each investee company.

Although we are a long term investor, we believe there comes a time when it is appropriate for us to disinvest or partially sell down from an investment. In addition, there can be redemptions within funds in



which we have invested, which also give rise to capital flows back to Caledonia. With conditions in the last year having been so favourable for realisations, full and partial disinvestments totalled over £307m during the year, which was significantly up on the previous year's figure of £218m. These realisations are listed in table 4 on page 19.

As mentioned in the Chairman's statement, Kerzner International, the resorts owner and operator in which we have an 8% stake, is recommending to its shareholders acceptance of a bid at $81 per share by a management-led investor group. If the offer is implemented, we will receive $237m and have put in place forward foreign exchange contracts to hedge this.

As a result of the above activity, our net liquid funds increased to £180m at 31 March 2006, and we are proposing an optional return of funds of approximately £128m by way of an elective special dividend.

Costs

Keeping the overhead costs down is an important objective for us as every pound of costs is a pound reduction in our shareholders' net assets. Nonetheless, it is vital that we have sufficient resources to be able to manage our portfolio effectively in a hands-on fashion while also attracting and evaluating a good deal flow of new opportunities. We believe that being a self-managed investment trust company, with direct control over costs significantly helps this objective. Our total overhead costs for the year were about 0.9% of our net assets, which compares favourably against a pre tax weighted investment trust industry average of 1.4%.

Outlook

It is, to say the least, very difficult to predict in advance when markets are to reach their zenith in the cycle. Recent events suggest that this may now be happening. At Caledonia, we do not deliberately take market positions. However, we are careful not to overpay for new investments and, notwithstanding the proposed elective special dividend, our present expectations, on the assumption that the bid for Kerzner International completes, are that we are likely still to be holding liquidity on our balance sheet at the end of the current financial year.

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

Tim Ingram
Chief Executive

Business highlights
of the year

Caledonia has developed a distinctive and successful investment style and philosophy. It is centred on our long term approach, our close supportive relationship with the management teams we back and our determination to guard our reputation as a good, reliable equity partner.

All this differentiates us, in the case of unquoted investments, from the mainstream private equity and venture capital markets and, for our listed investments, from more traditional fund managers. The business highlights of the year under review illustrate our approach.

Generating shareholder value by responding to market opportunities

Wallem

In 1992, Caledonia became a significant shareholder with a 74% economic interest in Wallem, a Hong Kong-based group, best known for its leading position in the ship management industry. There had been strong links with Wallem since the 1970s through the involvement of one of Caledonia's directors in Wallem's business, but the opportunity then arose for us to acquire the stake of the major shareholder. So, in 1992, we invested alongside the chairman of Wallem, who had then been working in the business for some 30 years. It was this close relationship and knowledge of the business which gave us the confidence to invest in a company with its headquarters in Hong Kong. The presence of Wallem at the gateway to China and its success in servicing burgeoning Chinese trade have both helped us to develop an investment presence in that part of the world.

Wallem performed very well in the mid-1990s, generating cash which it paid out as dividends, but suffered a significant downturn during the Asian crisis of the late-1990s. In response to this, Wallem restructured its operations, selling its shipping investments, and has subsequently seen a substantial improvement in its fortunes.

Then, an unsolicited approach from an interested purchaser, closely connected with the founding Wallem family, coincided with discussions we were holding in 2005 with our shareholding partner about how we might help him realise his interests in Wallem. Consequently we were able, over the course of almost a year, to work with our co-investor, Wallem's management, advisers and the potential purchaser to achieve a successful exit at the end of our financial year. We are satisfied that this sale, to knowledgeable trade investors with sound financial backing, was both at an attractive value and ensured that the excellent reputation Wallem enjoyed with its clients remained in good hands, so that the business and its people should continue to prosper.

Cash received for our stake totalled some £35m.

We believe the Wallem story is an excellent example of how Caledonia's flexible response to market opportunities works well through the economic cycle for shareholding partners and management teams and generates value for our shareholders.

Supporting management and developing long term relationships

Satellite Information Services

We acquired a 22% stake for £18.0m in Satellite Information Services (SIS), the provider of integrated information systems to the betting industry and outside broadcast services. Our ability to take a long term view and acquire an existing shareholding in a well established business, without requiring a shorter term exit mechanism, meant that we could respond to the desire of an existing investor to realise its minority stake at what we believe was a highly attractive entry price.

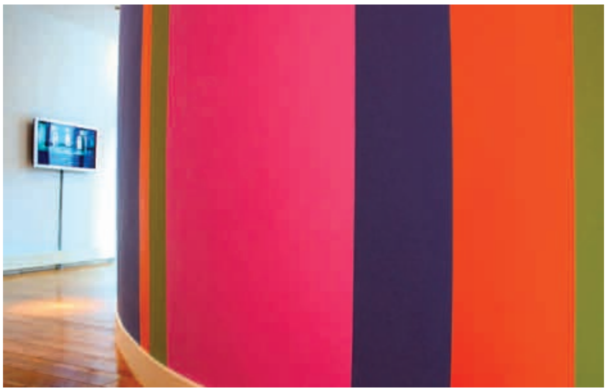
Broadcasting remains a key area of expertise for SIS. It is one of the most experienced television and production and outside broadcast companies in Europe, and the leading supplier of television programming and sports data to licensed betting offices. In 1987, SIS became the first broadcaster to create a dedicated specialist sports channel for the UK betting market. Betting markets around the globe now receive a service from SIS that includes live worldwide sports coverage.

Employing over 400 people across Europe, SIS operates a number of dedicated television channels and is one of the small number of television companies in the world able to cover and deliver live televised racing and provide a continuous supply of support data.

SIS is an established and successful business, which is owned by a small group of both strategic and financial investors. Through having a Caledonia executive on the board, we look forward to supporting management and developing our relationship with our fellow shareholders and we have been impressed with the results to date of SIS. During the year, our holding has increased to 24%. We believe that our long term investment approach is well suited to a business like SIS, which will benefit from a stable and involved shareholder base.

Business highlights
of the year

Backing management in listed companies through cornerstone fundraising support



Avanti Screenmedia

We invested £10.0m for a 17.9% stake in Avanti Screenmedia, the AIM listed supplier of screen media systems, and now have a Caledonia executive on the board. We were introduced to Avanti by the company's brokers who were well known to us and recognised the benefit of Caledonia's investing philosophy. The investment demonstrates how Caledonia is able to assist listed companies through being able to cornerstone an issue of equity, such as an IPO or, as in this case, a £25m equity placing to fund the growth of the business.

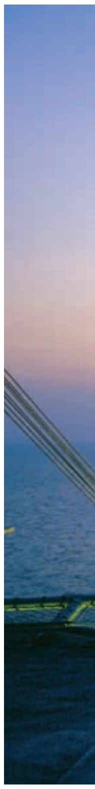
Avanti is the market-leading provider of screen media services for the retail, leisure and shopping mall sectors in the UK, with a 30% market share. Their screen media channels reach over 12m consumers per week, including a high proportion of the highly desirable 18-34s market through its pub and bar channels.

Avanti currently rents satellite space for relaying its services, but is keen to own its own satellite as a more efficient way of securing long term revenues. It was awarded a satellite licence by Ofcom, the UK communications regulator, in August 2005 and plans to build and launch its £70m satellite by 2008, in conjunction with the European Space Agency.

Having appraised the opportunity in a relatively short period through detailed discussions with management and other due diligence, we decided that there was considerable upside in the value of the business and look forward to working with our Avanti board colleagues and management to realise this potential.

Securing beneficial outcomes through supportive relationships with management

Paladin Resources



We realised our investment in Paladin Resources for £108.2m towards the end of 2005 by supporting a recommended offer from Talisman Energy Resources. To achieve this, we worked closely with management, whom we had known from the 1990s when they had been responsible for the development and successful sale of Clyde Petroleum.

We had originally invested in Paladin Resources in 1994 and then built up a 9% stake, principally during 2002 and 2003, at a total cost of £19.8m.

Paladin Resources was one of the UK's most successful independent oil and gas exploration and production companies. Its strategy was to position itself as a natural partner for oil majors wanting to dispose of assets and to purchase assets where further active investment would enhance production. Assets acquired included a package of North Sea oil interests from BP and Amerada Hess and various permits in the Timor Sea off the coast of Australia.

For the offer to proceed, the purchaser needed to minimise the transaction risk from a potential competing offer. We helped achieve this through committing our stake to the offeror – a good example of how our supportive relationship with management can help to secure an outcome which benefits all the company's shareholders.

Helping management reposition and restructure businesses

Sterling Industries

Caledonia has been closely involved with Sterling Industries, specialising in hydraulic valves and combustion heat transfer systems, since acquiring a 25% stake in 1989. We acquired 100% ownership of the Sterling Group in 2000 in order to be able to help management reposition and restructure the business. This was achieved through recruitment both at board and management levels and we supported operational management through some challenging market conditions. During these, the cost base was reduced and a clearer market focus introduced, capitalising especially on growth in China. Our efforts were rewarded in 2005, when Sterling Industries took advantage of industry consolidation and sold its hydraulic valves business to Parker Hannifin of the USA for £33.2m, realising a book profit of £22.3m.

The remaining businesses in Sterling Industries are performing well. Bloom, which designs and manufactures burners for the iron, steel and aluminium industries, is expanding its market into China; PCC, a specialist in providing thermal solutions for pollution control, is performing well in the US, and GCD, an Australian business that designs and manufactures fibreglass ovens for a range of customers and applications, is enjoying a strong market in its sector.

Business highlights
of the year

Building our portfolio of direct investments in India

Alok Industries

In 2003, Caledonia made a decision to build a portfolio of direct investments in India, extending geographically the successful strategy of backing proven management teams over the long term. Working with local advisory partners, we initially gained experience through building a modest portfolio of small stakes in a number of companies introduced to us. One of these businesses was Alok Industries, a listed textile manufacturer based in Mumbai, and we were impressed by their achievements and ambitions, not only in the domestic field but more particularly in export markets. We were aware that they should be able to benefit substantially from the imminent removal of WTO quotas on textile exports and were preparing to raise capital to expand production for this purpose.

We initially acquired a small stake through a convertible bond issue in 2004 and then in July 2005, once we had really got to know the major shareholding family, we made a more substantial investment by participating in Alok's second convertible bond issue. We have subsequently converted all our bonds into equity and added to the investment at various times through market purchases, giving us an 11.8% stake as at 31 March 2006 at a total cost of £13.9m. We have also accepted the offer of a board seat.

The rapid expansion of Alok's already substantial manufacturing plants represents a considerable management challenge which we think is being skilfully met. Recent good results reflect the quality of the management team and the longer term opportunities open to them.

Offering flexible investment support to proven management teams

Easybox

In the 1990s, we invested in a UK self storage business called Abacus. The early days of the business required considerable input and some further investment from Caledonia. Abacus became one of the largest European self storage companies and was sold in 1998 for a substantial profit.

Some two years later we were asked by the former Abacus management to join in a new venture establishing self storage sites in Italy and Spain. In 2000, Easybox was created and quickly established itself with two sites in Spain and four in Italy.

It has proven much harder than expected to expand the business in Spain due to high property prices, so we decided to sell this part of the company and concentrate our efforts on Italy. The Spanish operations were sold for £13.5m, a substantial profit on the cost of £6.9m. £7.0m was returned to Caledonia by way of loan repayments.

All sites in Italy have been trading well, a new site in Rome will be opening this autumn, and a number of new properties are being considered.

The Abacus/Easybox history demonstrates our principles of seeking out able management, establishing a strong, long term relationship and being a flexible and supportive investor.

Treasury management

Over the year, Caledonia's liquidity increased from £40m to £180m. The principal role of Group Treasury is to ensure that we have the cash available to meet our investment commitments and also to maximise the return from surplus liquidity consistent with maintaining an approved level of risk. Traditionally, Caledonia has mainly held surplus cash in term deposits, but we have recently invested £75m in a range of money market funds that aim to deliver a return above bank deposits, whilst protecting our capital.

Business review

Caledonia is an investment trust company, but is unusual in holding trading subsidiaries as part of its investment portfolio. The ownership of subsidiaries requires Caledonia to prepare consolidated financial statements, but Caledonia views and manages these holdings as part of its investment portfolio. This business review reflects management's view that subsidiaries are part of its investment portfolio.

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.

In addition, Caledonia aims to achieve a positive total return over rolling five 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, and usually with 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, the company 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 managements of companies that it has backed and to make available, the considerable experience of its own team to help the investee companies' managements 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.

Risk management

It is the responsibility of management to ensure that proper controls are in place to maintain effective risk management in every aspect of the company's business. The main risks comprise economic risk, treasury and funding risk, investment risk and operational risk.

Economic risk

Caledonia invests mainly in the UK, Europe, US and Asia. The company takes an opportunistic approach to investment and is not sector or geography driven. At present the majority of investments are based in the UK, which results in exposure to the UK's economic cycle. In addition, a proportion of assets are invested in the US and an increasing proportion of assets are invested in Continental Europe and in Asia, which may be subject to different economic cycles.

Treasury and funding risk

The overall funding objective continues to be to ensure access to efficient financing for investment purposes whilst investing liquidity for optimal returns within an agreed risk matrix. This objective continued during the year ended 31 March 2006.

All assets and liabilities are held by the company for non-trading purposes and, as a result, Caledonia does not have a trading book. Caledonia does not trade in derivatives and does not enter into transactions unrelated to its investment activities. Derivatives are used to manage the risks arising from Caledonia's investment activities.

The main funding risks faced by Caledonia are interest rate risk and exchange rate risk. The level of these risks is addressed by the overall funding objective and the Board regularly reviews and approves policies on the approach to each of these risks.

Caledonia's foreign exchange risk management policy allows for exposure to structural and transactional currency movements. In the event that there is a clear, short term exit plan for a foreign currency denominated investment, a view will be taken of likely currency movements over the period to expected exit and part or all of the exposure may be hedged using foreign currency contracts or currency derivatives.

The exposure to interest rate movements on treasury assets is managed through the use of term deposits and money market funds. Where there are group borrowings, exposure to interest rate movements is managed through the use of derivatives, such as caps and collars where appropriate.

Day-to-day management of treasury activities is delegated to executive Directors and to the Group Treasurer. Regular reports on Caledonia's funding position and cash flow forecasts are considered during the year by the Board. There has been no change during the year or since the year end to the principal funding risks faced by Caledonia, or to Caledonia's approach to such risks.

Investment risk

This risk includes investing in companies that may not perform as expected, being over-exposed to one sector of the economy, being over-exposed to individual investments and the portfolio valuation being partly based on stock market valuations which may fluctuate.

In addition to financial, legal and market due diligence, Caledonia's investment criteria include a rigorous assessment of investee management's track record of success and commitment to their business. All potential investments are presented to Caledonia's Investment Management Committee, which comprises executive Directors and other senior managers and any individual investment of £20m or more requires Board approval.

The valuation of a large proportion of Caledonia's equity portfolio is based on stock market valuations. Quoted investments are valued using the closing market bid price at the balance sheet date. Where appropriate, Caledonia's unquoted portfolio investments are valued using stock market earnings multiples for the relevant industry sector, discounted for non-marketability. Accordingly, stock market valuations are a factor in determining the valuation of Caledonia's portfolio and the total return.

Actual proceeds from the disposal of any individual investment will inevitably depend on market and economic conditions prevailing at the time.

Operational risk

Within a framework approved by the Board, heads of department are responsible for identifying, assessing, controlling and reporting operational risk. This is supported by a framework of core values, standards and controls and delegated authorities.

The ability to recruit, develop and retain capable people is of fundamental importance to Caledonia's strategy. The company operates in a competitive industry and aims to remunerate staff in line with market practice, to provide development opportunities and to encourage staff motivation and retention.

The company seeks to operate within applicable legal and regulatory frameworks. A Compliance Committee sits weekly and reviews Caledonia's current business for regulatory compliance, as well as considering investment proposals from a compliance perspective.

A business continuity strategy is in place to ensure that operations can continue in the event of disruption. This strategy has been assessed against a detailed business impact analysis and is regularly tested.

Financial review

Profit for the year

Caledonia achieved a profit of £349m for the financial year, which equates to 35.7% on restated opening shareholders' funds. This compares with a 24.0% return on the FTSE All-Share Total Return index. The components of the profit for the year are shown in table 1.

The main drivers of the profit were the level of profitable realisations, strong levels of income and overall growth in the value of the net assets.

Table 2 summarises the changes in the investment portfolio.

Investments

Caledonia invested a total of £155.2m, compared with £123.8m in 2005.

A summary of the principal investments, analysed between new and follow-on investments, is given in table 3.

During the year, 125 potential new investments were considered and eight were selected with an aggregate cost of £70.0m. Of these new investments, one was made directly in India and one in China. In addition, the company supported the raising of a £75m fund for investment in India and also made a follow-on investment during the year in Alok Industries, the Indian quoted textiles manufacturer.

Realisations

Caledonia made full and partial realisations of certain holdings during the year with total proceeds of £307.0m (2005 – £217.8m), reflecting a gain over cost of £180.5m (143%), compared with £105.4m (94%) in the prior year. The increased uplift percentage relative to last year was significantly enhanced by the rise in the value of Paladin Resources, as a result of the successful offer from Talisman Energy Resources.

A summary of full and partial realisations of our holdings is given in table 4.

Business review
continued

Gains and losses on investments
Net gains and losses on investments during the year was £352.7m (2005 – £159.0m). An analysis of the principal contributors is given in table 5.

Income and costs
The main elements of income and costs are shown in table 1 on page 17.

Investment and other income was £26.2m (2005 – £18.9m). The increase when compared with the prior year is due mainly to the receipt of a £2.4m dividend from Satellite Information Services.

Management expenses of £10.8m (2005 – £10.6m) comprised the costs of managing the company's investment operations.

Other expenses included transaction costs of £1.1m (2005 – £0.2m), which comprised the due diligence costs incurred in successfully making investments during the year, together with costs where investment opportunities were not followed through to a specific investment being made. The increase over the prior year reflects the increased activity during the year.

The provision of £10.0m (2005 – £nil) was in respect of matters related to the mandated disposal of investments.

Finance costs of £0.8m (2005 – £1.0m) were lower than in the prior year as the company had minimal borrowings during this year.

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

Table 1: Profit for the year

	2006 £m	2005 £m
Investment and other income	**26.2**	18.9
Gains and losses on investments	**352.7**	159.0
Gains on money market funds	**0.8**	–
Gains and losses on derivatives	**(9.0)**	5.8
Provisions	**(10.0)**	–
	360.7	183.7
Management expenses	**(10.8)**	(10.6)
Other expenses	**(1.1)**	(0.6)
	348.8	172.5
Finance costs	**(0.8)**	(1.0)
Taxation	**1.4**	(0.1)
Profit for the year	**349.4**	171.4

Table 2: Summary of changes to the investment portfolio

	2006 £m	2005 £m
Opening portfolio	**947.1**	886.1
Investments	**155.2**	123.8
Realisation proceeds	**(307.0)**	(217.8)
Capital distributions	**–**	(4.0)
Gains and losses on investments	**352.7**	159.0
Closing portfolio	**1,148.0**	947.1

Table 3: Investments during the year

	Equity holding %	Category	Country of incorporation	Business	Cost £m
New investments					
Satellite Information Services	24.3	Equity	UK	Data distribution to betting offices	18.1
India Capital Growth Fund [1]	22.0	Equity	UK	Closed-end Indian equity fund	16.5
Avanti Screenmedia [1]	17.9	Equity	UK	Media distribution	10.0
Dewan Housing Finance [1]	14.0	Equity	India	Indian mortgage company	7.1
CF AVI Global Fund		Prefs	UK	Equity fund	7.0
Cleveland London Investments		Loans	UK	Property development	4.4
BIA Pacific Fund		Fund	Cayman	Investment fund	3.5
Kingdom Group Holdings	15.0	Equity	China	Linen yarn manufacturer	3.4
					70.0
Follow-on investments					
Polar funds		Prefs	Cayman	Hedge funds	18.4
Alok Industries [1]	11.8	Equity	India	Textile manufacturer	10.7
Edinmore	100	Loans	UK	Property trading	10.5
Oval	32.3	Loans	UK	Insurance broking consolidator	5.2
Incisive Media [1]	10.5	Equity	UK	Business publisher	4.0
Melrose Resources [1]	7.5	Equity	UK	Oil and gas exploration	2.7
Redleaf VI		Unit trust	UK	Property fund	2.3
Other investments					31.4
					85.2
Total					155.2

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

Table 4: Full and partial realisations during the year

	Full or partial sale of holding	Proceeds £m	Realised gains/(losses) £m
Paladin Resources	Full	108.2	91.2
Wallem	Full	31.0	22.8
General Practice	Partial	25.5	7.0
Kerzner International	Partial	22.5	17.3
F&C Asset Management	Full	20.4	(1.0)
Aberforth LP fund	Distribution	15.7	15.7
Polar funds	Redemptions	14.5	0.8
MORI	Full	10.3	4.6
Discovery Trust	Full	8.5	4.0
British Empire Securities	Partial	8.4	7.1
Redleaf V	Full	8.3	3.5
Easybox	Partial	7.0	–
Savills	Partial	4.1	2.9
Landsdown	Full	2.7	2.0
Other realisations		19.9	2.6
Total		307.0	180.5

Table 5: Net gains and losses on investments during the year

	Gains/(losses) £m
Close Brothers	52.6
Paladin Resources	52.5
British Empire Securities	46.5
Kerzner International	36.6
Sterling Industries	22.3
Rathbone Brothers	16.7
Wallem	15.0
Quintain Estates & Development	13.5
Savills	12.8
Other net gains and losses	84.2
Total	352.7

Valuation

Investments have been valued by the directors in accordance with IAS 39 and based on the principles of the International Private Equity and Venture Capital Valuation Guidelines. Details of Caledonia's valuation methodology are provided on page 62.

Introduction of International Financial Reporting Standards ('IFRS')

These financial statements have been prepared for the first time in accordance with IFRS as adopted by the EU. The principal elements impacting Caledonia's results on transition to IFRS were as follows:

- The requirement under IAS 39 'Financial Instruments: Recognition and Measurement' to value quoted investments at bid price. Under UK GAAP, quoted investments were reported at mid-market price.
- Under IAS 19 'Employee Benefits', the pension scheme deficits should be included in the balance sheet.
- Deferred tax has been recalculated in accordance with IAS 12. This adjustment includes deferred tax calculated on the unrealised gains on investments and a deferred tax asset in respect of the pension deficit recognised under IAS 19.
- Under IAS 10, dividends declared after the balance sheet date are not accrued at the balance sheet date.

Business review
continued

Proposal to return capital to shareholders

As indicated in the Chairman's statement, it is intended that around £128m will be returned to shareholders through an elective special dividend and associated capital reduction.

Under the proposal, Caledonia shareholders will be offered the opportunity to receive a special dividend on one out of every ten shares held. Shares on which a shareholder elects to receive the special dividend will be cancelled for no consideration, pursuant to a Court approved reduction of capital. The total number of ordinary shares on which the special dividend will be paid is limited to 6,410,579 ordinary shares, based on the 64,105,796 ordinary shares in issue (excluding ordinary shares held in treasury) as at 26 May 2006. The special dividend payable in relation to each share to be cancelled will be an amount equal to the net asset value per share at a specified date, expected to be 7 July 2006, discounted by 3%. Actual payment of the dividend is expected to be on or around 13 July 2006.

Under the terms of the special dividend offer, all shareholders have the following choices:

- To do nothing and therefore continue to hold all of their ordinary shares.
- To elect to receive the special dividend in respect of one out of ten shares held (the 'basic entitlement').
- To elect to receive the special dividend on a number of ordinary shares less than their basic entitlement (the 'under election option').
- To elect to receive the special dividend on a number of shares greater than their basic entitlement, with such elections only being accepted to the extent that other ordinary shareholders elect to receive the under election option or do not elect to receive the special dividend at all (the 'over election option').
- To elect to receive the special dividend on such number of ordinary shares as to maintain, after taking into account other shareholders' elections, their proportionate interests in Caledonia at the same level as prior to the special dividend (the 'pro rata option').

All ordinary shares on which ordinary shareholders validly elect to receive the special dividend will be cancelled for no further consideration pursuant to a reduction of capital.

Cash flows

The key cash flows during the year were the aggregate proceeds of £314.0m (2005 – £218.5m) from the realisation of investments and outflow of £160.2m (2005 – £127.4m) for the purchase of investments. In addition, in the prior year, there was a cash outflow of £88.0m in respect of the elective special dividend paid on 2 July 2004.

Liquidity

With cash equivalents and money market funds totalling £179.6m, Caledonia has a high level of liquidity. Successful completion of the bid for Kerzner International would yield around a further £131m in cash during August.

Historic record

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

				Cumulative performance based on 1996			
Years ended 31 March	Share price p/share	Annual dividend p/share	Special dividend p/share	Share price total return	FTSE All-Share Total Return	Annual dividend	Retail Price Index
1996	750.0	18.0	–	100	100	100	100
1997	770.0	19.0	30.0	106	119	106	103
1998	879.0	20.5	–	131	162	114	106
1999	732.5	22.0	–	112	173	122	108
2000	771.5	23.0	70.0	121	190	128	111
2001	797.5	24.0	–	142	170	133	114
2002	847.5	25.0	–	155	164	139	115
2003	642.5	26.0	–	121	115	144	119
2004	1017.0	27.0	–	198	151	150	122
2005	1367.0	28.2	–	272	175	157	126
2006	1980.0	29.6	–	402	223	164	129
Compound annual returns							
5 year				23.2	5.7	4.3	2.5
10 year				14.9	8.4	5.1	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 2006:

					Cumulative performance based on March 2005		
Month	Net asset value p/share	Share price p/share	FTSE All-Share	Discount share price to NAV %	Net asset value/share	Share price	FTSE All-Share
Mar 2005	1543	1367	2458	11.4	100	100	100
Apr 2005	1491	1260	2397	15.5	97	92	98
May 2005	1547	1357	2483	12.3	100	99	101
Jun 2005	1571	1435	2560	8.7	102	105	104
Jul 2005	1643	1538	2645	6.4	106	113	108
Aug 2005	1691	1570	2659	7.2	110	115	108
Sep 2005	1762	1633	2746	7.3	114	119	112
Oct 2005	1760	1635	2664	7.1	114	120	108
Nov 2005	1831	1810	2741	1.1	119	132	112
Dec 2005	1893	1895	2847	(0.1)	123	139	116
Jan 2006	1931	1969	2929	(2.0)	125	144	119
Feb 2006	1992	1905	2956	4.4	129	139	120
Mar 2006	2061	1980	3048	3.9	134	145	124

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

Board of directors

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 Bristow Group, Close Brothers and Kerzner International. Age 63.

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 Alok Industries, Sage Group and Savills. Age 58.

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 Bristow Group. Age 52.

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 Easybox, Edinmore and The Sloane Club. Age 49.

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 India Capital Growth Fund, Polar Capital and Rathbone Brothers. Age 41.

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 and Satellite Information Services. Age 51.

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 Avanti Screenmedia Group, Cobepa and Terrace Hill and chairman of Sterling Industries. Age 38.

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 63.

09 Charles Allen-Jones
Senior Independent Non-Executive Director
Appointed a non-executive director of Caledonia in 2001, he is chairman of the Audit and Governance Committees and a member of the Nomination and Remuneration 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 66.

10 Mark Davies
Non-Executive Director
Appointed a non-executive director of Caledonia in 2002, he is chairman of the Remuneration Committee and a member of the Governance and Nomination 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 58.

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 Group Danone, Delhaize, Eurazeo, and Suez-Tractebel, in which Sofina has interests. Age 57.

12 David Thompson
Non-Executive Director
Appointed a non-executive director of Caledonia in 2003, he is a member of the Audit, Governance and Nomination 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 Persimmon and of Tribal Group. Age 51.

Directors' report

The directors present their report and accounts for the year ended 31 March 2006. 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, together with the results for the year, is given in the business review, which should be regarded as part of this report. There have been no significant changes in the activities of the operating subsidiaries during the year, other than the sale of the hydraulic valves business in Sterling Industries.

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 Her Majesty's Revenue and Customs ('HMRC') as an investment trust. Approval as an investment trust is granted retrospectively by HMRC for each financial year for which such status is sought. An application for approval for the years ended 31 March 2004 and 2005 have been made and an application for approval for the year ended 31 March 2006 will be made subsequent to the approval of these accounts by members of the company.

Annual general meeting
The seventy-seventh 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 Thursday, 20 July 2006 at 11.30 am. The notice of the annual general meeting is set out on page 63 and contains three items of special business.

Resolution 2 seeks shareholders' approval of the directors' remuneration report in compliance with the Directors' Remuneration Report Regulations 2002. The directors' remuneration report, which is set out on pages 52 to 56, explains the company's overall policy on directors' remuneration and provides details of the remuneration paid to directors for the year ended 31 March 2006. As required by the Directors' Remuneration Report Regulations 2002, the company's auditors, KPMG Audit Plc, have audited those parts of the directors' remuneration report required by the legislation to be audited and their report is set out on page 27.

Resolution 11 will be proposed, as in previous years, to renew the authority granted at the last annual general meeting, held on 13 July 2005, to allot unissued ordinary shares in the company. Whilst they do not have any present intention of exercising this authority, the directors would be authorised to allot ordinary shares up to a nominal value of £1,068,400, representing approximately 33.33% of the company's issued ordinary share capital (excluding ordinary shares held in treasury) as at 30 May 2006, being the latest practicable date prior to the printing of this annual report. The authority, if granted, will last until the next annual general meeting of the company.

Resolution 12 seeks to renew the directors' flexibility to issue ordinary shares for cash in connection with a rights issue or other than pro rata to existing ordinary shareholders. In the case of an issue of ordinary shares other than pro rata to existing ordinary shareholders, the authority will be limited to a nominal amount of £160,260, which represents approximately 5% of the company's total issued ordinary share capital (excluding ordinary shares held in treasury) as at 30 May 2006, being the latest practicable date prior to the printing of this annual report. If granted, the authority will last until the next annual general meeting of the company. This authority to issue ordinary shares on a non pre-emptive basis will also apply to the transfer of ordinary shares held in treasury.

The directors will comply with the guidelines of the investment committees of the Association of British Insurers and National Association of Pension Funds that no more than 7.5% of the issued ordinary share capital should be allotted for cash, or transferred from treasury, on a non pre-emptive basis during any rolling three year period.

Extraordinary general meeting
The company is seeking shareholders' approval at an extraordinary general meeting ('EGM') convened for 26 June 2006 for the renewal of an authority to make market purchases of up to 6,410,500 of its own ordinary shares, being approximately 10% of the company's issued ordinary share capital (excluding ordinary shares held in treasury) as at 30 May 2006, being the latest practicable date prior to the printing of this annual report. The price permitted for any such purchases will be a price not more than the higher of (a) 5% above the average of the middle market quotations for such shares during the five business days preceding any such purchase and (b) the higher of (i) the price of the last independent trade in the company's shares; and (ii) the highest current independent bid relating thereto on the trading venues where the purchase is carried out, nor less than 5p, being the nominal value of an ordinary share. The company has stated that it will not make market purchases of its shares where to do so would result in the interests in the company's shares held by the concert party ('Concert Party') that is deemed by the Panel on Takeovers and Mergers ('Panel') to exist by virtue of the Cayzer family interests in the company exceeding 49.9% of the total voting rights (excluding shares held in treasury). As at 30 May 2006, being the latest practicable date prior to the printing of this annual report, the interests in the company's shares held by the Concert Party stood at 45.4% of the total voting rights.

The company is also seeking at the EGM the approval of those shareholders who are not members of the Concert Party of a waiver by the Panel of the obligation that could arise on the Concert Party under the City Code on Takeovers and Mergers to make a general offer for the company following an increase in the voting rights of the Concert Party as a result of the company making market purchases of its own shares. If granted, this waiver will permit the company to make market purchases of its shares without incurring such an obligation on the Concert Party, provided that such purchases do not increase the interests in shares held by the Concert Party to over 49.9% of the total voting rights. Without this waiver, the company will only be able to use the power to make purchases of its own shares, if granted, without incurring such an obligation on the Concert Party provided that any such purchases do not increase the percentage voting rights of the Concert Party either to above their highest percentage in the previous 12 months or by more than 1% over the previous 12 months, taking into account any purchases made by the Concert Party during that period.

It will be the directors' intention to use this power only in circumstances where they believe, after careful consideration, that such a purchase would be in the best interests of shareholders and would result in an increase in net asset value per ordinary share. In considering whether to exercise this power, the directors will also take into account both the longer term investment opportunities available to the company and any discount at which its shares are trading in the market relative to their underlying net asset value. It is the company's present intention that any shares purchased pursuant to the exercise of this power would be held in treasury.

The authority to make market purchases, if granted at the EGM, will expire on 1 January 2008 or, if earlier, at the conclusion of the next annual general meeting of the company following that to be held on 20 July 2006. The waiver to be granted by the Panel will, if approved by the non-Concert Party shareholders, expire on 26 June 2007.

Directors and their interests

The directors of the company are shown on pages 22 and 23. All of the directors served throughout the year, with the exception of Messrs J M B Cayzer-Colvin and W P Wyatt, who were both appointed on 4 April 2005.

Messrs D G F Thompson, J M May, T C W Ingram and the Hon C W Cayzer retire by rotation at the annual general meeting and, being eligible, offer themselves for re-election in accordance with the company's articles of association. Mr J R H Loudon, who has served as a director for over nine years, also retires at the annual general meeting in accordance with the recommendations of the Combined Code and, being eligible, offers himself for re-election.

None of Messrs May, Ingram and Cayzer has a contract of service which cannot be terminated within one year. Messrs Loudon and Thompson, who are non-executive directors, have no entitlement to compensation in the event of their appointments being terminated. Biographical details of all of the directors proposed for re-election at the annual general meeting are shown on pages 22 and 23.

Following formal individual performance evaluation and a review of the structure, size and composition of the board, the Nomination Committee confirms that the non-executive directors proposed for re-election continue to demonstrate strong commitment to their roles and that, through their knowledge, skills and experience, they continue to provide effective contributions to the functioning of the board and its committees. Accordingly, the Nomination Committee believes that both non-executive directors proposed for re-election at the annual general meeting should be re-elected directors of the company.

The interests of the directors and their families in the ordinary share capital of the company as at 31 March 2006 were as follows:

	Beneficial		Non-beneficial	
	2006 No	2005 No	**2006 No**	2005 No
P N Buckley	**590,000**	590,000	**306,761**	277,841
T C W Ingram	**86,061**	57,826	**–**	–
J H Cartwright	**12,810**	12,810	**–**	–
The Hon C W Cayzer	**90,730**	163,822	**91,759**	83,009
J M B Cayzer-Colvin	**385,771**	385,771	**19,582**	19,582
J M May	**2,600**	2,600	**–**	–
W P Wyatt	**153,645**	144,895	**12,500**	18,239
C M Allen-Jones	**7,500**	7,500	**–**	–
M E T Davies	**–**	–	**–**	–
R Goblet d'Alviella	**–**	–	**–**	–
J R H Loudon	**9,442**	9,442	**9,930**	9,930
D G F Thompson	**2,000**	2,000	**–**	–

1. Comparative figures are at 31 March 2005 or at date of appointment if later.
2. The Hon C W Cayzer's beneficial interests included 12,500 shares in which Mr W P Wyatt had a non-beneficial interest (2005 – 12,500 shares)
3. Mr W P Wyatt's beneficial interests included 91,759 shares in which the Hon C W Cayzer had a non-beneficial interest (2005 – 83,009 shares)

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 (as amended) each executive director, as a potential beneficiary, is deemed to have an interest in any shares in the company held by the trust. As at 31 March 2006, the trust held 695,189 shares (2005 – 709,748 shares). Dividends have been waived on the shares held by the trust. Shares held by the trust are not included in the table above.

Details of the directors' options to acquire ordinary shares in the company as at 31 March 2006 are set out in the directors' remuneration report on page 55. 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.

Directors' indemnity

Each of the directors has the benefit, under the company's articles of association, of an indemnity, to the extent permitted by the Companies Act 1985 (as amended), against all costs, charges, losses and expenses and liabilities incurred by him in the execution or discharge of his duties or the exercise of his powers as a director or otherwise in relation thereto.

Substantial interests

As at 30 May 2006, being the latest practicable date prior to the printing of this annual report, the following had notified the company that they were interested in 3% or more of the issued ordinary share capital of the company:

	Number of ordinary shares	Percentage of class issued
The Cayzer Trust Company Ltd	21,426,150	33.4%
Sofina sa	3,000,000	4.7%

The interest notified by The Cayzer Trust Company Ltd ('Cayzer Trust') comprised a direct holding of 21,366,580 shares (33.3%) and an interest in a further 59,570 shares (0.1%) arising by virtue of voting and pre-emption arrangements entered into between Cayzer Trust and a group of its former shareholders.

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 payables.

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 £111,000.

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 58 within the corporate governance report.

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board

G P Denison
Secretary
31 May 2006

Directors' responsibility statement

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the parent company financial statements on the same basis.

The group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the group and the parent company and the performance for that period. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985 (as amended). They have 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.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and the corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report
to the members of Caledonia Investments plc

We have audited the group and parent company financial statements (the 'financial statements') of Caledonia Investments plc for the year ended 31 March 2006 which comprise the group and parent company income statements, the group and parent company balance sheets, the group and parent company cash flow statements, the group and parent company statements of recognised income and expenses, and the related notes. These financial statements have been prepared under the accounting policies set out therein. 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' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU are set out in the statement of directors' responsibilities on page 26.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the business review that is cross referenced from the principal activities and results section of the directors' report. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 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. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company'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 part 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 part of the directors' remuneration report to be audited.

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's and the parent company's affairs as at 31 March 2006 and of the group's and the parent company's profit for the year then ended;
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
31 May 2006

Company income statement
for the year ended 31 March 2006

	Note	2006 £m	2005 £m
Investment and other income	1	**26.2**	18.9
Gains and losses on investments held at fair value through profit or loss	11	**352.7**	159.0
Gains on money market funds held at fair value through profit or loss		**0.8**	–
Gains and losses on derivatives		**(9.0)**	5.8
Provisions	20	**(10.0)**	–
		360.7	183.7
Management expenses	3	**(10.8)**	(10.6)
Other expenses	3	**(1.1)**	(0.6)
Profit before finance costs		**348.8**	172.5
Finance costs	4	**(0.8)**	(1.0)
Profit before tax		**348.0**	171.5
Taxation	5	**1.4**	(0.1)
Profit for the year		**349.4**	171.4
Basic earnings per ordinary share	7	**551.4p**	260.9p
Diluted earnings per ordinary share	7	**549.2p**	260.3p

Company statement of recognised income and expense
for the year ended 31 March 2006

	Note	2006 £m	2005 £m
Actuarial gains and losses on defined benefit pension schemes	19	**(1.2)**	1.3
Tax on items recognised directly in equity	5	**0.3**	(0.3)
Net income recognised directly in equity		**(0.9)**	1.0
Profit for the year		**349.4**	171.4
Total recognised income and expense		**348.5**	172.4

The accounting policies and notes to the financial statements on pages 34 to 51 are an integral part of these financial statements.

Company balance sheet
at 31 March 2006

	Note	2006 £m	2005 £m
Non-current assets			
Investments held at fair value through profit or loss	11	**1,145.2**	944.3
Investments in subsidiaries	11	**2.8**	2.8
Deferred tax asset	13	**1.2**	–
Non-current assets		**1,149.2**	947.1
Current assets			
Operating and other receivables	15	**4.2**	5.9
Current tax assets		**–**	3.5
Investments held at fair value through profit or loss	11	**75.8**	–
Cash and cash equivalents	16	**103.8**	39.6
Current assets		**183.8**	49.0
Total assets		**1,333.0**	996.1
Current liabilities			
Interest-bearing loans and borrowings	17	**–**	(10.2)
Operating and other payables	18	**(4.0)**	(4.8)
Current tax liabilities		**(6.5)**	–
Provisions	20	**(13.5)**	–
Current liabilities		**(24.0)**	(15.0)
Non-current liabilities			
Employee benefits	19	**(1.4)**	(2.3)
Deferred tax liabilities	13	**(0.6)**	(0.5)
Non-current liabilities		**(2.0)**	(2.8)
Total liabilities		**(26.0)**	(17.8)
Net assets		**1,307.0**	978.3
Equity			
Share capital		**3.6**	3.6
Share premium		**1.3**	1.3
Capital redemption reserve		**1.2**	1.2
Capital reserve (non-distributable)		**947.5**	607.3
Retained earnings (distributable)		**353.4**	364.9
Total equity	22	**1,307.0**	978.3

The financial statements on pages 28 to 51 were approved by the board on 31 May 2006 and were signed on its behalf by:

Tim Ingram
Chief Executive

Jonathan Cartwright
Finance Director

The accounting policies and notes to the financial statements on pages 34 to 51 are an integral part of these financial statements.

Company cash flow statement
for the year ended 31 March 2006

	Note	2006 £m	2005 £m
Cash flow from operating activities			
Dividends received		**18.6**	15.7
Interest received		**7.8**	4.3
Management and other expenses paid		**(13.3)**	(11.4)
Group relief received		**1.4**	1.5
Net cash flow from operating activities		**14.5**	10.1
Cash flow from investing activities			
Purchase of non-current investments held at fair value through profit or loss		**(160.2)**	(127.4)
Purchase of current investments held at fair value through profit or loss		**(85.0)**	–
Proceeds from disposal of non-current investments held at fair value through profit or loss		**314.0**	218.5
Proceeds from disposal of current investments held at fair value through profit or loss		**10.0**	–
Net receipts from derivatives		**(7.5)**	8.8
Capital distributions from investments		**9.0**	8.8
Net cash flow from investing activities		**80.3**	108.7
Cash flow from financing activities			
Interest paid		**(0.3)**	(1.0)
Distributions paid to holders of equity shares		**(18.2)**	(18.9)
Elective special dividend paid		**–**	(88.0)
Repayment of borrowings from a subsidiary		**(10.2)**	(4.8)
Net purchase of own shares		**(1.9)**	(5.3)
Net cash flow from financing activities		**(30.6)**	(118.0)
Net increase in cash and cash equivalents		**64.2**	0.8
Cash and cash equivalents at period start		**39.6**	38.8
Cash and cash equivalents at period end	16	**103.8**	39.6

The accounting policies and notes to the financial statements on pages 34 to 51 are an integral part of these financial statements.

Consolidated income statement
for the year ended 31 March 2006

	Note	2006 £m	2005 £m
Investing operations			
Investment and other income	1	**26.0**	16.7
Gains and losses on investments held at fair value through profit or loss		**321.6**	160.2
Gains on money market funds held at fair value through profit or loss		**0.8**	–
Gains and losses on derivatives		**(9.0)**	5.8
Provisions	20	**(6.9)**	–
		332.5	182.7
Management expenses	3	**(10.8)**	(10.6)
Other expenses	3	**(1.1)**	(0.6)
Profit from investing operations		**320.6**	171.5
Trading operations			
Revenue from sales of goods and services		**109.1**	123.7
Operating expenses	3	**(106.9)**	(122.8)
Gain on disposal of available for sale investment		**0.3**	–
Gain on disposal of operations	23	**31.4**	–
Gain on investment property	9	**1.7**	1.1
Share of results of joint ventures	12	**1.0**	0.6
Profit from trading operations		**36.6**	2.6
Profit before finance costs		**357.2**	174.1
Finance costs	4	**(3.2)**	(2.4)
Profit before tax		**354.0**	171.7
Taxation	5	**(0.4)**	(3.6)
Profit for the year		**353.6**	168.1
Attributable to			
Equity holders of the parent		**353.5**	167.9
Minority interests		**0.1**	0.2
		353.6	168.1
Basic earnings per ordinary share	7	**558.3p**	255.7p
Diluted earnings per ordinary share	7	**556.1p**	255.2p

Consolidated statement of recognised income and expense
for the year ended 31 March 2006

	Note	2006 £m	2005 £m
Gains and losses on revaluation of available for sale investment		**–**	0.3
Gain on disposal of available for sale investment transferred to income statement		**(0.3)**	–
Exchange differences on translation of foreign operations		**0.7**	(0.2)
Actuarial gains and losses on defined benefit pension schemes	19	**(1.8)**	1.0
Tax on items recognised directly in equity	5	**0.3**	–
Net income recognised directly in equity		**(1.1)**	1.1
Profit for the year		**353.6**	168.1
Total recognised income and expense		**352.5**	169.2
Attributable to			
Equity holders of the parent		**352.4**	169.0
Minority interests		**0.1**	0.2
		352.5	169.2

The accounting policies and notes to the financial statements on pages 34 to 51 are an integral part of these financial statements.

Consolidated balance sheet
at 31 March 2006

	Note	2006 £m	2005 £m
Non-current assets			
Property, plant and equipment	8	**69.1**	79.2
Investment property	9	**5.8**	4.1
Intangible assets	10	**4.0**	3.6
Investments held at fair value through profit or loss	11	**1,049.0**	881.2
Available for sale investments	11	**0.5**	3.9
Interests in joint ventures	12	**9.6**	7.5
Deferred tax assets	13	**2.4**	0.8
Non-current assets		**1,140.4**	980.3
Current assets			
Inventories	14	**30.2**	23.3
Operating and other receivables	15	**27.8**	32.7
Current tax assets	5	**0.5**	1.9
Investments held at fair value through profit or loss	11	**75.8**	–
Cash and cash equivalents	16	**164.7**	51.3
Current assets		**299.0**	109.2
Total assets		**1,439.4**	1,089.5
Current liabilities			
Bank overdrafts	16	**(8.2)**	(2.9)
Interest-bearing loans and borrowings	17	**(0.7)**	(0.1)
Operating and other payables	18	**(25.4)**	(27.8)
Employee benefits	19	**(9.9)**	(1.3)
Provisions	20	**(11.0)**	(0.6)
Current tax liabilities		**(8.8)**	(10.0)
Current liabilities		**(64.0)**	(42.7)
Non-current liabilities			
Interest-bearing loans and borrowings	17	**(41.3)**	(38.1)
Employee benefits	19	**(8.0)**	(14.5)
Deferred tax liabilities	13	**(0.7)**	(1.4)
Non-current liabilities		**(50.0)**	(54.0)
Total liabilities		**(114.0)**	(96.7)
Net assets		**1,325.4**	992.8
Equity			
Share capital		**3.6**	3.6
Share premium		**1.3**	1.3
Capital redemption reserve		**1.2**	1.2
Foreign exchange translation reserve		**0.5**	(0.2)
Fair value reserve for available for sale investments		**–**	0.3
Retained earnings		**1,317.9**	985.7
Equity attributable to owners of the parent		**1,324.5**	991.9
Minority interest		**0.9**	0.9
Total equity	22	**1,325.4**	992.8

The financial statements on pages 28 to 51 were approved by the board on 31 May 2006 and were signed on its behalf by:

Tim Ingram
Chief Executive

Jonathan Cartwright
Finance Director

The accounting policies and notes to the financial statements on pages 34 to 51 are an integral part of these financial statements.

Consolidated cash flow statement
for the year ended 31 March 2006

	Note	2006 £m	2005 £m
Cash flow from operating activities			
Dividends received		**17.4**	13.5
Interest received		**9.1**	3.7
Management expenses paid		**(13.3)**	(11.4)
Cash received from trade customers		**115.8**	123.1
Cash paid to trade suppliers		**(119.4)**	(109.2)
Taxes paid		**(3.2)**	(2.0)
Net cash flow from operating activities		**6.4**	17.7
Cash flow from investing activities			
Purchases of property, plant and equipment		**(4.1)**	(3.7)
Proceeds from disposal of property, plant and equipment		**1.9**	1.6
Purchases of non-current investments held at fair value through profit or loss		**(149.2)**	(121.4)
Purchases of current investments held at fair value through profit or loss		**(85.0)**	–
Proceeds on disposal of non-current investments held at fair value through profit or loss		**274.4**	217.6
Proceeds on disposal of current investments held at fair value through profit or loss		**10.0**	–
Net receipts from derivatives		**(7.5)**	8.8
Purchase of interest in joint venture		**(1.1)**	(4.6)
Purchase of subsidiary net of cash acquired		**–**	(2.2)
Proceeds on disposal of subsidiaries net of cash disposed	23	**80.3**	3.3
Taxes received		**1.3**	–
Net cash flow from investing activities		**121.0**	99.4
Cash flow from financing activities			
Interest paid		**(2.3)**	(2.2)
Distributions paid to holders of equity shares		**(18.2)**	(18.9)
Dividends paid to minority interests		**–**	(0.1)
Elective special dividend paid		**–**	(88.0)
Proceeds from new borrowings		**7.0**	–
Repayment of borrowings		**(4.0)**	(4.9)
Net purchase of own shares		**(1.9)**	(5.3)
Net cash flow from financing activities		**(19.4)**	(119.4)
Net increase/(decrease) in cash and cash equivalents		**108.0**	(2.3)
Cash and cash equivalents at period start		**48.4**	50.7
Exchange gains/(losses) on cash and cash equivalents		**0.1**	–
Cash and cash equivalents at period end	16	**156.5**	48.4

The accounting policies and notes to the financial statements on pages 34 to 51 are an integral part of these financial statements.

Accounting policies

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

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which Caledonia operates.

These financial statements were authorised for issue by the directors on 31 May 2006.

Significant accounting policies
Statement of compliance
These financial statements have been prepared for the first time in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the EU. IFRSs comprise accounting standards issued by the International Accounting Standards Board ('IASB') and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

Basis of preparation
In preparing these financial statements, Caledonia has elected to take advantage of certain transitional provisions within IFRS 1 'First-time Adoption of International Financial Reporting Standards', which offer exemption from applying IFRSs retrospectively. The exemptions that the company has relied on are:

- IAS 21 'The Effects of Changes in Foreign Exchange Rates' where the cumulative translation differences for foreign operations has been accounted for prospectively from the date of transition to IFRS.
- IFRS 3 'Business Combinations' where business combinations that occurred before the date of transition to IFRS have not been restated to comply with the requirements of the standard.

In addition, Caledonia has adopted the Amendment to IAS 39 'The Fair Value Option' and Amendment to IAS 19 'Employee Benefits' with effect from 1 April 2004, ahead of their effective date, being 1 April 2006.

The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 32.

The company will be required to comply with IFRS 7 'Financial Instruments: Disclosure' and IAS 1 'Presentation of Financial Statements: Capital Disclosures' in its financial statements next year. Management has not yet assessed the impact of these disclosure requirements on the financial statements.

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

Foreign currency translation
Transactions in foreign currencies are recorded at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to the functional currency using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Assets and liabilities of the group's overseas operations are measured using their functional currency, being the currency of the primary economic environment in which they operate.

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

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

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

Investments held as part of the group's business of investing in financial assets are designated as measured at fair value through profit and loss in both the consolidated financial statements and the company financial statements. Other investments held by subsidiaries are designated as available for sale in the consolidated financial statements. Other investments in subsidiaries held by the company are accounted for at cost in the financial statements of the company.

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

Quoted investments are valued at bid price or the last traded price when a bid price is not available. Unquoted investments are valued using recognised valuation methodologies, based on the International Private Equity and Venture Capital Guidelines, which reflect the amount for which an asset could be exchanged between knowledgeable, willing parties on an arm's length basis. The portfolio valuation methodology is detailed on page 62.

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

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

The company's share of net income receivable by investment limited partnerships is recognised as revenue for the period on an accruals basis.

Expenses
All expenses are accounted for on an accruals basis. Expenses of acquisition of an investment designated as held at fair value through profit or loss or expenses of an aborted acquisition of an investment are presented as transaction costs and expenses of disposal of an investment are deducted from the disposal proceeds of the investment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital reserve
The company maintains a capital reserve, which it is prohibited from distributing by virtue of its articles of association. The following items are accounted for in the capital reserve of the company:

- Gains and losses on investments held at fair value through profit or loss.
- Gains and losses on derivatives used to hedge the fair value of investments.
- Expenses and finance costs incurred directly in relation to the capital transactions.

In accordance with the company's articles of association, the company is permitted to utilise this reserve for share repurchases.

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

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

Property	25-40 years
Plant	10-15 years
Equipment	3-8 years

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

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

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

Brands and trademarks
Brands and trademarks acquired by the group are stated at cost less accumulated amortisation and impairment losses. Amortisation is on a straight-line basis over the estimated useful lives of 20 years.

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

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

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

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

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

Accounting policies
continued

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

Properties that are held for sale in the ordinary course of business or are being developed for future sale are classified as inventories.

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

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

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

Borrowings include a component of the company's deferred ordinary shares and preference shares in subsidiaries held by third parties that fall under the definition of financial liabilities under IAS 32.

Provisions
A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

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

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

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

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged, with the corresponding entry in the income statement. Gains or losses from re-measuring the derivative, or the fair value movement of the entire component of the risk that is being hedged for non-derivatives, are recognised in the income statement.

Changes in the fair value of derivative financial instruments where hedge accounting is not applied are recognised in the income statement as they arise.

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

Segment reporting
A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

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

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

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

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

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

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

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

No other group company held investments in associates.

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

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

The results and assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting, except when classified as held for sale. Interests in joint ventures are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group's share of net assets of the joint ventures, less any impairment in the value of individual investments. Losses of the joint ventures in excess of the group's interest in those joint ventures are not recognised.

Any excess of the cost of acquisition over the group's share of the fair values of the identifiable net assets of the joint ventures at the date of acquisition is recognised as goodwill. Any deficiency in the cost of acquisition below the group's share of the fair values of the identifiable net assets at the date of acquisition is credited in profit or loss in the period of acquisition.

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

Notes to the financial statements

1. Investment and other income

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Investment income				
Dividends from equity shares				
Listed UK	**11.3**	10.7	**11.3**	10.7
Listed non-UK	**0.2**	0.1	**0.4**	0.1
Unlisted	**3.9**	2.0	**5.3**	2.1
Subsidiaries	**2.0**	1.7	**–**	–
Interest on loan investments				
Listed UK	**0.3**	0.3	**0.3**	0.3
Unlisted	**3.1**	2.2	**3.4**	2.2
Subsidiaries	**1.1**	0.9	**–**	–
Limited partnerships	**0.7**	0.4	**0.7**	0.4
	22.6	18.3	**21.4**	15.8
Other income				
Interest on bank deposits	**3.6**	0.6	**4.6**	0.9
Total income	**26.2**	18.9	**26.0**	16.7
Total income comprises				
Dividend income	**17.4**	14.5	**17.0**	12.9
Interest income	**4.5**	3.4	**3.7**	2.5
Limited partnerships	**0.7**	0.4	**0.7**	0.4
Other income	**3.6**	0.6	**4.6**	0.9
	26.2	18.9	**26.0**	16.7
Investment income comprises				
Listed investments	**11.8**	11.1	**12.0**	11.1
Unlisted investments	**10.1**	6.8	**8.7**	4.3
Limited partnerships	**0.7**	0.4	**0.7**	0.4
	22.6	18.3	**21.4**	15.8

2. Segment reporting

Segment information is presented in respect of the group's business and geographical segments. The primary format, business segments, is based on the group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments
The group comprises the following business segments:

- Investing. Investment in equity and debt securities for long term growth.
- Industrial products. The manufacture and distribution of specialty chemicals, the manufacture of hydraulic valves and the manufacture and installation of heat transfer systems principally in the UK, Europe and the US.
- Consumer products. The ownership and running of a residential club in the UK, the provision of secure self-storage facilities in Italy and Spain and the distribution of crystal glass products in the UK.
- Property. Rural and commercial property investment, development and trading in the UK.

	Investing £m	Industrial products £m	Consumer products £m	Property £m	Total £m
2006					
Total revenue	342.5	80.0	26.7	3.5	452.7
Inter-segment sales	(3.1)	–	–	(1.1)	(4.2)
Revenue from external customers	339.4	80.0	26.7	2.4	448.5
Segment result	320.6	29.4	7.5	0.5	358.0
Unallocated expenses					(1.8)
Operating profit					356.2
Financing costs					(3.2)
Share of results of joint ventures					1.0
Taxation					(0.4)
Profit for the year					353.6
Segment assets	1,192.8	62.9	132.5	38.7	1,426.9
Interest in joint ventures					9.6
Unallocated assets					2.9
Total assets					1,439.4
Segment liabilities	21.7	27.5	45.9	9.4	104.5
Unallocated liabilities					9.5
Total liabilities					114.0
Capital expenditure	0.1	1.2	1.0	2.0	4.3
Depreciation	0.2	1.8	1.7	–	3.7
2005					
Total revenue	185.3	89.6	27.4	7.8	310.1
Inter-segment sales	(2.6)	–	–	(1.1)	(3.7)
Revenue from external customers	182.7	89.6	27.4	6.7	306.4
Segment result	171.5	1.5	(0.4)	1.3	173.9
Unallocated expenses					(0.4)
Operating profit					173.5
Net financing costs					(2.4)
Share of profit of joint ventures					0.6
Taxation					(3.6)
Profit for the year					168.1
Segment assets	918.2	65.6	59.9	35.6	1,079.3
Interest in joint ventures					7.5
Unallocated assets					2.7
Total assets					1,089.5
Segment liabilities	6.2	31.2	42.7	5.2	85.3
Unallocated liabilities					11.4
Total liabilities					96.7
Capital expenditure	0.2	2.9	2.0	–	5.1
Depreciation	0.3	2.3	2.7	–	5.3
Impairment losses	–	2.2	–	–	2.2

Geographical segments
The investing and property segments are managed from the UK, the consumer products segment is managed from the UK and Europe and the industrial products segment is managed from the UK, Europe and the US.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

Notes to the financial statements
continued

2. Segment reporting continued

	Europe £m	America £m	Other regions £m	Total £m
2006				
Revenue from external customers	331.2	105.2	12.1	448.5
Total assets	1,157.5	230.2	51.7	1,439.4
Capital expenditure	4.1	0.2	–	4.3
2005				
Revenue from external customers	197.1	96.4	12.9	306.4
Total assets	811.5	240.3	37.7	1,089.5
Capital expenditure	5.1	–	–	5.1

3. Expenses

Investing operations

Management expenses

	Company		Group	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Personnel expenses	**6.3**	6.7	**6.3**	6.7
Depreciation	**0.2**	0.3	**0.2**	0.3
Auditors' remuneration	**0.3**	0.2	**0.3**	0.2
Other administrative expenses	**4.0**	3.4	**4.0**	3.4
	10.8	10.6	**10.8**	10.6

The table above analyses expenses incurred by the company in managing its investment activities by the nature of the expense, even though these expenses are not incurred directly by the company. Investment management services are provided to the company by Caledonia Group Services Ltd, a wholly owned subsidiary, and charged to the company on the basis of net expenses incurred.

Other expenses

	Company		Group	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Transaction costs	**1.1**	0.2	**1.1**	0.2
Settlement proposal costs	**–**	0.4	**–**	0.4
	1.1	0.6	**1.1**	0.6

Transaction costs were expenses that are incidental to the acquisition of investments held at fair value through profit or loss and expenses incurred as part of an aborted purchase or sale process.

Settlement proposal costs were expenses incurred in formulating proposals for an elective special dividend and associated reduction of capital which assisted the resolution of a dispute amongst the shareholders of Caledonia's largest investor, The Cayzer Trust Company Ltd, which was affecting Caledonia's stability and long term investment approach.

Trading operations

Operating expenses

	2006 £m	2005 £m
Cost of sales	**69.5**	79.8
Distribution expenses	**16.0**	18.4
Administrative expenses	**21.4**	24.6
	106.9	122.8

Operating expenses included the following items:

	2006 £m	2005 £m
Depreciation	**3.5**	5.0
Impairment loss on goodwill	**–**	2.2
Restructuring costs expensed as incurred	**–**	0.2
Direct operating expenses of investment property		
Generated rental income	**1.0**	0.1
Did not generate rental income	**0.1**	0.1
Impairment reversal on trade receivable	**(0.6)**	(1.0)
Auditors' remuneration	**0.6**	0.6

Further information

Auditors' remuneration

Fees payable to KPMG Audit Plc and its affiliates were as analysed as follows:

	Company		Group	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Audit services				
Statutory audit fee	**0.1**	0.2	**0.4**	0.5
Audit related	**0.2**	–	**0.2**	–
	0.3	0.2	**0.6**	0.5
Other services				
Tax advisory services	**–**	–	**0.1**	0.1
Investment due diligence	**–**	–	**0.2**	0.2
	–	–	**0.3**	0.3
	0.3	0.2	**0.9**	0.8

Personnel expenses

	Company		Group	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Wages and salaries	**4.7**	4.8	**31.7**	34.7
Compulsory social security contributions	**0.5**	0.5	**3.9**	4.6
Contributions to defined contribution plans	**0.1**	0.5	**2.6**	1.5
Defined benefit pension plans expense (note 19)	**0.1**	0.3	**0.6**	1.3
Increase in liability for long service leave	**–**	–	**0.3**	–
Equity-settled share-based payments	**0.3**	0.3	**0.3**	0.3
National Insurance on share options	**0.6**	0.3	**0.6**	0.3
	6.3	6.7	**40.0**	42.7

The average number of employees, including executive directors, throughout the year was as follows:

	Company		Group	
	2006 No	2005 No	**2006 No**	2005 No
Average number of employees	**40**	38	**1,148**	1,609

4. Finance costs

	Company		Group	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Interest expense				
Bank loans and overdrafts	**–**	0.2	**2.8**	2.3
Loans from subsidiaries	**0.4**	0.8	**–**	–
Other	**0.4**	–	**0.4**	–
Preference share dividends	**–**	–	**–**	0.1
	0.8	1.0	**3.2**	2.4

5. Taxation

Recognised in the income statement

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Current tax expense				
Current year	**0.3**	0.3	**3.0**	2.5
Adjustments for prior years	**(0.9)**	(0.4)	**(0.6)**	(0.1)
	(0.6)	(0.1)	**2.4**	2.4
Deferred tax expense				
Origination and reversal of timing differences	**(0.8)**	(0.2)	**(2.0)**	1.2
Benefit of tax losses recognised	**–**	0.4	**–**	–
	(0.8)	0.2	**(2.0)**	1.2
Total tax expense	**(1.4)**	0.1	**0.4**	3.6

Reconciliation of effective tax rate

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Profit before tax	**348.0**	171.5	**354.0**	171.7
Tax at the domestic rate of 30%	**104.4**	51.5	**106.2**	51.5
Effect of tax rates in foreign jurisdictions	**–**	–	**–**	0.1
Non-deductible expenses	**0.3**	0.1	**0.7**	0.5
Utilisation of tax losses	**–**	–	**(0.2)**	(0.1)
Allocation of group relief at a reduced rate	**–**	0.2	**–**	–
Losses for the year unrelieved	**–**	–	**1.4**	1.9
Non-taxable gains and losses on investments	**(100.9)**	(47.4)	**(102.7)**	(46.4)
Non-taxable UK dividend income	**(4.3)**	(4.0)	**(3.9)**	(3.8)
Other timing differences	**–**	0.1	**(0.5)**	–
Over provided in prior years	**(0.9)**	(0.4)	**(0.6)**	(0.1)
	(1.4)	0.1	**0.4**	3.6

Recognised directly in equity

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Relating to actuarial gains and losses on defined benefit pension schemes	**(0.3)**	0.3	**(0.3)**	–

Current tax assets and liabilities

The current tax asset of £0.5m (2005 – £1.9m) represents the amount of income taxes recoverable in respect of current and prior periods that exceed payments.

6. Dividends

	2006 p	2006 £m	2005 p	2005 £m
Amounts recognised as distributions to equity holders in the period				
Final dividend for the year ended 31 March 2005 (2004)	**19.5**	**12.4**	18.6	13.4
Interim dividend for the year ended 31 March 2006 (2005)	**9.1**	**5.8**	8.7	5.5
Elective special dividend				88.0
	28.6	**18.2**	27.3	106.9
Proposed final dividend for the year ended 31 March 2006 (2005)	20.5	13.0	19.5	12.4

The proposed final dividend is subject to approval by shareholders at the annual general meeting to be held on 20 July 2006 and has not been included as a liability in these financial statements.

For the purposes of Section 842 of the Income and Corporation Taxes Act 1988, the dividends payable for the year ended 31 March 2006 are the interim dividend paid and final dividend payable for that period, amounting to £18.8m (2005 – £17.9m).

7. Earnings and net asset value per share

Basic earnings per share

The calculation of basic earnings per share of the company and of the group at 31 March 2006 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 March 2006, calculated as follows:

Profit attributable to ordinary shareholders

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Profit for the year	**349.4**	171.4	**353.5**	167.9

Weighted average number of ordinary shares

	Company 2006 000's	Company 2005 000's	Group 2006 000's	Group 2005 000's
Issued ordinary shares at period start	**64,206**	72,613	**64,206**	72,613
Effect of shares held in treasury	**(100)**	(69)	**(100)**	(69)
Effect of shares held by ESOP	**(740)**	(525)	**(740)**	(525)
Effect of shares cancelled in June 2004	**–**	(6,311)	**–**	(6,311)
Shares held by a subsidiary	**–**	–	**(51)**	(51)
Weighted average number of ordinary shares during the period	**63,366**	65,708	**63,315**	65,657

Diluted earnings per share

The calculation of diluted earnings per share of the company and of the group at 31 March 2006 was based on profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 March 2006, calculated as follows:

Profit attributable to ordinary shareholders (diluted)

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Profit attributable to ordinary shareholders	**349.4**	171.4	**353.5**	167.9
After-tax effect of interest on share options proceeds	**0.2**	0.2	**0.2**	0.2
Profit attributable to ordinary shareholders (diluted)	**349.6**	171.6	**353.7**	168.1

Weighted average number of ordinary shares (diluted)

	Company 2006 000's	Company 2005 000's	Group 2006 000's	Group 2005 000's
Weighted average number of ordinary shares during the period	**63,366**	65,708	**63,315**	65,657
Effect of share options	**294**	224	**294**	224
Weighted average number of ordinary shares (diluted) during the period	**63,660**	65,932	**63,609**	65,881

Net asset value per share

The company's basic net asset value per ordinary share is based on the net assets of the company at the year end and on the number of ordinary shares in issue at the year end less shares held by the Caledonia Investments plc Employee Share Trust and shares held in treasury. The company's diluted net asset value per ordinary share assumes the exercise of all outstanding share options.

	Net asset value per share 2006 p	Net asset value per share 2005 p	Net assets attributable 2006 £m	Net assets attributable 2005 £m	Number of shares 2006 000's	Number of shares 2005 000's
Basic	**2061**	1543	**1,307.0**	978.3	**63,411**	63,396
Effect of exercising outstanding share options			10.1	9.1	1,014	1,084
Diluted	**2044**	1531	**1,317.1**	987.4	**64,425**	64,480

Notes to the financial statements
continued

8. Property, plant and equipment

Group

	Property £m	Plant £m	Equipment £m	Total £m
Cost				
Balance at 1 April 2004	80.0	20.6	13.4	114.0
Acquisitions through business combinations	0.2	0.1	0.4	0.7
Other acquisitions	0.7	1.8	2.6	5.1
Disposal of operations	(0.6)	(5.6)	(0.4)	(6.6)
Other disposals	(1.6)	(1.1)	(0.9)	(3.6)
Transfer to investment property	(3.4)	–	–	(3.4)
Effect of movements in foreign exchange	0.6	–	–	0.6
Balance at 31 March 2005	75.9	15.8	15.1	106.8
Other acquisitions	2.5	1.3	0.5	4.3
Disposal of operations	(7.3)	(10.0)	(3.0)	(20.3)
Other disposals	(1.1)	(1.7)	(0.9)	(3.7)
Effect of movements in foreign exchange	0.6	0.5	0.2	1.3
Balance at 31 March 2006	70.6	5.9	11.9	88.4
Depreciation and impairment				
Balance at 1 April 2004	10.3	11.4	8.3	30.0
Depreciation charge for the year	2.1	1.8	1.4	5.3
Disposal of operations	(0.4)	(4.7)	(0.3)	(5.4)
Other disposals	(0.4)	(0.7)	(0.3)	(1.4)
Transfer to investment property	(0.9)	–	–	(0.9)
Balance at 31 March 2005	10.7	7.8	9.1	27.6
Depreciation charge for the year	1.1	1.5	1.1	3.7
Disposal of operations	(0.8)	(7.7)	(2.4)	(10.9)
Other disposals	(0.1)	(0.9)	(0.8)	(1.8)
Effect of movements in foreign exchange	0.2	0.3	0.2	0.7
Balance at 31 March 2006	11.1	1.0	7.2	19.3
Carrying amounts				
At 1 April 2004	69.7	9.2	5.1	84.0
At 31 March 2005	65.2	8.0	6.0	79.2
At 31 March 2006	59.5	4.9	4.7	69.1

Security
At 31 March 2006, properties with a carrying amount of £35.2m (2005 – £57.7m) were subject to charges to secure bank loans (note 17).

9. Investment property

Group

	2006 £m	2005 £m
Balance at period start	**4.1**	0.5
Transfer from property, plant and equipment	**–**	2.5
Fair value adjustments	**1.7**	1.1
Balance at period end	**5.8**	4.1

The carrying amount of investment property was the fair value of the property as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same location as the group's investment property.

Investment property comprised a commercial property that was leased out for £0.3m per annum over a five year period and land let out for £0.2m per annum over a five year period.

10. Intangible assets

Group

	Goodwill £m	Brands and trademarks £m	Total £m
Cost			
Balance at 1 April 2004	8.1	0.2	8.3
Acquisitions through business combinations	0.4	0.5	0.9
Disposal of operations	(0.1)	–	(0.1)
Balance at 31 March 2005	8.4	0.7	9.1
Effect of movements in foreign exchange	0.6	–	0.6
Balance at 31 March 2006	9.0	0.7	9.7
Amortisation and impairment			
Balance at 1 April 2004	3.2	0.1	3.3
Impairment charge	2.2	–	2.2
Balance at 31 March 2005	5.4	0.1	5.5
Effect of movements in foreign exchange	0.2	–	0.2
Balance at 31 March 2006	5.6	0.1	5.7
Carrying amounts			
At 1 April 2004	4.9	0.1	5.0
At 31 March 2005	3.0	0.6	3.6
At 31 March 2006	3.4	0.6	4.0

Impairment charge
The impairment charge of £2.2m in 2005 was recognised in operating expenses of trading operations in the income statement.

Impairment tests for goodwill
The carrying amount of goodwill is attributable to a single cash generating unit, the Amber group. The recoverable amount of the unit has been determined on the basis of the higher of value in use and fair value less costs to sell using up to date projections and forecasts from the unit managements' business plan.

11. Investments

Company

Non-current investments

	UK listed £m	Non-UK listed £m	Unlisted £m	Subsidiaries £m	Total £m
Fair value at 1 April 2004	482.0	157.7	164.7	81.7	886.1
Purchases at cost	25.7	7.4	89.5	1.2	123.8
Sales proceeds	(78.7)	(62.1)	(76.0)	(1.0)	(217.8)
Capital distributions	–	–	–	(4.0)	(4.0)
Group reorganisation	–	–	1.1	(1.1)	–
Gains and losses on investments	71.4	46.4	35.8	5.4	159.0
Fair value at 31 March 2005	500.4	149.4	215.1	82.2	947.1
Purchases at cost	38.1	9.6	96.5	11.0	155.2
Sales proceeds	(149.8)	(27.4)	(82.8)	(47.0)	(307.0)
Reclassifications	–	8.1	(8.1)	–	–
Gains and losses on investments	208.9	40.8	50.2	52.8	352.7
Fair value at 31 March 2006	597.6	180.5	270.9	99.0	1,148.0

Included within subsidiaries are investments which do not constitute part of the company's portfolio and are held at cost. These amounted to £2.8m (2005 – £2.8m).

Current investments

	2006 £m	2005 £m
Money market funds	**75.8**	–

Group

	2006 £m	2005 £m
Non-current investments		
Investments held at fair value through profit or loss		
UK listed securities	**597.6**	500.4
Non-UK listed securities	**180.5**	149.3
Unlisted securities	**270.9**	231.5
	1,049.0	881.2
Available for sale investments		
Non-UK listed securities	**–**	3.4
Unlisted securities	**0.5**	0.5
	0.5	3.9
Total non-current investments	**1,049.5**	885.1
Current investments		
Money market funds	**75.8**	–
Total current investments	**75.8**	–

12. Interests in joint ventures

The group has the following interests in joint ventures:

	Country	Ownership 2006 %	Ownership 2005 %
Moredun LP	UK	**33%**	33%
Willmoreton Properties Ltd	UK	**50%**	50%
York Investors LLP	UK	**25%**	–
CLR Developments Ltd	UK	**44%**	38%

The Group's share of post-acquisition total recognised profit or loss in the above joint ventures for the year ended 31 March 2006 was £1.0m (2005 – £0.6m).

Summary financial information on joint ventures – 100%:

	Assets £m	Liabilities £m	Equity £m	Revenue £m	Profit/ (loss) £m
2006					
Moredun LP	53.7	(37.7)	16.0	17.9	2.3
Willmoreton Properties Ltd	14.3	(9.4)	4.9	3.3	0.1
York Investors LLP	15.4	(10.7)	4.7	1.3	0.4
CLR Developments Ltd	0.8	–	0.8	–	–
	84.2	(57.8)	26.4	22.5	2.8
2005					
Moredun LP	65.5	(51.8)	13.7	0.7	(0.2)
Willmoreton Properties Ltd	8.0	(3.4)	4.6	0.9	1.1
CLR Developments Ltd	0.8	–	0.8	–	–
	74.3	(55.2)	19.1	1.6	0.9

13. Deferred tax assets and liabilities

Company

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets £m	Liabilities £m	Net £m
2006			
Investments	(1.9)	(0.6)	(2.5)
Employee benefits	0.1	–	0.1
Provisions	3.0	–	3.0
	1.2	(0.6)	0.6
2005			
Investments	(0.7)	(0.5)	(1.2)
Employee benefits	0.7	–	0.7
	–	(0.5)	(0.5)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2006 £m	2005 £m
Deductible temporary differences	**3.3**	1.7

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the company can utilise the benefits.

Movement in temporary differences during the year

	Balance at period start £m	Recogn-ised in income £m	Recogn-ised in equity £m	Balance at period end £m
2006				
Investments	(1.2)	(1.3)	–	(2.5)
Employee benefits	0.7	(0.9)	0.3	0.1
Provisions	–	3.0	–	3.0
	(0.5)	0.8	0.3	0.6
2005				
Investments	(1.4)	0.2	–	(1.2)
Employee benefits	1.0	–	(0.3)	0.7
Tax losses carried forward	0.4	(0.4)	–	–
	–	(0.2)	(0.3)	(0.5)

Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets £m	Liabilities £m	Net £m
2006			
Investments	(1.9)	(0.6)	(2.5)
Employee benefits	1.3	0.6	1.9
Provisions	3.0	–	3.0
Other items	–	(0.7)	(0.7)
	2.4	(0.7)	1.7
2005			
Investments	(0.7)	(0.5)	(1.2)
Employee benefits	1.9	–	1.9
Other items	(0.4)	(0.9)	(1.3)
	0.8	(1.4)	(0.6)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2006 £m	2005 £m
Deductible temporary differences	**3.9**	4.4
Tax losses	**5.8**	5.4
	9.7	9.8

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the company can utilise the benefits.

£0.7m of the tax losses expire after three years and the balance does not expire.

Notes to the financial statements
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13. Deferred tax assets and liabilities continued

Movement in temporary differences during the year

	Balance at period start £m	Recognised in income £m	Recognised in equity £m	Balance at period end £m
2006				
Investments	(1.2)	(1.3)	–	(2.5)
Employee benefits	1.9	(0.3)	0.3	1.9
Provisions	–	3.0	–	3.0
Other items	(1.3)	0.6	–	(0.7)
	(0.6)	2.0	0.3	1.7
2005				
Investments	(1.4)	0.2	–	(1.2)
Employee benefits	2.4	(0.5)	–	1.9
Other items	(0.8)	(0.5)	–	(1.3)
Tax losses carried forward	0.4	(0.4)	–	–
	0.6	(1.2)	–	(0.6)

14. Inventories

	Group 2006 £m	Group 2005 £m
Raw materials and consumables	5.5	4.1
Work in progress	1.0	1.9
Finished goods	6.8	9.4
Properties held for sale	16.9	7.9
	30.2	23.3

15. Operating and other receivables

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Trade receivables and prepayments	4.2	4.5	27.8	31.3
Derivatives	–	1.4	–	1.4
	4.2	5.9	27.8	32.7

16. Cash and cash equivalents

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Bank balances	42.4	3.2	61.7	13.1
Short term deposits	61.4	36.4	103.0	38.2
Cash and cash equivalents	103.8	39.6	164.7	51.3
Bank overdrafts	–	–	(8.2)	(2.9)
	103.8	39.6	156.5	48.4

17. Interest-bearing loans and borrowings

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Non-current liabilities				
Secured bank loans	–	–	31.3	33.7
Unsecured bank facility	–	–	9.8	4.2
Cumulative preference shares	–	–	0.2	0.2
	–	–	41.3	38.1
Current liabilities				
Current portion of secured bank loans	–	–	0.7	0.1
Borrowings from subsidiaries	–	10.2	–	–
	–	10.2	0.7	0.1

Terms and debt repayment schedule
The bank loans were secured over land and buildings with a carrying amount of £35.2m (2005 – £56.4m) (note 8).

18. Operating and other payables

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Trade payables	1.1	2.8	9.2	15.6
Non-trade payables and accrued expenses	1.5	1.3	14.8	11.5
Derivatives	1.4	0.7	1.4	0.7
	4.0	4.8	25.4	27.8

19. Employee benefits

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Current liabilities				
Pension contributions	–	–	8.5	–
Profit sharing bonus	–	–	1.4	1.3
	–	–	9.9	1.3
Non-current liabilities				
Defined benefit pension obligations	0.4	1.9	6.7	14.1
National Insurance on share options	1.0	0.4	1.0	0.4
Liability for long service leave	–	–	0.3	–
	1.4	2.3	8.0	14.5
	1.4	2.3	17.9	15.8

Defined benefit pension obligations
The company has a constructive obligation for a defined benefit pension plan and the group makes contributions to five plans in the UK and US that provide pension benefits for employees upon retirement.

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Present value of funded obligations	21.9	16.6	65.9	55.3
Fair value of plan assets	(21.5)	(14.7)	(59.2)	(41.2)
Present value of net obligations	0.4	1.9	6.7	14.1

Changes in the present value of defined benefit obligations were as follows:

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Balance at period start	16.6	15.7	55.3	51.6
Service cost	0.3	0.4	1.0	1.2
Interest costs	0.9	0.9	2.9	2.8
Employee contributions	–	–	0.1	0.2
Defined benefit obligation (gain)/loss	4.5	–	9.7	0.4
Actual benefit payments	(0.4)	(0.4)	(1.8)	(1.0)
Settlement and curtailment	–	–	(0.3)	0.1
Exchange rate	–	–	(1.0)	–
Balance at period end	21.9	16.6	65.9	55.3

Changes in the fair value of plan assets were as follows:

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Balance at period start	14.7	12.3	41.2	35.9
Expected return on assets	1.1	1.1	3.0	2.7
Actuarial gain/(loss)	3.3	0.9	7.9	0.6
Employer contributions	2.8	0.8	9.2	2.7
Employee contributions	–	–	0.1	0.2
Actual benefit payments	(0.4)	(0.4)	(1.8)	(1.0)
Settlement and curtailment	–	–	–	0.1
Exchange rate	–	–	(0.4)	–
Balance at period end	21.5	14.7	59.2	41.2

Amounts recognised in the income statement were as follows:

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Current service costs	**0.3**	0.4	**1.0**	1.2
Interest on obligation	**0.9**	0.9	**2.9**	2.8
Expected return on plan assets	**(1.1)**	(1.0)	**(3.0)**	(2.8)
Settlement and curtailment	**–**	–	**(0.3)**	0.1
	0.1	0.3	**0.6**	1.3

The expense was recognised in the following lines in the income statement:

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Management expenses of investing activities	**0.1**	0.3	**0.1**	0.3
Operating expenses of trading activities	**–**	–	**0.5**	1.0
	0.1	0.3	**0.6**	1.3

Amounts recognised in equity were as follows:

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Actuarial gains and losses	**(1.2)**	1.3	**(1.8)**	1.0

An analysis of plan assets and expected returns at the end of the period (expressed as weighted averages) was as follows:

	Company 2006 £m	Company 2005 £m	Group 2006 £m	Group 2005 £m
Plan assets				
Equities	**15.9**	10.4	**43.9**	32.6
Bonds	**0.8**	0.8	**3.4**	3.3
Other assets	**4.8**	3.5	**11.9**	5.3
	21.5	14.7	**59.2**	41.2
Expected returns				
Equities	**8.0%**	8.3%	**7.7%**	8.0%
Bonds	**4.7%**	5.0%	**4.6%**	4.9%
Other assets	**4.8%**	4.8%	**4.5%**	4.8%
	7.1%	7.2%	**6.9%**	7.3%

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages) were as follows:

	Company 2006 %	Company 2005 %	Group 2006 %	Group 2005 %
Discount rate at period end	**5.0**	5.4	**5.0**	5.4
Future salary increases	**5.1**	5.0	**4.3**	4.3
Future pension increases	**2.8**	2.8	**3.0**	3.0
Price inflation	**2.8**	2.8	**3.0**	3.0

Mortality rates were based on the medium cohort improvement rates from the PMA92/PFA92 mortality tables, published by the actuarial profession. The average life expectancies used were 24 to 26 years for males and 27 to 29 years for females at 62 years of age.

Share-based payments
The company currently has three executive share option schemes, an original scheme established in 1988, a 1998 scheme and a 2005 scheme. These schemes entitle senior employees to purchase shares in the company at the market price of the shares at the date of grant and on similar terms, subject to service and company performance criteria. Under the terms of the schemes, options may be exercised between three and ten years after the date of grant, although only one-third of the options may be exercised after three years from grant, with the remaining two-thirds becoming exercisable six years after grant. A number of grants have been made under these schemes.

A number of grants under the original and the 1998 schemes were made before 7 November 2002. IFRS 2 has been applied to these grants as the fair value of these share options has been publicly disclosed.

In addition, the company has special options arrangements for Mr Ingram and Mr May. The terms of grants under these arrangements are similar to that for options granted under the 1998 scheme other than in respect of the performance retesting criteria. Details of these options are set out on page 56 of the directors' remuneration report.

The terms and conditions of the grants of options outstanding as at 31 March 2006 were as follows, whereby all options are settled by physical delivery of shares:

Grant date	Entitlement	Number of instruments	Vesting conditions
31.07.96	Senior employees	12,000	Three/six years of service and NAV outperforms FTSE All-Share and FT World average over three years
16.07.97	Senior employees	12,000	Three/six years of service and NAV outperforms FTSE All-Share and FT World average over three years
02.09.98	Senior employees	100,000	Three/six years of service and NAV outperforms RPI by 3% per annum or FTSE 250 and FTSE Inv Co average over three years
26.07.99	Senior employees	25,500	Three/six years of service and NAV outperforms RPI by 3% per annum or FTSE 250 and FTSE Inv Co average over three years
19.07.00	Senior employees	68,583	Three/six years of service and NAV outperforms RPI by 3% per annum or FTSE 250 and FTSE Inv Co average over three years
24.07.01	Senior employees	104,335	Three/six years of service and NAV outperforms RPI by 3% per annum or FTSE 250 and FTSE Inv Co average over three years
05.07.02	Senior employees	90,170	Three/six years of service and NAV outperforms RPI by 9% or FTSE All-Share
05.07.02	T C W Ingram	55,334	Three/six years of service and total return outperforms FTSE All-Share Total Return by 2% per annum over the vesting period
20.11.03	Senior employees	170,700	Three/six years of service and NAV outperforms RPI by 9% or FTSE All-Share
20.11.03	J M May	28,000	Three/six years of service and total return outperforms FTSE All-Share Total Return by 2% per annum over the vesting period
26.05.04	Senior employees	163,600	Three/six years of service and 50% vests if NAV outperforms RPI by 9% and/or 50% vests if NAV outperforms FTSE All-Share
19.08.05	Senior employees	184,275	Three/six years of service and 50% vests if NAV outperforms RPI by 9% and/or 50% vests if NAV outperforms FTSE All-Share by 3%
Total share options		1,014,497	

All options have a life of 10 years.

The number and weighted average exercise prices of share options were as follows:

	Weighted average exercise price 2006 p	Number of options 2006 000's	Weighted average exercise price 2005 p	Number of options 2005 000's
Outstanding at the period start	**843**	**1,084**	786	1,234
Exercised during the period	**771**	**(254)**	726	(314)
Granted during the period	**1580**	**184**	1055	164
Outstanding at the period end	**995**	**1,014**	843	1,084

The options outstanding at 31 March 2006 have an exercise price in the range of 677.5p to 1580p and a weighted average contractual life of 10 years.

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19. Employee benefits continued

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Hull-White Employee Stock Option Valuation model, a binomial or trinomial lattice model that extends the theory of the Black-Scholes model to take account of the impact of future events, such as early exercise by employees, or employee exit rates after vesting. Also, the Hull-White model defines the conditions under which employees are expected to exercise their options after vesting in terms of the share price reaching a certain multiple of the exercise price.

The weighted average fair value at the measurement date of share options granted during the year, and parameters used to derive the fair value, was as follows:

	Senior employees 2006	Senior employees 2005
Fair value at measurement date	**264p**	200p
Share price	**1580p**	1055p
Exercise price	**1580p**	1055p
Expected volatility	**11.9%**	17.4%
Exercise multiple	**2.0**	2.0
Expected dividends	**2.1%**	3.1%
Risk-free interest rate (based on national government bonds)	**4.2%**	5.0%

The expected volatility is calculated from historic volatility data using a sophisticated GARCH model that takes account of volatility clustering and mean reversion.

Share options are granted under a service condition and non-market performance conditions. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants.

Employee expenses were as follows:

	Company		Group	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Expense arising from share-based payments transactions	**0.3**	0.3	**0.3**	0.3

20. Provisions

	Company £m	Group £m
Balance at 1 April 2005	–	0.6
Provisions made during the year	13.5	10.4
Balance at 31 March 2006	13.5	11.0
Non-current	–	–
Current	13.5	11.0
	13.5	11.0

Of the provisions made during the year, £3.5m was included in the income statement in gains and losses on investments held at fair value through profit or loss.

Provisions relate to the disposal or mandated disposal of investments. The provision is based on an assessment of matters relating to the disposal or mandated disposal. These matters are expected to be resolved over the next year.

21. Financial instruments

The group's financial instruments comprise securities and other investments, cash balances, borrowings and receivables and payables that arise from its operations. The group's investment portfolio includes quoted and non-quoted equity investments, debt instruments and investments in other funds that are intended to be held for the long term.

The main types of financial risk to which the group is exposed are market risk and credit risk.

The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed are discussed below.

Market risk

Market risk embodies the potential for both losses and gains and includes currency risk, fair value interest rate risk and price risk.

The group's strategy on the management of market risk is driven by its investment objective, which is to outperform the FTSE All-Share Total Return index over five and ten years and to achieve consistently a positive return over five years. The group invests in a range of investments, including quoted and unquoted equity securities, debt instruments and non-equity investment funds in a range of sectors and regions.

The board monitors the group's investment exposure against internally set guidelines specifying the maximum proportion of total assets that may be invested in various sectors and regions. The board also reviews the position, prospects and exit strategy for all substantial investments at least once a year, on a rolling basis.

Details of the group's investment portfolio at the balance sheet date are disclosed in the table of significant investments set out on pages 60 and 61. Individual investments in debt and equity instruments are disclosed separately.

Currency risk

The group may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the group is exposed to risks that the exchange rate of its functional currency may change relative to other currencies in a manner that has an adverse effect on the value of that portion of assets and liabilities denominated in currencies other than the functional currency.

The group's policy is not to enter into any structural currency hedging transactions. However, when a decision is taken to realise a currency denominated investment, derivatives may be used to hedge against currency fluctuations to the expected date of realisation, depending on the directors' view of the likely movement in the exchange rate to anticipated disposal. The policy has changed over the year. At 31 March 2005, the policy was to hedge all exposure to US dollar denominated investments and that exposure to the euro and other currencies in aggregate should each not exceed 10% of net assets. At 31 March 2006, the company and group had no currency hedging positions (2005 – £163.0m).

The total net exposure to fluctuations in foreign currency exchange rates at the balance sheet date was as follows:

	Company		Group	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Assets				
US dollar	**189.0**	28.0	**198.7**	24.9
Euro	**42.7**	33.0	**66.6**	63.5
Indian rupee	**29.7**	8.4	**29.7**	8.4
Hong Kong dollar	**3.5**	–	**3.5**	15.7
Canadian dollar	**3.5**	–	**3.5**	–
Australian dollar	**–**	–	**1.8**	1.3
	268.4	69.4	**303.8**	113.8

Interest rate risk

The majority of the group's financial assets are non-interest bearing. Interest-bearing financial assets and interest-bearing financial liabilities mature or reprice in the short term, no longer than twelve months. As a result, the group is subject to limited exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents of the group are invested in term deposits with the term to maturity of up to three months and money market funds. Investments in debt securities are fixed rate instruments with the term to maturity of up to twelve months. The maturity dates of the fixed income instruments correspond to their repricing dates.

The group uses interest rate collars to manage its interest rate risk exposure. At 31 March 2006 and 2005, the group had collars limiting interest rates to between 4.5% and 6.5% on £20.5m of the group's borrowing.

The exposure to interest rate risks was as follows:

	Up to 6 mths £m	6 mths to 2 years £m	Over 2 years £m	Non-interest £m	Total £m
Company					
2006					
Investments at fair value	**45.0**	**1.1**	**10.4**	**1,088.7**	**1,145.2**
Money market funds	**75.8**	**–**	**–**	**–**	**75.8**
Cash and cash equivalents	**103.8**	**–**	**–**	**–**	**103.8**
	224.6	**1.1**	**10.4**	**1,088.7**	**1,324.8**
2005					
Investments at fair value	47.5	1.1	9.8	885.9	944.3
Cash and cash equivalents	39.6	–	–	–	39.6
	87.1	1.1	9.8	885.9	983.9
Borrowings	(10.2)	–	–	–	(10.2)
Group					
2006					
Investments at fair value	**20.1**	**1.1**	**10.4**	**1,017.4**	**1,049.0**
Available for sale investments	**–**	**–**	**–**	**0.5**	**0.5**
Money market funds	**75.8**	**–**	**–**	**–**	**75.8**
Cash and cash equivalents	**164.7**	**–**	**–**	**–**	**164.7**
	260.6	**1.1**	**10.4**	**1,017.9**	**1,290.0**
Borrowings	**(50.2)**	**–**	**–**	**–**	**(50.2)**
2005					
Investments at fair value	36.1	1.1	9.8	834.2	881.2
Available for sale investments	–	–	–	3.9	3.9
Cash and cash equivalents	51.3	–	–	–	51.3
	87.4	1.1	9.8	838.1	936.4
Borrowings	(41.1)	–	–	–	(41.1)

The table below summarises the weighted average effective interest rates for the interest-bearing financial instruments.

	Company		Group	
	2006 %	2005 %	**2006 %**	2005 %
Assets				
Cash and cash equivalents	**4.6**	4.7	**4.6**	4.7
Investments in debt securities	**5.6**	6.5	**5.7**	6.7
Weighted average	**5.2**	5.7	**5.1**	5.7
Liabilities				
Borrowings	**–**	6.5	**4.9**	5.1

Price risk

Price risk is risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market.

As the majority of the company's financial instruments are carried at fair value with fair value changes recognised in the income statement, all changes in market conditions will directly affect net investment income.

Price risk is mitigated by constructing a diversified portfolio of instruments traded on various markets and direct involvement in the management of the investment portfolio.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the group. The group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis.

At 31 March 2006, the financial assets exposed to credit risk were as follows:

	Company		Group	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Investments in debt instruments	**56.5**	58.4	**31.6**	47.0
Operating and other receivables	**4.2**	5.9	**27.8**	32.7
Money market funds	**75.8**	–	**75.8**	–
Cash and cash equivalents	**103.8**	39.6	**164.7**	51.3
	240.3	103.9	**299.9**	131.0

The group invests in debt instruments as part of its investing activities. Prior to making investments, management has in place a process of review that, amongst other things, evaluates a potential investee's ability to service and repay its debt. Management reviews the financial position of investee companies, including their continuing ability to service and repay debt, on a regular basis.

The exposure to credit risk on operating and other receivables is mitigated by performing credit evaluations on major customers.

Credit risk arising on money market funds and cash and cash equivalents is mitigated by spreading investments and deposits across a number of investment grade banks with a credit rating of 'AA3' or better as determined by Moody's rating agency. The company receives a monthly rating update, and relevant credit risks are reviewed accordingly.

All transactions in listed securities are settled on delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet their obligation.

There were no significant concentrations of credit risk to counterparties at 31 March 2006.

Fair value

Most of the group's financial instruments are carried at fair value on the balance sheet. For certain other financial instruments, specifically operating and other receivables and payables, the carrying amounts approximate fair value due to the immediate or short term nature of these financial instruments.

The principal methods and assumptions used in estimating the fair value of investments are disclosed on page 62.

22. Capital and reserves

Share capital and share premium

	Ordinary shares £m	Deferred ordinary shares £m	Share premium £m	Total £m
Balance at 1 April 2004	3.6	0.4	1.3	5.3
Cancellation of own shares	(0.4)	–	–	(0.4)
Balance at 31 March 2005 and 2006	3.2	0.4	1.3	4.9

The number of fully paid shares outstanding was as follows:

	Ordinary shares		Deferred ordinary shares	
	2006 000's	2005 000's	**2006 000's**	2005 000's
Balance at period start	**64,206**	72,613	**8,000**	8,000
Cancelled	**–**	(8,407)	**–**	–
Balance at period end	**64,206**	64,206	**8,000**	8,000

The company has also issued share options (note 19).

As at 31 March 2006, the authorised share capital comprised 112,592,000 ordinary shares (2005 –112,592,000) and 8,000,000 (2005 – 8,000,000) deferred ordinary shares. The ordinary and deferred ordinary shares have a par value of 5p.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. In respect of the company's shares that are held by the group, all voting rights are suspended.

The deferred ordinary shares carry no voting rights and are not redeemable. They 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. The company is required to pay the dividend to the extent that it has distributable profits. 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 of Caledonia.

These shares are considered compound financial instruments under IAS 32 and are required to be separated into a debt and an equity component. The debt component, a perpetual debt, represents the present value of the fixed cumulative dividend of 1% per annum calculated on the date the deferred shares were issued. This component of the deferred shares has

Notes to the financial statements
continued

22. Capital and reserves continued

been classified as non-current liabilities in the financial statements of the company. The fixed cumulative dividend has been reclassified from dividend to interest expense in the income statement of the financial statements of the company.

Authority to purchase own shares

At its annual general meeting on 13 July 2005, the company obtained shareholders' approval for the renewal of its authority to make market purchases of up to 6,410,500 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 2007 or, if earlier, at the conclusion of the next annual general meeting.

On the same date, non-Concert Party 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 the maximum percentage of voting rights of shares held by the concert party not exceeding 49.9% of the total voting rights of the ordinary share capital of the company as a result of purchases by the company. This waiver expires on 13 July 2006.

Capital redemption reserve

The capital redemption reserve comprises the nominal value of those shares purchased by the company out of its own profits and cancelled. At 31 March 2006, the capital redemption reserve was £1.2m (2005 and 2004 – £1.2m). There was no movement in the capital redemption reserve in the current or prior years.

Reserves
Company

	Capital reserve (non-distributable)		Retained earnings (distributable)	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Balance at period start	**607.3**	449.5	**364.9**	461.8
Total recognised income and expense	**342.1**	163.1	**6.4**	9.3
Net purchase of own shares	**(1.9)**	(5.3)	**–**	–
Own shares cancelled	**–**	–	**–**	0.4
Share-based payments	**–**	–	**0.3**	0.3
Dividends to shareholders	**–**	–	**(18.2)**	(106.9)
Balance at period end	**947.5**	607.3	**353.4**	364.9

Group

	Translation reserve £m	Fair value reserve £m	Retained earnings £m	Minority interest £m
Balance at 1 April 2004	–	–	928.3	0.7
Total recognised income and expense	(0.2)	0.3	168.9	0.2
Net purchase of own shares	–	–	(5.3)	–
Own shares cancelled	–	–	0.4	–
Share-based payments	–	–	0.3	–
Elective special dividend	–	–	(88.0)	–
Dividends to shareholders	–	–	(18.9)	–
Balance at 31 March 2005	(0.2)	0.3	985.7	0.9
Total recognised income and expense	0.7	(0.3)	352.0	0.1
Purchase from minority	–	–	–	(0.1)
Net purchase of own shares	–	–	(1.9)	–
Share-based payments	–	–	0.3	–
Dividends to shareholders	–	–	(18.2)	–
Balance at 31 March 2006	0.5	–	1,317.9	0.9

The foreign exchange translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the group, as well as from the translation of liabilities that hedge the group's net investment in a foreign subsidiary.

The fair value reserve for available for sale investments includes the cumulative net change in fair value of available for sale investments until the investment is derecognised.

23. Disposal of subsidiaries

The aggregate net assets of subsidiaries sold were as follows:

	2006 £m	2005 £m
Property, plant and equipment	**9.4**	1.3
Investments at fair value through profit or loss	**34.8**	–
Inventories	**4.3**	1.4
Trade and other receivables	**4.8**	0.4
Cash and cash equivalents	**1.3**	–
Trade and other payables	**(3.3)**	(0.2)
Current tax liability	**(0.9)**	–
Deferred tax liability	**(0.2)**	–
Attributable goodwill	**–**	0.5
Minority interests	**–**	(0.1)
	50.2	3.3
Gain on disposal	**31.4**	–
Total consideration	**81.6**	3.3
Satisfied by		
Cash	**81.6**	3.3
Net cash inflow arising on disposal		
Cash consideration received	**81.6**	3.3
Cash and cash equivalents sold	**(1.3)**	–
	80.3	3.3

24. Operating leases

Leases as lessee

Non-cancellable operating lease rentals were payable as follows:

	Company		Group	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Less than one year	**–**	–	**1.0**	1.0
Between one and five years	**–**	–	**2.6**	2.7
More than five year	**–**	–	**3.7**	3.9
	–	–	**7.3**	7.6

The group leases storage and factory facilities and various items of equipment under operating leases. None of the leases include contingent rentals.

During the year ended 31 March 2006, £0.5m (2005 – £0.2m) was recognised as an expense in the income statement in respect of operating leases.

Leases as lessor

The group leases out its investment property under operating leases (note 9). The future minimum lease payments under non-cancellable leases were as follows:

	Company		Group	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Less than one year	**–**	–	**0.7**	0.7
Between one and five years	**–**	–	**1.4**	2.1
More than five year	**–**	–	**0.1**	–
	–	–	**2.2**	2.8

25. Capital commitments

At the balance sheet date, the company had entered into unconditional loan commitments to limited partnerships, commitments to other investment funds and loan facilities to portfolio companies. In addition, other group companies had committed to incur capital expenditure.

	Company		Group	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Investments				
Loan and other commitments contracted but not called	**85.4**	47.2	**85.4**	47.2
Property, plant and equipment				
Contracted but not delivered	**–**	–	**–**	0.2
	85.4	47.2	**85.4**	47.4

26. Contingencies

A subsidiary is defending a warranty claim in Europe. Whilst liability is not admitted, if defence against the action is unsuccessful, fines and legal costs could amount to £2.2m. The directors do not expect the outcome of the action to have a material effect on the group's financial position as insurance cover is in place.

27. Related parties

Identity of related parties

The company and group has a related party relationship with its subsidiaries (note 28), associates (note 29), joint ventures (note 12) and with its key management personnel, being its directors.

Transactions with key management personnel

Certain directors of the company and their immediate relatives have significant influence in The Cayzer Trust Company Ltd, which held 33.3% of the voting shares of the company as at 31 March 2006 (2005 – 33.3%).

In addition to their salaries, the group provides non-cash benefits to directors and executive officers and contributes to a post-employment defined benefit plan on their behalf. In accordance with the terms of the plan, directors and executive officers retire at age 62 (other than the Hon C W Cayzer who retires at age 60) and are entitled to receive annual payments of up to two-thirds of pensionable salary on retirement dependent on length of service. Details of directors' pension benefits are set out on page 54 in the directors' remuneration report.

The key management personnel compensation was as follows:

	Company		Group	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Short term employee benefits	**2.8**	2.5	**2.8**	2.5
Post employment benefits	**0.2**	0.3	**0.2**	0.3
Equity compensation benefits	**0.2**	0.2	**0.2**	0.2
	3.2	3.0	**3.2**	3.0

Total remuneration of directors is included in 'personnel expenses' (note 3).

During the year, the group invoiced and received £0.1m (2005 – £0.1m) in administration fees from The Cayzer Trust Co Ltd. £4.7m was paid to The Cayzer Trust Co Ltd in 2005 by the company, repaying an outstanding amount due on variable rate unsecured loan notes 2010.

Other related party transactions

Subsidiaries

Intra-group transactions are eliminated on consolidation and are not reported in the group accounts. Transactions between the company and its subsidiaries were as follows:

	Amount of trans-actions 2006 £m	**Balance at period end 2006 £m**	Amount of trans-actions 2005 £m	Balance at period end 2005 £m
Income statement items				
Dividends receivable on equity shares	**2.0**	**–**	1.7	–
Capital distributions	**–**	**–**	4.0	–
Interest receivable on loan securities	**1.1**	**–**	0.9	–
Management fees payable	**(12.0)**	**(0.6)**	(9.6)	(1.1)
Interest payable on borrowings	**(0.4)**	**–**	(0.8)	–
Taxation	**(0.9)**	**0.4**	(0.2)	1.3
Balance sheet items				
Liquidations	**(9.0)**	**–**	(19.5)	–
Loans advanced/(repaid)	**8.6**	**24.4**	(1.0)	15.8
Off balance sheet items				
Guarantees	**11.9**	**34.2**	0.7	22.3

Associates and joint ventures

Transactions between the company and group and associates and joint ventures were as follows:

	Amount of trans-actions 2006 £m	**Balance at period end 2006 £m**	Amount of trans-actions 2005 £m	Balance at period end 2005 £m
Company				
Dividends receivable on equity shares	**2.8**	**–**	0.5	–
Interest receivable on loan securities	**1.2**	**–**	0.9	–
Taxation	**–**	**–**	0.1	–
Share subscriptions	**16.7**	**–**	1.3	–
Capital distributions	**–**	**–**	(3.7)	–
Loans advanced/(repaid)	**6.4**	**21.6**	22.4	31.1
Other group companies				
Dividends receivable on equity shares	**1.6**	**–**	0.7	–
Directors' fees receivable	**0.2**	**–**	0.1	–
Management fees payable	**(0.1)**	**–**	(0.1)	–

28. Group entities

Significant subsidiaries are as follows:

Name	Country of incorporation or residence	Ownership **2006 %**	2005 %
Buckingham Gate Ltd	UK	**100**	100
Edinmore Holdings Ltd	UK	**100**	100
Sloane Club Holdings Ltd	UK	**100**	100
Sterling Industries PLC	UK	**100**	100

29. Interest in associates

The company is an investment trust and, accordingly, does not equity account for associates, which are designated as investments held at fair value through profit or loss.

Significant associates of the company were as follows:

Name	Country of incorporation or residence	Ownership **2006 %**	2005 %
General Practice Group Ltd	UK	**–**	25
India Capital Growth Fund Ltd	UK	**22**	–
Marketform Acquisition Co Ltd	UK	**27**	27
Oval Financial Holdings Ltd	UK	**32**	27
PCP Holdings PLC	UK	**25**	25
Satellite Information Services Ltd	UK	**24**	–
Wallem Group Ltd	Hong Kong	**–**	26

The company's ownership interest is the same as its economic interest, except for Wallem Group Ltd, where the company had a 74% economic interest at 31 March 2005.

30. Accounting estimates and judgments

Key sources of estimation uncertainty

Fair values of financial instruments

Many of the group's financial instruments are measured at fair value on the balance sheet and it is usually possible to determine their fair values within a reasonable range of estimates.

For the majority of the group's financial instruments, quoted market prices are readily available. However, certain financial instruments, such as unquoted securities, are fair valued using valuation techniques, including reference to the current fair values of instruments that are substantially the same (subject to the appropriate adjustments).

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement (e.g. interest rates, volatility, estimated cash flows, etc) and therefore, cannot be determined with precision.

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31. Subsequent events

Elective special dividend and capital reduction
On 17 March 2006, Caledonia announced that it intended to propose a return of funds to shareholders of around £128m by way of an elective special dividend and capital reduction.

The payment of the elective special dividend will be conditional upon, inter alia, the approval of ordinary shareholders and the consent of the Court. Subject to the necessary consents being received, the special dividend is planned to be paid on or around 13 July 2006.

32. Explanation of transition to IFRS

As stated in the accounting policies, these are the company's and group's first consolidated financial statements prepared in accordance with IFRSs.

The tables and notes on the following pages explain how the transition from previous GAAP to IFRSs has affected the company's and group's financial position, financial performance and cash flows.

Reconciliation of equity from UK GAAP to IFRS
Company

		As at 1 April 2004			As at 31 March 2005			
UK GAAP description	Note	Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m	Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m	IFRS description
Fixed assets								Non-current assets
Investments	d	893.0	(2.8)		951.4	(2.8)		
	f		(3.1)			(4.3)		Investments held at fair value
	h		(3.8)	883.3			944.3	through profit or loss
	d		2.8	2.8		2.8	2.8	Investments in subsidiaries
		893.0	(6.9)	886.1	951.4	(4.3)	947.1	
Current assets								Current assets
Debtors	j	12.7	(5.7)		9.4	(3.5)		
	h		3.8	10.8			5.9	Operating and other receivables
	j		5.7	5.7		3.5	3.5	Current tax assets
Short term deposits	k	32.8	(32.8)		36.4	(36.4)		
Cash at bank and in hand	k	6.0	32.8	38.8	3.2	36.4	39.6	Cash and cash equivalents
		51.5	3.8	55.3	49.0	–	49.0	
		944.5	(3.1)	941.4	1,000.4	(4.3)	996.1	Total assets
Current liabilities								Current liabilities
	m			–		(10.2)	(10.2)	Interest-bearing loans and borrowings
Creditors falling due within one year	j	(18.5)	0.6		(27.4)			
	n		13.4			12.4		
	m			(4.5)		10.2	(4.8)	Operating and other payables
	j		(0.6)	(0.6)			–	Current tax liabilities
		(18.5)	13.4	(5.1)	(27.4)	12.4	(15.0)	
Creditors falling due after one year								Non-current liabilities
Long term borrowings	m	(4.8)	(10.2)	(15.0)	–		–	Interest-bearing loans and borrowings
Amounts due to subsidiary undertaking	m	(10.2)	10.2		–			
	r		(3.3)			(1.9)		
	s		(0.2)	(3.5)		(0.4)	(2.3)	Employee benefits
	i			–		(0.5)	(0.5)	Deferred tax liabilities
		(15.0)	(3.5)	(18.5)	–	(2.8)	(2.8)	
		(33.5)	9.9	(23.6)	(27.4)	9.6	(17.8)	Total liabilities
Net assets		911.0	6.8	917.8	973.0	5.3	978.3	Net assets
Capital and reserves								Equity
Called up share capital		4.0		4.0	3.6		3.6	Share capital
Share premium account		1.3		1.3	1.3		1.3	Share premium
	t		1.2	1.2		1.2	1.2	Capital redemption reserve
Non-distributable reserves	f	458.0	(3.1)		621.9	(4.3)		
	t		(1.2)			(1.2)		
	x		(4.2)	449.5		(9.1)	607.3	Capital reserve (non-distributable)
Distributable reserves	i	451.9			355.3	(0.5)		
	n		13.4			12.4		
	r		(3.3)			(1.9)		
	s		(0.2)	461.8		(0.4)	364.9	Retained earnings (distributable)
Own shares	x	(4.2)	4.2		(9.1)	9.1		
Total shareholders' funds		911.0	6.8	917.8	973.0	5.3	978.3	Total equity

Group

UK GAAP description	Note	As at 1 April 2004 Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m	As at 31 March 2005 Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m	IFRS description
Fixed assets								Non-current assets
Tangible assets	a	84.1	(0.1)		82.0			
	b			84.0		(2.8)	79.2	Property, plant and equipment
	b		0.5	0.5		4.1	4.1	Investment property
Intangible assets	a	4.9	0.1		3.2			
	c			5.0		0.4	3.6	Intangible assets
Investments	b	830.5	(0.5)		898.5	(1.6)		
	e		(2.9)			(7.5)		
	f		(3.1)			(4.3)		
	g		(3.5)			(3.9)		Investments held at fair value
	h		(3.8)	816.7			881.2	through profit or loss
	g		3.5	3.5		3.9	3.9	Available for sale investments
	e		3.0	3.0		7.5	7.5	Interests in joint ventures
	i		0.9	0.9		0.8	0.8	Deferred tax assets
		919.5	(5.9)	913.6	983.7	(3.4)	980.3	
Current assets								Current assets
Stocks		26.4		26.4	23.3		23.3	Inventories
Debtors	j	36.6	(4.1)		34.6	(1.9)		
	h		3.8	36.3			32.7	Operating and other receivables
	j		4.1	4.1		1.9	1.9	Current tax assets
Short term deposits	k	40.2	(40.2)		38.2	(38.2)		
Cash at bank and in hand	k	14.6	40.2	54.8	13.1	38.2	51.3	Cash and cash equivalents
		117.8	3.8	121.6	109.2	–	109.2	
		1,037.3	(2.1)	1,035.2	1,092.9	(3.4)	1,089.5	Total assets
Creditors due within in one year								Current liabilities
	l		(4.1)	(4.1)		(2.9)	(2.9)	Bank overdrafts
Short term borrowings	l	(4.3)	4.1	(0.2)	(3.0)	2.9	(0.1)	Interest-bearing loans and borrowings
Other creditors	j	(50.0)	10.6		(52.1)	10.0		
	n		13.4			12.4		
	o		1.3			1.3		
	p		0.6	(24.1)		0.6	(27.8)	Operating and other payables
	o		(1.3)	(1.3)		(1.3)	(1.3)	Employee benefits
	p		(0.6)	(0.6)		(0.6)	(0.6)	Provisions
	j		(10.6)	(10.6)		(10.0)	(10.0)	Current tax liabilities
		(54.3)	13.4	(40.9)	(55.1)	12.4	(42.7)	
Creditors falling due after one year								Non-current liabilities
Long term borrowings	q	(42.3)	(0.3)	(42.6)	(37.9)	(0.2)	(38.1)	Interest-bearing loans and borrowings
	r		(15.7)			(14.1)		
	s		(0.2)	(15.9)		(0.4)	(14.5)	Employee benefits
Deferred taxation	i	(1.5)	1.2	(0.3)	(0.7)	(0.7)	(1.4)	Deferred tax liabilities
		(43.8)	(15.0)	(58.8)	(38.6)	(15.4)	(54.0)	
		(98.1)	(1.6)	(99.7)	(93.7)	(3.0)	(96.7)	Total liabilities
Net assets		939.2	(3.7)	935.5	999.2	(6.4)	992.8	Net assets
Capital and reserves								Equity
Called up share capital		4.0		4.0	3.6		3.6	Share capital
Share premium account		1.3		1.3	1.3		1.3	Share premium
Capital redemption reserve		1.2		1.2	1.2		1.2	Capital redemption reserve
	u					(0.2)	(0.2)	Foreign exchange translation reserve
	g			–		0.3	0.3	Fair value reserve for available for sale investments
Revaluation reserve	v	270.6	(270.6)		325.4	(325.4)		
Profit and loss account	b	665.6	0.2		676.1	(0.2)		
	c					0.4		
	e		0.1					
	f		(3.1)			(4.3)		
	g					(0.3)		
	i		2.1			0.1		
	n		13.4			12.4		
	r		(15.7)			(14.1)		
	s		(0.2)			(0.4)		
	u					0.2		
	v		270.6			325.4		
	w		(0.1)			(0.1)		
	x		(4.6)	928.3		(9.5)	985.7	Retained earnings
Own shares	x	(4.6)	4.6		(9.5)	9.5		
Total shareholders' funds		938.1	(3.3)	934.8	998.1	(6.2)	991.9	Equity attributable to owners of parent
Minority interests	b	1.1	(0.2)		1.1	(0.1)		
	q		(0.3)			(0.2)		
	w		0.1	0.7		0.1	0.9	Minority interest
		939.2	(3.7)	935.5	999.2	(6.4)	992.8	Total equity

Notes to the financial statements
continued

32. Explanation of transition to IFRS continued

Reconciliation of profit from UK GAAP to IFRS

Company

For the year ended 31 March 2005

	Note	Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m
Investment and other income		18.9		18.9
Gains and losses on investments held at	f	160.0	(1.2)	
fair value through profit and loss	y		0.2	159.0
Gains and losses on derivatives		5.8		5.8
		184.7	(1.0)	183.7
Management expenses	s	(10.0)	(0.3)	
	z		(0.3)	(10.6)
Other expenses	y	(0.4)	(0.2)	(0.6)
Profit before finance costs		174.3	(1.8)	172.5
Finance costs		(1.0)		(1.0)
Profit before tax		173.3	(1.8)	171.5
Taxation		(0.1)		(0.1)
Profit for the year		173.2	(1.8)	171.4

Group

For the year ended 31 March 2005

	Note	Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m
Investing operations				
Investment and other income	e	17.4	(0.7)	16.7
Gains and losses on investments held at fair value through profit and loss	f	161.5	(1.2)	
	g		(0.5)	
	u		0.2	
	y		0.2	160.2
Gains and losses on derivatives		5.8		5.8
		184.7	(2.0)	182.7
Management expenses	s	(10.0)	(0.3)	
	z		(0.3)	(10.6)
Other expenses	y	(0.4)	(0.2)	(0.6)
Profit from investing operations		174.3	(2.8)	171.5
Trading operations				
Revenue from sales of goods and services	c	122.7	0.5	
	u		0.5	123.7
Operating expenses	c	(121.9)	0.4	
	b		(0.3)	
	r		(0.5)	
	u		(0.5)	(122.8)
Gains on investment property		1.1		1.1
Share of results of joint ventures	e		0.6	0.6
Profit from trading operations		1.9	0.7	2.6
Profit before finance costs		176.2	(2.1)	174.1
Finance costs	q	(2.3)	(0.1)	(2.4)
Profit before tax		173.9	(2.2)	171.7
Taxation	i	(2.9)	(0.7)	(3.6)
Profit for the year		171.0	(2.9)	168.1
Attributable to				
Equity holders of the parent		170.7	(2.8)	167.9
Minority interest	q	0.3	(0.1)	0.2
		171.0	(2.9)	168.1

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

Notes to the reconciliations from UK GAAP to IFRS.

The accounting policies have been applied in preparing the financial statements for the year ended 31 March 2006, the comparative information presented in these financial statements for the year ended 31 March 2005 and in the preparation of an opening IFRS balance sheet at 1 April 2004 (the company's and group's date of transition).

In preparing its opening IFRS balance sheet, the company and group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP).

a Under UK GAAP, trademarks and brands were included in 'Tangible assets'. Under IFRS, these have been reallocated to 'Intangible assets'.

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

c Under IFRS 3 'Business Combinations', goodwill acquired in a business combination is recognised as an asset and subject to impairment testing in accordance with IAS 36 'Impairment of Assets'. Under UK GAAP, goodwill on acquisitions was capitalised and written off over its useful economic life. This adjustment represents the write back of goodwill amortisation during the year ended 31 March 2005, less any impairment.

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

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

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

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

h Under IFRS, amounts due to and from counterparties in respect of forward currency contracts are shown in other operating receivables or payables. Under UK GAAP, these contracts were included in investments.

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

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

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

l Under UK GAAP, 'Short term borrowings' included bank overdrafts, which has been reallocated to IFRS 'Bank overdrafts'.

m Under UK GAAP, 'Creditors falling due within one year' included a loan from a subsidiary, which has been reallocated to IFRS 'Interest-bearing loans and borrowings'.

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

o Under UK GAAP, 'Creditors falling due within one year' included employee benefits, which have been reallocated to IFRS 'Employee benefits'.

p Under UK GAAP, 'Creditors falling due within one year' included provisions, which have been reallocated to IFRS 'Provisions'.

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

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

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

t Under UK GAAP, the company's 'Capital reserve (non-distributable)' included the capital redemption reserve. This has been reallocated to the IFRS 'Capital redemption reserve'.

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

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

w Under UK GAAP, the minority's share of the retained losses of certain subsidiaries was set off against minority interests. Under IAS 27, this is required to be written off, unless there is an obligation on the minority to fund the loss.

x Under UK GAAP, 'Own shares' are shown separately. This has been reallocated to the company IFRS 'Capital reserve (non-distributable)' and the group IFRS 'Retained earnings'.

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

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

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

For the year to 31 March 2005, the UK GAAP decrease in cash of £2.8m in the company and £0.5m in the group changed to an increase in cash and cash equivalents of £0.8m in the company and a decrease of £2.3m in the group under IFRS.

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

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 on-going 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 Towers Perrin, independent remuneration consultants appointed by the Committee. Towers Perrin advised the Remuneration Committee on the design of the new executive share option scheme and deferred bonus plan implemented following a thorough review of the company's remuneration policy in the previous year and approved by shareholders at the annual general meeting of the company held on 13 July 2005. Towers Perrin also 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 2006. In addition, the Remuneration Committee received advice from Freshfields Bruckhaus Deringer in relation to the new executive share option scheme and deferred bonus plan. 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
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.

In determining executive directors' remuneration, consideration is given to matters specific to the company such as the performance of its net asset value, both in absolute terms and as measured against the FTSE All-Share index, to the experience and performance of individual directors and their areas of responsibility and to comparable external market remuneration data and levels of remuneration elsewhere in the company.

It is currently intended that the policy statement set out in this report will apply for the year to 31 March 2007 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 2007 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 2007 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 cash allowances in lieu of company cars, life insurance, permanent health insurance, and private medical cover.

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 2006, the bonuses will either be paid in cash or as an employer contribution to Her Majesty's Revenue and Customs ('HMRC') approved pension schemes. The method of payment will be determined by the Remuneration Committee.

The maximum potential bonus that may currently be awarded is 100% of basic salary. For the year ended 31 March 2006, the amount of bonus payable was dependent on a combination of the level of the outperformance of Caledonia's net asset value per share ('NAV per share') with dividends added back over the FTSE All-Share Total Return index, but measured over the financial year, and on the individual director's performance. For the year ending 31 March 2007 and future years, the company performance related element of bonus will be determined by reference to the outperformance of the company's NAV per share over the FTSE All-Share index, to provide consistency with the performance targets of the company's share option schemes and deferred bonus plan and also of the bonus schemes operated for the company's other employees. The Remuneration Committee has 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 relevant financial year is greater than that of the previous three financial years and, therefore, represents recovery from previous underperformance. The payment of any such bonus is subject to the overriding discretion of the Remuneration Committee.

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 company's bonus arrangements are also designed to align the interests of directors with those of shareholders and to encourage retention by requiring, in the Remuneration Committee's absolute discretion, that a proportion of any bonus paid to a director is compulsorily invested in shares under the company's deferred bonus plan. The Remuneration Committee's current policy is that any annual bonus paid, the amount of which is above 50% of a director's basic salary for the financial year to which the bonus relates, must be so compulsorily invested.

In addition, the deferred bonus plan entitles directors to convert voluntarily a proportion of any remaining cash bonus to a conditional entitlement to shares. The Remuneration Committee's current policy is that up to half of any bonus not subject to compulsory deferral may be voluntarily converted into shares. The shares so invested are eligible for matching, on a one for one basis, subject to the satisfaction of performance conditions over a period of three years.

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

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. Mr P N Buckley, Mr J H Cartwright and the Hon C W Cayzer are members of 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. 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 T C W Ingram and Mr J M 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 reduced by such amount as is necessary to cover the company's National Insurance costs. The percentage of basic salary is 25% for Mr Ingram and 10% for Mr May. Mr J M B Cayzer-Colvin and Mr W P Wyatt participate in the Caledonia Group Personal Pension Plan, a defined contribution scheme into which employer contributions of 10% of basic salary are made on each of their behaves.

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 or offered participation in a defined contribution scheme 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, exercisable only 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 deferred bonus plan.

The maximum value of options that may be granted in any year to a director is 150% of salary. The Remuneration Committee may exceed this limit for individual 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.

No options are granted at a discount.

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

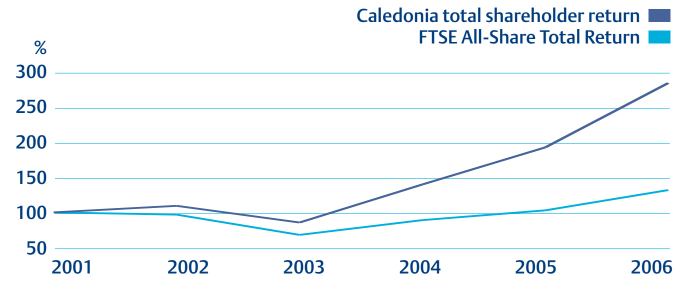
It is the company's policy that non-executive directors should be appointed for fixed periods of no more than three years (from the next general meeting following their initial appointment in the case of new non-executive directors) and that re-appointment at the end of such periods should not be automatic. 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 from the company. The basic fee for non-executive directors was £28,000 (2005 – £27,000) and fees of £3,000 per annum (2005 – £3,000) were paid for the chairmanships of the Audit and Remuneration Committees, with a further £3,000 (2005 – £3,000) 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 2006 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:

	2006 £'000	2005 £'000
Fees	**149**	157
Salaries	**1,682**	1,317
Benefits	**127**	101
Performance related bonuses[1]	**791**	914
	2,749	2,489
Gains on exercise of share options	**1,073**	448
	3,822	2,937

1. Amounts accrued at the year end and subsequently deferred as a voluntary contribution under the company's deferred bonus plan or paid in cash or as an employer contribution to HMRC approved pension schemes, as determined by the Remuneration Committee.

The emoluments of individual directors were as follows:

	Fees and salaries £'000	Benefits[2] £'000	Bonus[1] Total £'000	Bonus[1] Deferred[3] £'000	Total 2006 £'000	Total 2005 £'000
Executive						
P N Buckley	**300**	**19**	**250[4]**	**(150)**	**419**	504
T C W Ingram	**380**	**19**	**380**	**(190)**	**589**	605
J H Cartwright	**249**	**19**	**225**	**(100)**	**393**	423
The Hon C W Cayzer	**190**	**18**	**180**	**(86)**	**302**	318
J M B Cayzer-Colvin[5]	**140**	**17**	**133**	**(63)**	**227**	–
J M May	**283**	**18**	**283**	**(141)**	**443**	482
W P Wyatt[5]	**140**	**17**	**140**	**(70)**	**227**	–
Non-executive						
J R H Loudon	**28**	**–**	**–**	**–**	**28**	27
C M Allen-Jones	**34**	**–**	**–**	**–**	**34**	33
M E T Davies	**31**	**–**	**–**	**–**	**31**	30
R Goblet d'Alviella[6]	**28**	**–**	**–**	**–**	**28**	5
Sir David Kinloch[7]	**–**	**–**	**–**	**–**	**–**	8
D G F Thompson	**28**	**–**	**–**	**–**	**28**	27
M G Wyatt[8]	**–**	**–**	**–**	**–**	**–**	27
	1,831	**127**	**1,591**	**(800)**	**2,749**	2,489

1. See note 1 to the table above.
2. Benefits mainly comprised cash alternatives in lieu of company cars and private medical cover.
3. Deferred bonuses will be satisfied in shares shortly after the announcement of the company's preliminary results for the year.
4. In addition to the amount shown in the table, £50,000 was paid in respect of Mr Buckley's bonus award for the year as an employer pension contribution, as described in the statement of directors' pensions below.
5. Appointed on 4 April 2005.
6. Appointed on 19 January 2005.
7. Retired on 14 July 2004.
8. Retired on 31 March 2005.

Directors' remuneration report
continued

The deferred bonus column in the above table shows the amount of bonus compulsorily deferred into shares under the company's deferred bonus plan approved by shareholders at the annual general meeting held on 13 July 2005. In addition, up to 50% of the remaining cash bonus may be voluntarily invested into shares under the deferred bonus plan. The number of shares awarded for both the compulsory and voluntary deferral of bonus is determined by reference to the market value of a share at the time the award is made, which occurs 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 is 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 is equal to the number of shares awarded in respect of the voluntary deferral of bonus.

The shares comprised in a compulsory deferral will normally only vest (together with an amount equal to the dividends that would have accrued on those shares) if the director remains an employee of the Caledonia group for a three year period following the award. The vesting of these shares is not subject to a further performance condition.

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

The vesting of the matching shares is 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.

In addition to the amounts shown in the table above, Mr T C W Ingram was paid an amount of £51,450 (2005 – £44,758), before tax, in lieu of contributions to his personal money purchase pension arrangements as described in the statement on directors' pensions below. Similarly, Mr W P Wyatt was paid an amount of £3,460 (2005 – £nil) in lieu of contributions to the Caledonia Group Personal Pension Plan, also 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 £42,477 (2005 – £37,500). Mr Ingram was appointed to the board of Sage Group before he joined Caledonia. During the year, Mr J M May received a fee of £722 (2005 – £20,000) for his services as chairman of Covenant Healthcare until his resignation on 14 April 2005. From 1 January 2006, Mr May also received a fee from Catapult Venture Managers, amounting in the year to £4,531 (2005 – £nil). Both of these fees were paid to a private company owned by Mr May and his wife and both directorships were held prior to his joining Caledonia.

Statement on directors' pensions (audited)
Pension benefits accrued by directors during the year under the company's defined benefits scheme were as follows:

	Row ref	P N Buckley £	J H Cartwright £	The Hon C W Cayzer £
Accrued pension at 31 March 2006 (per annum)	1	263,503	104,473	86,857
Increase in accrued pension during the year (per annum)	2	31,937	9,164	14,807
Increase in accrued pension during the year, net of inflation (per annum)	3	23,369	6,877	13,078
Transfer value of increase in accrued pension over the year, net of director contributions	4	434,948	67,739	157,452
Transfer value of accrued pension at 31 March 2006	5	5,107,551	1,329,775	1,123,422
Transfer value of accrued pension at 31 March 2005	6	4,155,976	1,176,484	825,625
Change in transfer value over the year, net of director contributions	7	951,575	143,311	297,797

1. Except for Mr P N Buckley, the accrued pensions shown in row (1) were the amounts that would be paid at normal retirement age, ignoring any revaluation, if the director had left service at 31 March 2006. Mr P N Buckley reached normal retirement age on 23 September 2004 but has continued in employment. The amount shown in row (1) for Mr Buckley represents the accrued pension that would have been paid at 31 March 2006. During the year, the Hon C W Cayzer's normal retirement age was reduced from 62 to 60, which resulted in an increase in the value of his accrued pension as at 31 March 2006.
2. The increase in accrued pension, net of inflation, in row (3) is calculated by subtracting the pension accrued to 31 March 2005 (23 September 2004 for Mr Buckley), multiplied by the increase in the Retail Prices Index for the year to 31 March 2006, from the accrued pension to 31 March 2006. In the case of Mr Buckley, who has not yet drawn any retirement benefits and remains a deferred pensioner within the scheme, the increase in accrued pension shown is the increase over the period from his pension at his normal retirement date of 23 September 2004 to 31 March 2006, a period of approximately 18 months. As Mr Buckley ceased accruing pension benefits at his normal retirement date, this increase is made up entirely of increases due to the late payment of his pension.
3. The transfer value shown in row (4) represented the value of the increase in accrued pension during the year, as set out in row (3), minus director's contributions.
4. During the year, Mr Buckley's bonus award of £199,010 for the year ended 31 March 2005 was paid by the company as a contribution into the scheme in order to enhance Mr Buckley's cash lump sum benefit on retirement. The amounts in rows (1) to (4) do not include allowance for this contribution. The transfer value at 31 March 2006 set out in row (5) does however include the value of this contribution.
5. The change in transfer value over the year shown in row (7) (calculated as row (5) less row (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.
6. The transfer values have been calculated in accordance with the guidance note 'GN11', published by the Institute of Actuaries and Faculty of Actuaries.

In April 2006, the Remuneration Committee exercised its discretion to pay £50,000 of Mr P N Buckley's bonus award for the year ended 31 March 2006 as an employer contribution to secure additional lump sum benefits for him under the Caledonia Pension Scheme. This contribution is not included in the above table of pension benefits accrued by directors during the year.

During the year, the company made contributions to a money purchase personal pension plan for the benefit of Mr T C W Ingram of £36,960 (2005 – £35,700), being the maximum amount permitted for this tax year under HMRC 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 £51,450 (2005 – £44,758), before tax, in lieu of pension contribution. The company also made contributions during the year of £28,250 (2005 – £26,415) to a money purchase pension plan for the benefit of Mr J M May. Messrs J M B Cayzer-Colvin and W P Wyatt are members of the Caledonia Group Personal Pension Plan ('GPPP'), a defined contribution scheme. During the year, employer contributions of £14,000 (2005 – £nil) were paid to the GPPP on behalf of Mr Cayzer-Colvin. Employer's contributions of £10,540 were paid on behalf of Mr Wyatt into the GPPP and £3,460 in cash. Mr Wyatt received a cash payment in lieu of part of his pension contributions, as contributions brought forward from the previous year were paid into the GPPP in the year under review, which meant that the group was unable to pay the full 10% of his salary into the GPPP due to HMRC limits.

Statement on directors' share options (audited)
Options to acquire ordinary shares in the company held by the directors during the year ended 31 March 2006 were as shown in the table on page 55.

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

			Number of options							
Name	Grant date	Opening balance	Granted	Exercised	Lapsed	Closing balance	Exercise price	Market price at exercise	Exercisable from date	Expiry date
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				
T C W Ingram	05.07.02	166,000	–	(55,332)	–	110,668	782.5p	1816.0p	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
	19.08.05		36,075	–	–	36,075	1580.0p	–	19.08.08	19.08.15
		234,100	36,075	(55,332)	–	214,843				
J H Cartwright	26.07.99	8,500	–	(8,500)	–	–	757.5p	1817.0p		
	19.07.00	10,500	–	(3,500)	–	7,000	722.5p	1817.0p	19.07.03	19.07.10
	24.07.01	24,000	–	(8,000)	–	16,000	810.0p	1817.0p	24.07.04	24.07.11
	05.07.02	3,500	–	(1,165)	–	2,335	782.5p	1817.0p	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
	19.08.05		23,685	–	–	23,685	1580.0p	–	19.08.08	19.08.15
		94,100	23,685	(21,165)	–	96,620				
The Hon C W Cayzer	18.04.96	35,500	–	(35,500)	–	–	781.0p	1322.5p		
	31.07.96	3,500	–	(3,500)	–	–	745.0p	1322.5p		
	16.07.97	6,000	–	(6,000)	–	–	677.5p	1322.5p		
	02.09.98	5,000	–	(5,000)	–	–	740.0p	1322.5p		
	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
	19.08.05		18,035	–	–	18,035	1580.0p	–	19.08.08	19.08.15
		106,100	18,035	(50,000)	–	74,135				
J M B Cayzer-Colvin	19.07.00	17,500	–	–	–	17,500	722.5p	–	19.07.03	19.07.10
	24.07.01	18,000	–	–	–	18,000	810.0p	–	24.07.04	24.07.11
	05.07.02	6,000	–	–	–	6,000	782.5p	–	05.07.05	05.07.12
	20.11.03	9,000	–	–	–	9,000	945.0p	–	20.11.06	20.11.13
	26.05.04	9,500	–	–	–	9,500	1055.0p	–	26.05.07	26.05.14
	19.08.05		13,290	–	–	13,290	1580.0p	–	19.08.08	19.08.15
		60,000	13,290	–	–	73,290				
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
	19.08.05		26,815	–	–	26,815	1580.0p	–	19.08.08	19.08.15
		81,900	26,815	–	–	108,715				
W P Wyatt	19.07.00	13,348	–	–	–	13,348	722.5p	–	19.07.03	19.07.10
	24.07.01	18,000	–	–	–	18,000	810.0p	–	24.07.04	24.07.11
	05.07.02	6,000	–	–	–	6,000	782.5p	–	05.07.05	05.07.12
	20.11.03	9,000	–	–	–	9,000	945.0p	–	20.11.06	20.11.13
	26.05.04	9,500	–	–	–	9,500	1055.0p	–	26.05.07	26.05.14
	19.08.05		13,290	–	–	13,290	1580.0p	–	19.08.08	19.08.15
		55,848	13,290	–	–	69,138				

The opening balance shown above represents the number of shares held under option at 31 March 2005 or, in the case of Messrs J M B Cayzer-Colvin and W P Wyatt, 4 April 2005 being the date of their appointments as directors.

Directors' remuneration report
continued

The company currently has three executive share option schemes – an original scheme established in 1988, which expired in April 1998 for the purposes of new option grants, a 1998 scheme approved by shareholders in July 1998, under which option grants were made from September 1998 to May 2004, and a scheme approved by shareholders in July 2005, under which option grants commenced in August 2005.

Under the terms of all 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.

For options granted from 1996 to 1997 under the original scheme, the target requires the company's adjusted net asset value per share to outperform the average of the increases in the FTSE All-Share and the FT/S&P Actuaries World Pound Sterling indices over any consecutive three year period to expiry. 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 at least 9% 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 target for the 2005 scheme requires that 50% of the shares comprised in an 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 is 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 performance targets have been met for all options granted under the 1998 scheme from 1998 to 2003. 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 has prepared its accounts under International Financial Reporting Standards ('IFRS') commencing with the year ending 31 March 2006. A reconciliation of the company's last audited balance sheet as at 31 March 2005 from UK GAAP to IFRS has been undertaken and the difference amounted to an increase in net asset value under IFRS of £5.3m, equating to approximately 0.5% of net assets. 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 and 2005 schemes 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 the options originally granted to Mr Ingram on 5 July 2002 were options over 83,000 shares granted outside the 1998 scheme and subject to 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 were 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 total shareholder return ('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 was to be first applied three years after grant, with two re-test opportunities four and five years after grant. The performance target for the one-third tranche was tested on 5 July 2005 and met in full. Accordingly, Mr Ingram subsequently exercised all of the one-third tranche (27,666 shares) during the year. For the remaining two-thirds tranche (55,334 shares), 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 either have been or 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.

As at 31 March 2006, the market price of the company's shares was 1980p (2005 – 1367p) and the range during the year was 1260p to 2015p.

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 B Cayzer-Colvin	19.04.05	12 months	Rolling 12 months
J M May	01.09.03	12 months	Rolling 12 months
W P Wyatt	02.06.05	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 Mr J H Cartwright and the Hon C W Cayzer are also subject to 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 31 May 2006 and signed on its behalf by:

M E T Davies
Chairman of the Remuneration Committee

Corporate governance report

Statement of compliance
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'). Shareholders registered on the company's New Zealand branch register should note that the principles of good corporate governance set out in the Combined Code may materially differ from the New Zealand Exchange Limited's corporate governance rules and the principles of its Corporate Governance Best Practice Code. A copy of the Combined Code is available on the website of the Financial Services Authority at www.fsa.gov.uk/pubs/ukla/lr_comcode2003.pdf.

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. The Schedule of Authorities is reviewed annually by the board.

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 are listed in the directors' report on page 24.

The board currently comprises twelve 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. In assessing Mr Goblet d'Alviella's independence, the board took account of his position as chief executive officer of Sofina sa, which has a 4.7% shareholding in Caledonia, but did not consider this shareholding to be significant in the context of independence, particularly given the size of the Cayzer Concert Party's total interest in the company. Moreover, in the context of Caledonia, the board regards as key in assessing independence Mr Goblet d'Alviella's ability, given the shareholding of Sofina sa and his past investment banking experience, to look at the interests of the general body of shareholders, independent of the Cayzer Concert Party and of Caledonia's executive management. 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 22 and 23.

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, the Hon C W Cayzer and Messrs 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 eleven 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 reviewed annually and are available on the company's website or from the company secretary on written request. The current membership of these committees is noted on page 65.

Corporate governance report
continued

Nomination Committee
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 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 once during the year in order to undertake a formal review of the size and composition of the board following the 2005 annual board performance evaluation and to consider the contribution and commitment of the non-executive directors retiring at the annual general meeting, prior to giving recommendations for their election or re-elections.

Remuneration Committee
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 of, and grant of awards under, the company's share incentive schemes and deferred bonus plan 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 seven times during the year and completed the implementation of the new executive share option scheme and deferred bonus plan designed 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, following the thorough review of senior executive remuneration undertaken in the previous year. Further information on the company's executive remuneration policy and the work of the Remuneration Committee are included in the directors' remuneration report set out on pages 52 to 56.

Audit Committee
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, the results of which are then reviewed 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.

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 Audit Committee is also responsible for the company's formal whistleblowing arrangements whereby members of staff may raise any issues of concern regarding possible impropriety in the conduct of the company's business and whereby any such concerns are properly investigated and appropriate action taken.

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 five times during the year, including 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 the level of fees charged for their services.
- The performance 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 HMRC approval of its investment trust status.

Governance Committee
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 three times during the year.

Attendance at meetings
The following table identifies the number of board and committee meetings held in the year to 31 March 2006 and the attendance record of individual directors.

	Board	Nomination Committee	Remuneration Committee	Audit Committee	Governance Committee
Number of meetings in the year	11[1]	1	7	5	3
Attendances by					
P N Buckley	11	1	–	–	–
T C W Ingram	11	–	–	–	–
J H Cartwright	11	–	–	–	–
The Hon C W Cayzer	10	–	–	–	–
J M B Cayzer-Colvin	10	–	–	–	–
J M May	11	–	–	–	–
W P Wyatt	11	–	–	–	–
C M Allen-Jones	11	1	7	5	3
M E T Davies	10	1	7	–	3
R Goblet d'Alviella	9	–	–	–	–
J R H Loudon	10	1	6	5	–
D G F Thompson	11	1	–	5	3

1. Scheduled board meetings.

Board performance evaluation

The board conducts an annual formal evaluation of its own performance and that of its committees and individual directors. For the year ended 31 March 2006, 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 meetings of the non-executive directors, without the chairman present, and of the Governance Committee. 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. As part of this review, non-executive directors were invited to complete self-assessment questionnaires in relation to their own effectiveness. The performance of the executive directors, which included further consideration of that of the chief executive, was undertaken by the Remuneration Committee as part of the annual executive salary review process.

The results of the evaluation of the board as a whole and of its committees for the year ended 31 March 2006 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 in England and Wales (the Turnbull Committee guidelines) and has been in place throughout the year and up to the date of approval of these financial statements.

Major business risks facing group companies, including social, ethical and environmental issues, are identified in conjunction with operating management and procedures agreed to address 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 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 management 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, the results of which are reviewed 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 financial statements.

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 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.

Significant investments

At 31 March 2006, the valuation of all holdings valued at over 1% of net assets was £926.1m. The residual cost of these investments at that date was £495.1m

Investment	Industry sector	Country of incorporation	First invested in	Residual cost £m	Proportion of equity shares held	Valuation £m	Income[1] in year £m	Net[2] assets £m	Earnings £m
Close Brothers									
Merchant banking	General financial	UK	1987						
Equity shares				33.7	12.3%	191.9	5.3		
				33.7		191.9	5.3	540.3	68.6
British Empire Securities									
Investment trust company	Equity investments	UK	1991						
Equity shares				16.6	18.3%	141.7	1.1		
				16.6		141.7	1.1	616.9	191.6
Kerzner International									
Resorts owner/operator	Travel and leisure	Bahamas	1994						
Equity shares				21.7	8.0%	131.1	–		
				21.7		131.1	–	669.8	30.1
Quintain Estates & Development									
Property holding and development	Real estate	UK	1994						
Equity shares				11.8	7.0%	61.0	0.9		
				11.8		61.0	0.9	638.3	13.4
Rathbone Brothers									
Fund management	General financial	UK	1995						
Equity shares				15.0	11.1%	53.6	1.3		
				15.0		53.6	1.3	130.4	24.7
Sterling Industries									
Engineering	Industrial engineering	UK	1987						
Equity shares				33.0	100%	32.8	–		
Preference shares				0.3		0.3	–		
				33.3		33.1	–	42.5	20.0
Polar Capital funds									
Hedge and long-only funds	Non-equity investments	Ireland/Cayman	2001						
Preference shares				24.6		30.2	–		
				24.6		30.2	–		
Cobepa									
Investment company	Equity investments	Belgium	2004						
Equity shares				22.8	9.4%	30.1	0.4		
				22.8		30.1	0.4	252.6	12.8
Savills									
Property agency	Real estate	UK	2002						
Equity shares				4.1	2.9%	24.1	1.0		
				4.1		24.1	1.0	88.4	40.0
Bristow Group									
Helicopter Services	Industrial transport	US/UK	1991						
Equity shares (US)				15.3	5.6%	23.2	–		
Equity shares (UK)				0.2	46.0%	0.9	–		
				15.5		24.1	–	284.2	29.7
Oval Financial									
Insurance services	Non-life insurance	UK	2003						
Equity shares				10.0	32.3%	11.6	–		
Loans				12.2		12.2	0.6		
				22.2		23.8	0.6	25.6	0.8
Edinmore									
Property trading and investment	Real estate	UK	1993						
Equity shares				2.0	100%	2.0	–		
Loans				19.5		19.5	0.1		
				21.5		21.5	0.1	10.0	0.6

Investment	Industry sector	Country of incorporation	First invested in	Residual cost £m	Proportion of equity shares held	Valuation £m	Income[1] in year £m	Net[2] assets £m	Earnings £m
Melrose Resources									
Oil and gas exploration	Oil and gas producers	UK	2003						
Equity shares				9.6	7.5	21.4	0.1		
				9.6		21.4	0.1	163.6	22.4
Eddington Capital Triple Alpha Fund									
Fund of hedge funds	Non-equity investments	Cayman	2003						
Preference shares				15.3		20.5	–		
				15.3		20.5	–	24.7	1.1
India Capital Growth Fund									
Investment company	Equity investments	Guernsey	2005						
Equity shares				16.5	22.0%	16.8	–		
Warrants				–		1.2	–		
				16.5		18.0	–	75.0	–
Satellite Information Services									
Betting information distribution	Media	UK	2005						
Equity shares				18.0	24.3%	18.0	2.4		
				18.0		18.0	2.4	19.6	11.9
Incisive Media									
Publishing	Media	UK	2004						
Equity shares				14.6	10.5%	18.0	0.1		
				14.6		18.0	0.1	73.6	7.4
Alok Industries									
Textiles	Personal goods	India	2004						
Equity shares				13.9	11.8%	17.7	0.1		
				13.9		17.7	0.1	88.3	13.1
A G Barr									
Soft drinks	Beverages	UK	1987						
Equity shares				1.3	9.4%	17.7	0.5		
				1.3		17.7	0.5	64.9	12.3
Polar Capital									
Fund management	General financials	UK	2001						
Equity shares				0.7	24.6%	15.2	0.3		
				0.7		15.2	0.3	6.7	3.3
Buckingham Gate									
Property holding	Real estate	UK	2000						
Equity shares				13.0	100%	13.5	–		
				13.0		13.5	–	16.4	3.3

1. Income in the year represents dividends received (inclusive of any overseas withholding tax) and gross interest receivable in the year to 31 March 2006.
2. Net assets and earnings figures are taken from the most recent audited accounts of the investee business. The figures shown are the total earnings on ordinary activities after tax and net assets of each business. Because of the varying rights attaching to the classes of shares held by the Group, it could be misleading to attribute a certain proportion of earnings and net assets to the proportion of equity capital held.

Portfolio valuation methodology

A description of the methodology used to value the company's portfolio is set out below. The methodology is based on IAS 39 'Financial Instruments: Recognition and Measurement' and the 'International private equity and venture capital valuation guidelines' issued by the AFIC, BVCA and EVCA.

Basis of valuation
Investments are reported at the directors' estimate of fair value at the reporting date. Fair value represents the amount for which the directors consider that an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

General
In estimating fair value, we seek to use a methodology that is appropriate in light of the nature, facts and circumstances of the investment. Methodologies are applied consistently from period to period, except where a change would result in a better estimation of fair value. Given the uncertainties inherent in estimating fair value, a degree of caution is applied in exercising judgments and making the necessary estimates.

Quoted investments
Investments quoted in an active market are valued at their bid price on the reporting date. When a bid price is unavailable, the price of the most recent transaction will normally be used.

Unquoted investments
The fair value is estimated as follows:

- The enterprise value is determined using an appropriate valuation methodology adjusted for surplus assets, excess or unrecorded liabilities and other relevant factors as appropriate.
- Any financial instruments ranking ahead of the highest instrument held by the company is deducted from the enterprise value.
- An appropriate marketability discount is applied to give the net attributable enterprise value.
- The net attributable enterprise value is apportioned between the relevant financial instruments according to their rankings and allocated the company's holding in each financial instruments, representing their fair value.

For most unquoted investments, the fair value is based on the price of recent investment, earnings multiple or net assets valuation methodologies.

Price of recent investment
Where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value. Where there has been any recent investment in the investee company, the price of that investment will provide a basis of the valuation. Where the price at which a third party has invested is being considered as the basis of valuation, the background to the transaction will be taken into account to indicate whether or not the price was wholly representative of the fair value at the time.

This methodology is likely to be appropriate only for a limited period after the date of the relevant transaction. The length of period for a particular investment will depend on the specific circumstances of the case, but a period of one year is usually applied.

Earnings multiple
This methodology involves the application of an earnings multiple to the earnings of the business being valued in order to derive a value for the business. It is likely to be appropriate for an investment in an established business with an identifiable stream of continuing earnings that can be considered to be maintainable. It may also be applicable to companies with negative earnings, if the losses are considered to be temporary and a 'normalised' level of maintainable earnings can be identified.

When using the earnings multiple method, earnings before interest and tax ('EBIT') are normally used, adjusted to a maintainable level and taxed at the standard tax rate. Generally, the latest full year historical accounts are used unless reliable estimated or forecast results are available. An appropriate multiple is applied to these earnings. Normally the multiple will be the average taxed EBIT multiple for a comparable quoted company, the weighted average of a number of companies or the relevant sector of the FTSE All-Share index.

Net assets
This methodology is likely to be appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings, such as property holding companies and investment businesses.

This methodology may also be appropriate for a business that is not making an adequate return on assets and for which a greater value can be realised by liquidating the business and selling its assets. In the context of private equity, it may therefore be appropriate, in certain circumstances, for valuing investments in loss-making companies and companies making only marginal levels of profits.

The net assets methodology derives an enterprise value using appropriate measures to value the assets and liabilities, including contingent assets and liabilities, of a business.

Marketability discount
The marketability discount relates to an investment rather than to the underlying business and reflects the compensation that willing buyers will demand for the risk arising from the lack of marketability. The marketability will vary from situation to situation and will generally be between 10% and 30%.

Some of the factors that will be considered in determining the marketability discount are the closeness to a realisation event, the investors influence over the timing of realisation and the difficulty and risk of actions required to put the business into a saleable condition.

Investment funds
The fair value of non-equity investment funds is generally estimated from the latest net asset value provided by the fund manager or the fair value of underlying investments adjusted for other net assets or liabilities or contingent assets or liabilities of the fund.

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the seventy-seventh annual general meeting of Caledonia Investments plc will be held at the Crowne Plaza London-St James Hotel, 45-51 Buckingham Gate, London SW1E 6AF on 20 July 2006 at 11.30 a.m. for the purposes of considering and, if thought fit, passing the following resolutions, which, in the case of resolution 12, will be proposed as a special resolution and, in the case of all of the other resolutions, will be proposed as ordinary resolutions:

1. THAT the directors' report and the accounts for the year ended 31 March 2006, together with the auditors' report to the members, be received and adopted.
2. THAT the directors' remuneration report for the year ended 31 March 2006 be approved.
3. THAT a final dividend of 20.5p per ordinary share be approved and declared.
4. THAT Mr D G F Thompson be re-elected as a director of the company.
5. THAT Mr J M May be re-elected as a director of the company.
6. THAT Mr T C W Ingram be re-elected as a director of the company.
7. THAT the Hon C W Cayzer be re-elected a director of the company.
8. THAT Mr J R H Loudon be re-elected a director of the company.
9. THAT KPMG Audit Plc be re-appointed as the company's auditors until the conclusion of the next general meeting of the company at which the accounts of the company are laid.
10. THAT the directors be authorised to agree the auditors' remuneration.
11. THAT the authority conferred on the directors by article 11 of the company's articles of association be renewed for a period expiring at the conclusion of the next annual general meeting of the company after the date on which this resolution is passed and for that period the section 80 amount shall be £1,068,400.
12. THAT the power conferred on the directors by article 12 of the company's articles of association be renewed for a period expiring at the conclusion of the next annual general meeting of the company after the date on which this resolution is passed and for that period the section 89 amount is £160,260.

By order of the board

G P Denison
Company Secretary
31 May 2006

Registered and head office
Cayzer House
30 Buckingham Gate
London SW1E 6NN

Notes:

1. A member entitled to attend and vote at this meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the company.
2. For shareholders registered on the company's UK main register, to be valid, a form of proxy must be deposited, so as to be received no later than 11.30 a.m. on 18 July 2006, with the company's UK registrars, Capita Registrars, by one of the following methods: (i) by post (or by hand during normal business hours) to the address provided for such purpose in such form of proxy; (ii) electronically at www.capitaregistrars.com using the investor code printed on the form of proxy; or (iii) in the case only where ordinary shares are held in CREST (as an alternative to methods (i) and (ii)), via the CREST Proxy Voting Service. A form of proxy accompanies this document. Completion of a form of proxy does not preclude a member from attending and voting at the meeting.
3. For shareholders registered on the company's New Zealand branch register, to be valid, a form of proxy must be deposited, so as to be received no later than 10.30 p.m. on 18 July 2006, with the company's New Zealand registrars, Computershare Investor Services Limited, by one of the following methods: (i) by post to the address provided for such purpose in such form of proxy; or (ii) by personal delivery to Computershare Investor Services Limited, Level 2, 159 Hurstmere Road, Takapuna, North Shore City. A form of proxy accompanies this document. Completion of a form of proxy does not preclude a member from attending and voting at the meeting.
4. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the company specifies that only those shareholders holding ordinary shares who are entered on the registers as at 6.00 p.m. on 18 July 2006 or, in the event that the meeting is adjourned, on the registers 48 hours before the time of any adjourned meeting(s), shall be entitled to attend and/or vote in respect of the number of ordinary shares registered in their names at that time. Changes to the entries on the registers after 6.00 p.m. on 18 July 2006 or, in the event that the meeting is adjourned, on the registers 48 hours before the time of any adjourned meeting(s), shall be disregarded in determining the rights of any person to attend or vote at the meeting(s), notwithstanding any provisions in any enactment, the articles of association of the company or other instrument to the contrary.
5. CREST members who wish to appoint a proxy or proxies through the CREST Proxy Voting Service may do so for the annual general meeting and any adjournment(s) of the meeting by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

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

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

   The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
6. The register of directors' interests is available for inspection at the registered office of the company and at the annual general meeting venue for at least 15 minutes prior to and during the meeting itself until its conclusion. The biographies of those directors seeking re-election are set out on pages 22 and 23 of the annual report.

Information for shareholders

Dividends
Shareholders on the UK register who wish to have dividends paid directly into a bank account, rather than by cheque to their registered address, can complete a mandate form for this purpose. Mandates may be obtained from Capita Registrars, 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.

Shareholders on the New Zealand register may arrange to receive their dividends by direct credit to a specified New Zealand bank account. New Zealand registered shareholders should contact Computershare Investor Services Ltd, Private Bag 92119, Auckland 1020, New Zealand if they wish to set up such an arrangement.

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

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

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

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

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

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

Annual results announced	31 May 2006
Annual report published	19 June 2006
EGM for elective special dividend	26 June 2006
Elective special dividend paid	13 July 2006
Annual general meeting	20 July 2006
Final dividend paid	3 August 2006
Interim results announced	November 2006
Interim report published	November 2006
Interim dividend paid	January 2007

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. 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 on 0870 162 3135.

Documentation for the 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 3135.

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

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

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

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

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

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

Secretary
Graeme P Denison

Registered office
Cayzer House
30 Buckingham Gate
London SW1E 6NN

Registered number
Registered in England no 235481

Auditors
KPMG Audit Plc
1 Canada Square
Canary Wharf
London E14 5AG

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

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

Brokers
JPMorgan Cazenove Ltd
20 Moorgate
London EC2R 6DA

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282-292 Lambton Quay
Wellington
New Zealand

Solicitors
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65 Fleet Street
London EC4Y 1HS

Financial advisers
N M Rothschild & Sons Ltd
New Court
St Swithin's Lane
London EC4P 4DU

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