CALEDONIA INVESTMENTS

Performance driven

Annual report 2007

Year ended 31 March 2007

identify
invest
involve

Contents

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.

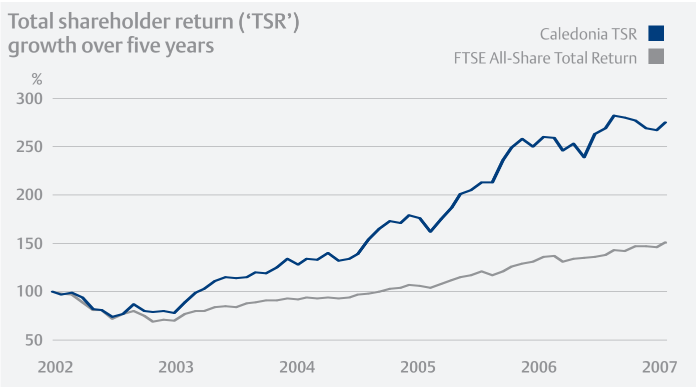
Financial highlights

Results summary

	31 March 2007	31 March 2006	Change %
Total equity	£1,323m	£1,307m	1.2
NAV per share (undiluted)	2283p	2061p	10.8
NAV per share (diluted)	2258p	2044p	10.5
Annual dividend per share	31.1p	29.6p	5.1
Share price	2066p	1980p	4.3
Discount	9.5%	3.9%	
FTSE All-Share index	3283	3048	7.7

Total return performance

	5 year %	10 year %
Share price	175.1	302.9
FTSE All-Share	51.2	109.2
Outperformance	123.9	193.7



References to net asset value ('NAV') refer to the company balance sheet, rather than the consolidated group balance sheet, as the directors consider this to be a more appropriate measure of performance.

Chairman's statement

11%

Net asset value per share increase over the year, compared with an 8% increase in the FTSE All-Share

124%

Share price total return outperformance against the FTSE All-Share Total Return over five years

Results

Our fourth year as an investment trust has again seen the growth in our net asset value per share outpace that of the FTSE All-Share index, although the 11% uplift and 3% outperformance were lower than the 34% and 10% achieved respectively last year. Nonetheless our long established strategy of acquiring significant, but usually minority, stakes in promising listed and unlisted companies and working with proven managements to add shareholder value over the longer term has enabled us to continue to record outperformance against our benchmark FTSE All-Share Total Return index over five and ten years of 124% and 194% respectively.

Share price and discount

Our share price rose by 4% over the year from 1980 pence to 2066 pence with the increase muted by a widening of the share price discount from less than 4% to just over 9% notwithstanding the 11% increase in underlying net asset value per share. I have cautioned in past years that it would prove challenging to continue to reduce the share price discount and that our share price is not ultimately within our control. The year just past has borne this out. However we are mindful that a wider share price discount affects shareholder value and we have used our authority to buy in our own shares when it was in the interest of our shareholders for us to do so, as detailed in the Chief Executive's statement.

Forty year dividend record

We are pleased to propose an increase of 5.4% in the final dividend to 21.6 pence per share from 20.5 pence last time, making a total dividend for the full year of 31.1 pence representing a 5.1% increase over last year and costing £18m. This marks a forty year record of successive annual dividend increases over which period we calculate that our annual dividends per share have increased by a factor of over 45 times as against a factor of 12 times for inflation. Such dividends will have aggregated to an equivalent of £5.36 per share and have been augmented by special dividends paid in 1997 and 2000 totalling £1 per share. There have also been opportunities for shareholders to opt for two elective special dividends. It is also of interest that forty years ago our equivalent share price was 15p.

Elective special dividend

In our interim statement I reported that in June 2006 we offered shareholders the option of participating in a return of funds of up to £128m by way of an elective special dividend on a broadly one for ten basis, with the shares so elected being cancelled for nil consideration through a Court approved reduction of capital. The dividend was struck at a 3% discount to the underlying NAV per share on the designated date and the resultant dividend of 1902.17 pence per share was taken up on 84.4% of the 6,410,579 shares eligible, resulting in a payout of £102.9m.

Portfolio

Details of the changes in our portfolio are provided in the Chief Executive's statement and the further pages which follow. With prices generally high, we remain selective in our investment activity but have continued to invest where we see good opportunities at sensible prices. During the year we invested £290m in new and follow-on opportunities and realised £317m, the main element of which was the £131m divestment of our remaining and long standing investment in Kerzner International in September last year to a management buyout led by the Kerzner family. This has proved an excellent investment since we took our initial stake in 1994, giving a compound annual return of 15% over the period, but we were all much saddened by the death of Butch Kerzner, the chief executive and architect of the buyout, who died in a helicopter accident just after the transaction.

We have continued to increase our investment activity in Asia, and predominantly in India, where we believe that there are substantial opportunities for the longer term investor prepared to develop relationships with management teams, often founding families, who are familiar with the local business environment.

"We have continued to increase our investment activity in Asia."

Peter Buckley
Chairman

Liquidity

Notwithstanding the £103m return of funds to shareholders described above, we still held net liquid funds of £109m at the year end compared with £180m last year. This is a function of the underlying dynamic of our investment activity and, given our concern about the high prices of businesses, is a sensible position when seeking to achieve an absolute return for shareholders over the longer term.

Economic and political background

I have habitually made reference to the current economic and political background as it can have a substantive effect on our business. Inflation is rising faster than officially acknowledged and higher interest rates have consequently been introduced. Government spending has increased sharply for little identifiable benefit, and has been accompanied by an unwelcome requirement for higher taxes. It surprises us, therefore, that our economy has remained stable. Many in the business community are aghast at the relentless increase in new and costly legislation but seem impotent to stem the flow. The 'Burdens Barometer' for the increase in costs for business from new legislation since 1998, independently calculated for the British Chambers of Commerce, has now risen to over £55bn, the majority of which is to comply with the whim of the unaccountable bureaucracy in Brussels. Our retiring Prime Minister had promised a referendum if the powers of Brussels were to be extended through a revised constitution and whilst a disguised version of this seems an imminent prospect, the promised referendum is being brushed aside. However this is entirely consistent with the lack of integrity and growing incompetence of the present Government and it is difficult to believe that the forthcoming change of prime minister will herald the changes which are so urgently needed. It is therefore important to encourage a credible opposition. It is for this reason that we have decided to ask our shareholders for permission to enable us to make a contribution of up to £60,000 to the Conservative Party so that it can be better equipped to form an alternative government. To this end it is important to build its resource – especially in marginal seats – if a change from this high spend and low delivery Government is to become a reality.

Staff

We rely on a relatively small but dedicated management team who make judgements on and process our various investments. They do this against the rising tide of rules and regulations to which I have already referred and which increasingly burden the corporate sector. I would like to thank them all on behalf of shareholders for their diligent and unstinting efforts.

Outlook

After a strong run in the market place, particularly in the mid-cap sector, there are signs of more volatility. This affects the pricing of new opportunities, but our refusal to join auction processes, coupled with our longer term approach and access to liquidity, should enable us to take advantage of corrections in the market for the longer term benefit of shareholders.

Peter Buckley
Chairman

Chief Executive's statement

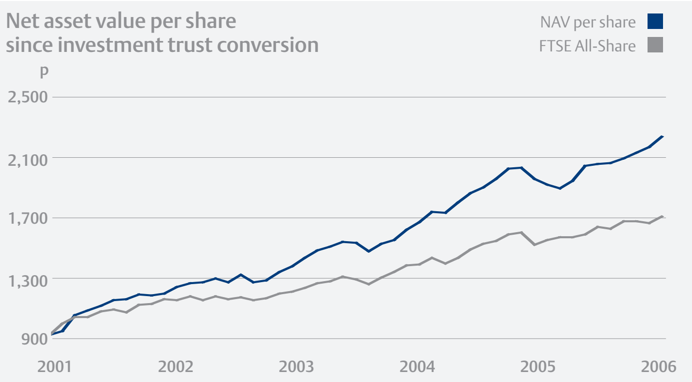
£290m

Invested in the year, including £128m in new opportunities

£317m

Realised in the year, including £131m for our stake in Kerzner International

Our financial year ended 31 March 2007 saw net asset value ('NAV') per share increase by 10.8% which was just over 3% ahead of the FTSE All-Share index over the year. The graph below compares our NAV per share performance against the FTSE All-Share index since our conversion to investment trust status on 1 April 2003.



Although for the 12 months ended 31 March 2007 our NAV per share growth was ahead of the market, it is disappointing to note that, as a result of our discount widening, our share price increase of 4.3% (from 1980p to 2066p) was below the FTSE All-Share index growth of 7.7% for this 12 month period.

Significant changes in value

Our 10.8% NAV per share increase was significantly aided by four investments, each of which provided total return gains (including the value of dividends and distributions) of more than £10m. These were:

Quintain Estates & Development (quoted)	+ £22.1m
Sterling Industries (unquoted)	+ £21.8m
Polar Capital (quoted on 6 Feb 2007)	+ £11.8m
Terrace Hill (quoted)	+ £11.1m

No individual investments had value losses of more than £10m, but in two cases there were losses in value of over £5m:

Alok Industries (quoted)	– £6.0m
Tribal Group (quoted)	– £5.0m

However, in both of the above two holdings, their share prices have improved markedly since 31 March 2007.

In addition, the fall in value of the US dollar compared with sterling over the period of 13.1% had an adverse effect on NAV. Although we had hedged our Kerzner International exposure, we had not hedged our other US dollar denominated investments, and we estimate that the foreign exchange effect on these US dollar investments reduced NAV by around £7m.

Investment activity

It has been an active investment year for us, both for investments made and for realisations.

As a result of our style as long term supportive and constructively involved investors, we are approached with many opportunities not always offered to others. During the financial year, our investment management committee evaluated 130 new investment opportunities. We made 14 new investments for a total amount of around £128m – more than half of this in unquoted companies. In addition, a further £162m was made in follow-on investments, giving a total investment of £290m for the year. This is a significant increase on the £155m we invested in the previous year. More information on these is given in the business review on page 13.

With our increased knowledge of the market in India we have been carefully increasing our exposure to businesses trading in that rapidly expanding area. As at 31 March 2007 the total value of our Indian investments (including two UK listed entities that focus on India) was £71.8m – representing 5.4% of shareholders' funds.

We continue to be actively and constructively involved with our investee companies, which we believe materially aids performance. It is our normal policy for a Caledonia executive to join the board of an investee company, and during the year we have had our executives on the boards of 18 of our top 20 investments.

Realisations this year totalled £317m, a similar level to the previous year. By far the largest was the buyout by a management-led investor group of Kerzner International, the resorts owner and operator in which we had an 8% stake. The $237m received by us in September had been hedged at an average of $1.81 to the pound, resulting in an overall realisation of £131m, including a £6m benefit from the hedge. More information on our realisations is given on page 14 in the business review.

We started the year with £180m of cash and in view of our liquidity level, we believed it to be in shareholders' interests to offer an elective special dividend with an associated share cancellation. All such shareholder elections, including those for oversubscription, were met in full. As a consequence, £102.9m was paid out and shares in issue reduced by about 5.4m to around 58.7m.

As a result of the above investment activity and the elective special dividend, our liquidity slightly reduced during the year and was £109m at 31 March 2007.

“We seek to maintain our distinctive outperformance.”

Tim Ingram
Chief Executive

Costs

Keeping overhead costs down is an important objective for us as every pound of cost 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 strong deal flow. We believe that being a self-managed investment trust company, with direct control over costs, significantly helps this objective. Our pre-tax total expenses ratio was 0.8%, which compares favourably against a pre-tax weighted investment trust industry average of 1.4%.

Discount

As mentioned above, we are very conscious that the widening of the discount of our share price to net asset value has a deleterious effect on our share price performance.

We firmly believe that we should continue to concentrate our efforts on striving to ensure that NAV per share continues to outperform the market. This is the best way over the medium and long term of meeting our financial aims of total shareholder return outperformance. One of the actions that aids our NAV per share performance is, when the opportunity arises, to buy our own shares into treasury when there is a significant discount. This we have done in a small way during March when 40,000 shares were bought in at an average price of 1976p. In order that such opportunities can also be exploited to the benefit of our shareholders during the close period from our year end to the announcement of our results, we have given, within certain pre-set parameters, irrevocable instructions to our brokers, JPMorgan Cazenove, to purchase shares on our behalf. On 11 May 2007, 30,000 shares were thereby purchased at a price of 2130p.

In addition to the above, we also believe that continuing to improve the awareness of Caledonia amongst retail investors should prove beneficial. To this end, we have programmes in place to present the company to private client stockbrokers and leading IFAs.

Outlook

Although at the time of writing economies around the world still seem to be buoyant and we continue to see a healthy flow of investment opportunities, we remain conservative in our approach and are particularly careful not to overpay for new investments. Economic cycles will continue and we believe it is in our shareholders’ interests for us to remain cautious in our investment policies. We have liquidity on our balance sheet and would expect to remain ungeared with continuing liquidity 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 by being careful to avoid over-exuberance, we seek to maintain our distinctive outperformance.

Tim Ingram
Chief Executive

Our business

Caledonia is a self-managed investment trust. We are a long term, supportive investor. We identify opportunities through our extensive network, invest in significant stakes for the longer term and involve ourselves with the managements of investee companies. We back proven management teams and look for opportunities where our investment style and involvement will be welcome. Our initial investments range typically between £10m and £25m, although we may invest up to £100m in exceptional circumstances.

Identify investment opportunities

Our reputation, size and extensive network give us a flow of investment opportunities that are not always available to others. 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 in significant stakes for the longer term

We hold an investment 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 in a majority holding if we believe this to be in the best interests of shareholders.

Involve ourselves with investee management teams

We are a supportive investor, working in partnership with the management teams of investee companies to help them to maximise the potential of their businesses. We usually seek a seat on the boards of investee companies.

Objectives and strategy

Objectives

Caledonia aims to achieve a long term total shareholder return in excess of the FTSE All-Share Total Return index, whilst maintaining a progressive annual dividend, through a focused portfolio of significant stakes in companies where we believe 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 we believe 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. We self-manage our portfolio, using in-house expertise, as well as using third party managers who specialise in particular asset classes or geographical areas. We will in particular seek to increase our level of investment in Asia.

Caledonia seeks new investments with a typical size of £10m to £25m, although we may invest up to £100m in exceptional circumstances. Although Caledonia usually aims to have an influential minority stake, we will, on occasion, be prepared to take a controlling interest where we believe that this will maximise shareholder value. When considering an investment opportunity, we take particular care 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 our ability to assess the capabilities and commitment of the fund management team and we 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 our own team to help the investee companies' managements to address their business issues. The strategy for each investment, including the returns and the timing of eventual disposal, is reviewed regularly. Investments are realised when we believe 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 our in-house management team.

Financial review

The financial review discusses the results of the company for the financial year and refers to the company's income statement and balance sheet. In addition to holding minority stakes in investee businesses, the company holds majority stakes in a number of companies. The results of these companies are included in the consolidated financial statements. However, management view these majority stakes as part of the company's investment portfolio and they are included in the discussion below in this context. Where appropriate, the financial review refers to aspects of the consolidated financial statements.

Key performance indicators

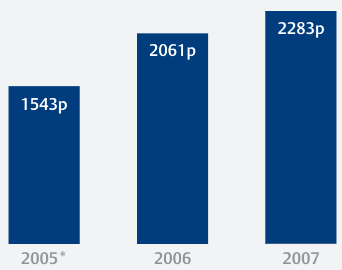
Our key performance indicators are as follows:

- Net asset value per share growth against the movement in the FTSE All-Share over one year.
- Share price total return performance against the FTSE All-Share over five and ten years.
- Absolute share price total return over five years.
- Total expenses ratio.
- Deal flow.

Net asset value

Net asset value ('NAV') per share, on an undiluted basis, was 2283p at 31 March 2007, compared with 2061p at the same date in 2006 and 1543p (restated under IFRS) in 2005. The increase over the year of 222p (10.8%) was principally driven by portfolio performance (+11.8%), partially offset by annual dividends paid (-1.5%). The elective special dividend paid in July 2006 added 0.3% to undiluted NAV per share.

Undiluted NAV per share at 31 March



* As restated for the adoption of IFRS

Table 1 shows the components of the movement in NAV per share over the year.

Table 1: Movement in NAV per share

	NAV £m	No shares 000's	NAV/share p
At 31 March 2006	1,307.0	63,411	2061
Total return	137.7	–	244
Annual dividends[1]	(18.5)	–	(30)
Elective special dividend[2]	(102.9)	(5,411)	6
Treasury and employee trust shares	(1.7)	(48)	–
Share-based payments	1.6	–	2
At 31 March 2007	1,323.2	57,952	2283

1. NAV per share movement is taken as the dividend per share.
2. NAV per share enhancement is based on the NAV per share at the date of the elective special dividend of 1961p.

The company's NAV at 31 March 2007 of £1,323.2m (2006 – £1,307.0m) differs from the group's consolidated NAV of £1,311.0m (2006 – £1,324.5m) due to the inclusion of investments in subsidiaries at fair value in the company balance sheet as opposed to the underlying share of net assets in the consolidated balance sheet.

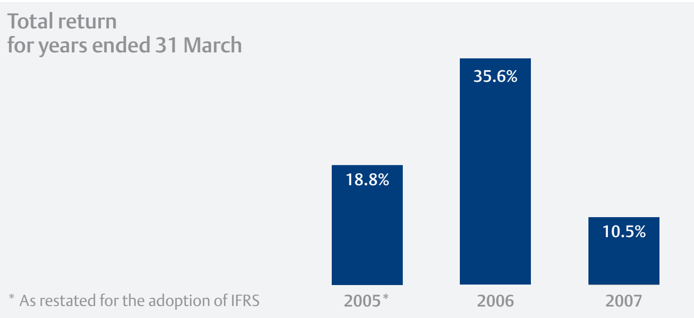
Total return

Caledonia achieved a total return for the year ended 31 March 2007 of £137.7m, which equates to 10.5% on opening equity (2006 – 35.6%). The key components were investment gains and investment income recorded over the year. The profit for the period and net income recognised directly in equity together comprise the company's total return, summarised in table 2.

Table 2: Total return

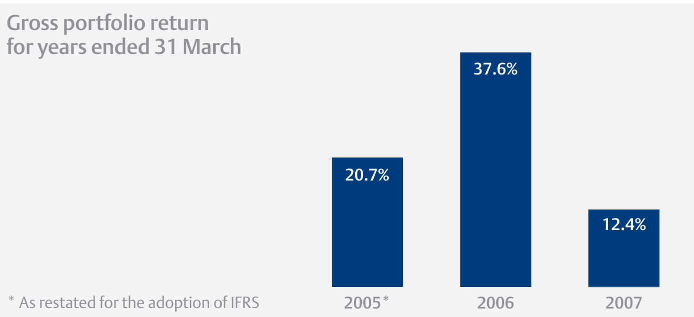
	2007 £m	2006 £m
Gains and losses on investments	96.5	352.7
Gains and losses on derivatives	5.6	(9.0)
Provisions	–	(10.0)
Investment income	40.1	22.6
Gross portfolio return	142.2	356.3
Management expenses	(11.0)	(10.8)
Other expenses	(1.1)	(1.0)
Net portfolio return	130.1	344.5
Treasury income and expenses	3.5	3.5
Taxation	2.5	1.4
Profit for the year	136.1	349.4
Gains and losses recognised in equity	1.6	(0.9)
Total recognised income and expense ('total return')	137.7	348.5

Financial review



Gross portfolio return

Gross portfolio return comprises gains and losses on investments, investment income and other items. The chart below illustrates the gross portfolio return for the past three financial years. The downturn in performance in 2007, compared with 2006, reflected a slower growth in equity markets during the year. The FTSE All-Share rose by just 7.7% in 2007, compared with 24.0% in 2006.



Net gains and losses on investments for the year were £96.5m, compared with £352.7m for the previous year. An analysis of this return is given in table 3.

Table 3: Net gains and losses on investments

	2007 £m	2006 £m
Unquoted investments	54.4	103.0
Quoted investments	42.1	249.7
	96.5	352.7

Net gains on quoted investments included £14.9m in respect of Polar Capital and Kingdom Group, which were listed in London and Hong Kong respectively during the year.

Net gains on derivatives of £5.6m in 2007 comprised £6.0m of gains on forward currency sale contracts taken out to hedge the US dollar exposure on our remaining investment in Kerzner International, which was sold in September 2006, and a £0.4m loss on a basket of options to hedge against fluctuations in deferred proceeds on the sale of an investment in September 2005. Net losses on derivatives of £9.0m in 2006 arose on forward currency sale contracts taken out to hedge the currency exposure on our US dollar denominated investments.

A provision of £10.0m was made in 2006 in response to a liability that may arise as the result of a subsidiary entering administration.

Investment income of £40.1m was 77.4% higher than the £22.6m booked in 2006. This increase resulted from the investment during the year in a number of new high-yielding loan instruments, increasing income by £6.2m, and substantial dividends received from investments in subsidiaries of £12.2m, compared with £2.0m in 2006.

An analysis of gross portfolio returns in 2007 from our principal investments is shown in table 4.

Table 4: Gross portfolio return

	Gains/ (losses) £m	Income £m	Gross return £m
Quintain Estates & Development	21.1	1.0	22.1
Sterling Industries	16.8	5.0	21.8
Polar Capital	10.4	1.4	11.8
Terrace Hill	10.8	0.3	11.1
Satellite Information Services	10.0	–	10.0
Oval	8.8	1.0	9.8
Rathbones	6.2	1.5	7.7
A G Barr	5.4	0.6	6.0
CBPE funds	5.8	–	5.8
Tribal Group	(5.2)	0.2	(5.0)
Alok Industries	(6.3)	0.3	(6.0)
Other investments	18.3	28.8	47.1
	102.1	40.1	142.2

1. Gains and losses on investments included net gains on derivatives of £5.6m.

Sterling Industries' gross portfolio return of £21.8m reflected improved trading and earnings multiples and Polar Capital's increase of £11.8m reflected principally its successful IPO in February 2007. Satellite Information Services' valuation increase was underpinned by a recent third party share transaction. Oval continued its successful integration of regional insurance brokers and the Close Brothers Private Equity ('CBPE') funds benefited from some substantial realisations during the year.

Expenses

Management expenses comprise the costs incurred in managing the operations of the company and totalled £11.0m for the year, compared with £10.8m in 2006.

Other expenses of £1.1m (2006 – £1.0m) comprised transaction costs of potential and completed investments of £0.5m (2006 – £1.0m) and £0.6m of expenses related to the elective special dividend.

Treasury income and expenses

Gains on money market funds and net finance income, totalling £3.5m (2006 – £3.5m), reflected the net returns on treasury assets during the year. The company held net liquidity in term deposits and money market funds averaging some £100m over the year, but, for a short period in July and August 2006, had net borrowings to finance the elective special dividend in advance of the proceeds from the sale of our stake in Kerzner International. Net finance income included exchange losses of £0.7m (2006 – £0.1m), which arose from holding foreign currency balances.

Dividends

Interim and final dividends

During the year, we paid out dividends of 30.0p per share (2006 – 28.6p), amounting to £18.5m (2006 – £18.2m), representing the final dividend for 2006 of 20.5p per share and the interim dividend for 2007 of 9.5p per share.

Caledonia maintains a progressive dividend policy and has an unbroken record of annual dividend increases over the last 40 years.

Elective special dividend

In June 2006, Caledonia offered shareholders the option of participating in a return of funds of up to £128m by way of an elective special dividend and associated reduction of capital. The dividend for each share elected was 1902.17p, representing a discount of 3% to the NAV per share of 1961p on the certification date of 7 July 2006. The elected shares were subsequently cancelled for nil consideration. Shareholders elected 5.411m shares, being 84.4% of the total shares eligible, resulting in a total payment of £102.9m.

The elective special dividend increased NAV per share for all shares remaining by 6p, or 0.3%.

Treasury and employee trust shares

Shares held in treasury and held by the employee share trust are excluded from the NAV per share calculation.

At 31 March 2007, we held 140,000 shares in treasury, of which 40,000 shares were bought during the year at a cost of £0.8m.

Caledonia operates an employee share trust to hold shares pending transfer to employees as a result of the exercise of share options or calling of deferred bonus awards. At 31 March 2007, 703,284 shares were held by the trust, increased from 695,189 shares held at the end of the previous year. During the year, the trust transferred 56,010 shares to staff on exercise of share options and bought 64,105 shares. These transactions resulted in a net payment by the trust of £0.9m.

Share price total return

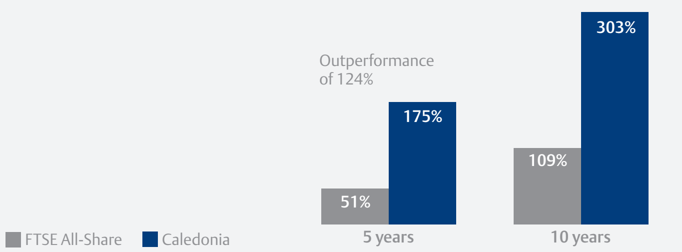
We measure our longer term performance by comparing our share price total return against the FTSE All-Share Total Return over five and ten years and also by our absolute share price total return over rolling five year periods. The total return measure assumes the re-investment of dividends on the ex-dividend date at the closing share price on that date.

Whilst the share price total return provides an accurate measure of investors' returns, it should be noted that it is based on the company's share price, which is not within the company's direct control.

Financial review

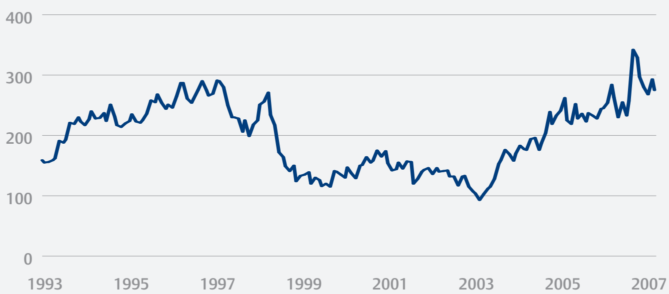
The chart below shows that shares in Caledonia have produced a total return to investors of 175% over five years and 303% over ten years, compared with total returns of 51% and 109% respectively from the FTSE All-Share – an outperformance of 124% and 194%.

Share price total return over 5 and 10 years



As well as seeking to outperform the FTSE All-Share Total Return index over five and ten year periods, the company also aims to deliver an absolute return on a rolling five year basis. This measure is illustrated in the following chart.

Share price total return index at the end of rolling 5 year periods (base = 100)



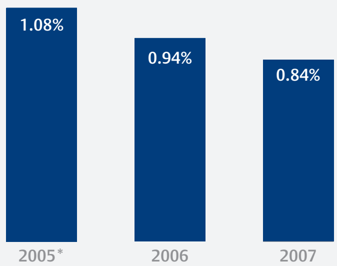
Over the last 14 years, we have made an absolute return over rolling five year periods, except for a short period in late March and early April 2003.

Total expenses ratio

The calculation of our pre-tax total expenses ratio ('TER') is based on our annualised management expenses, divided by closing net assets. For the purposes of calculating the TER, management expenses reported in the income statement are adjusted to expense the fair value of equity rights granted under our deferred bonus plan in the year to which the award related. This differs from the accounting treatment, which expenses some of the entitlements over the three year vesting period.

The effect of this adjustment is to increase reported management expenses by £0.1m to £11.1m in 2007 and £1.4m to £12.2m in 2006. The management expenses of £10.6m in 2005 were not affected.

Total expenses ratio for years ended 31 March



* As restated for the adoption of IFRS

Deal flow

Our ability to access attractive investment opportunities, through our extensive network, is crucial to our strategy of being a long term supportive investor. We measure our deal flow according to the number of opportunities that have passed our initial screening process and warrant further investigation as opportunities in which we might be interested in investing. During the year, we actively considered 130 new investment opportunities, compared with 125 in 2006.

Cash flows

The key cash flows during the year comprised an aggregate inflow of £309.5m (2006 – £323.0m) from the realisation of investments and outflow of £290.4m (2006 – £160.2m) for the purchase of investments. In addition, there was a cash outflow of £102.9m in respect of the elective special dividend paid in July 2006.

Liquidity

At the year end, we held cash equivalents totalling £108.6m (2006 – £179.6m).

Gearing

Caledonia had no debt at 31 March 2007 (2006 – £nil). However, during the year, short term borrowings were incurred and rose to £43.0m in August 2006, to finance in part the elective special dividend. These borrowing were repaid between July and September 2006 from the proceeds of planned investment realisations.

Subsidiary companies of Caledonia had borrowings totalling £66.0m at 31 March 2007 (2006 – £42.0m) to finance operations.

Investment portfolio

The value of the investment portfolio at 31 March 2007 was £1,228.9m, compared with £1,148.0m at 31 March 2006.

Movement

Table 5 illustrates the movement in the value of the portfolio over the year.

Table 5: Movement in the value of the investment portfolio

	2007 £m	2006 £m
Opening investment portfolio	1,148.0	947.1
Investment	290.0	155.2
Realisation proceeds	(316.8)	(298.0)
Gains and losses on investments and derivatives	102.1	343.7
Rolled-up interest	5.2	–
Limited partnership current accounts	0.4	–
Closing investment portfolio	1,228.9	1,148.0

1. 'Realisation proceeds' and 'gains and losses on investments and derivatives' included £5.6m gain (2006 – £9.0m loss) of gains and losses on derivatives.

Investment

Caledonia invested a total of £290.0m in the year, compared with £155.2m in 2006. A summary of the principal investments, analysed between new and follow-on situations, is given in table 6.

Table 6: Investments

Name	Resulting equity holding %	Category	Country of domicile	Business	Cost £m
New investments					
Ermitage	60.0	Equity/ loans	Jersey	Hedge funds management	22.1
TGE Gas Engineering	49.9	Equity/ loans	Germany	Gas engineering	19.2
Celerant	49.0	Equity/ loans	UK	Management consultant	15.9
Serica Energy	8.4	Equity	UK	Oil and gas	13.4
Nova Springboard fund		Capital/ loans	Guernsey	Investment fund	13.1
Eredene Capital	19.6	Equity	UK	Indian property	12.0
Begbies Traynor	9.3	Equity	UK	Business support	11.4
Penta Geronimo fund		Capital/ loans	UK	Pub estates fund	5.6
Marwadi	19.5	Equity	India	Broking	4.9
Real Estate Investors	12.9	Equity	UK	Property	4.6
Other investments (4)					5.7
					127.9
Follow-on investments					
Polar Capital funds		Shares	Ireland/ Cayman	Hedge funds	31.9
Incisive Media		Equity	UK	Publishing	20.4
Edinmore	100	Loans	UK	Property	16.4
Bristow Group	6.9	Equity/ prefs	US	Helicopter services	13.9
Melrose Resources	8.9	Equity	UK	Oil and gas	13.1
Varun Shipping	11.1	Equity	India	Shipping	12.9
Avanti Screenmedia	25.1	Equity	UK	Screen media	6.5
Novae Group	6.1	Equity	UK	Insurance	6.1
Alok Industries	14.9	Equity	India	Textiles	5.6
Other investments					35.3
					162.1
Total					290.0

During the year, we appraised 130 new opportunities and invested £127.9m in 14 of these.

Financial review

Of these new investments, three totalling £17.2m were made directly or indirectly in India and one for £1.2m indirectly in China. This is in line with our strategy of increasing our investment exposure to these markets. Included in the indirect investments in India is our £12.0m investment in Eredene Capital, an AIM listed company that invests in Indian property. In addition, we made follow-on investments directly and indirectly in Indian companies of £24.7m, including £12.9m in Varun Shipping, the quoted shipping group, and £5.6m in Alok Industries, the quoted textiles manufacturer.

Realisations

Caledonia made full and partial realisations of holdings during the year with total proceeds of £316.8m (2006 – £298.0m), a summary of which is given in table 7.

Table 7: Realisations

Name	Nature of realisation	Proceeds £m	Realised gain £m
Kerzner International	Full sale of holding	131.0	109.2
Sterling Industries	Capital distributions	28.7	14.9
Edinmore	Loan repayments	26.9	–
Incisive Media	Partial sale of holding	24.5	3.6
Savills	Partial sale of holding	21.7	18.1
Polar Capital funds	Redemption of shares	16.5	2.8
Aberforth LP fund	Fund distributions	11.9	11.9
CBPE funds	Fund distributions	8.7	8.3
Pragma FCPR	Fund distributions	6.1	2.2
Celerant	Loan repayments	5.6	–
Greenhill Capital fund	Fund distributions	5.4	4.4
Other realisations		29.8	(9.9)
		316.8	165.5

1. The Kerzner International sale proceeds of £131.0m included £6.0m of forward currency contract gains.

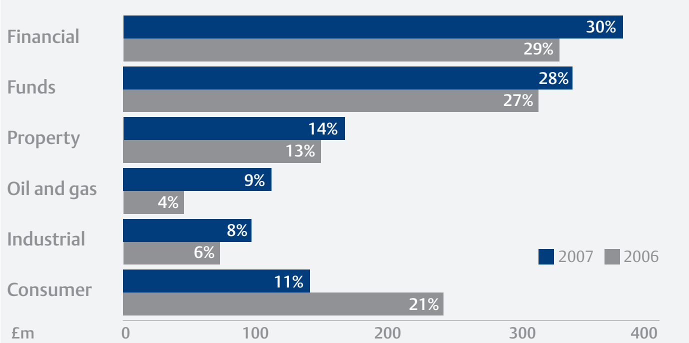
Of particular note, we sold our remaining 8% holding in Kerzner International, the NYSE listed resorts owner and operator, to a management-led investor group for £131.0m, resulting in a £109.2m gain over residual cost. Kerzner International has realised a total of £216.0m on an investment costing £43.0m, giving an IRR of 15.2% over the 13 years we had been invested.

We sold most of our holding in Savills, the UK listed property agency, in the year, and the balance of our holding at the beginning of April 2007. Overall, this investment yielded an IRR of 43.9% over the 5 years we had been invested.

Analysis

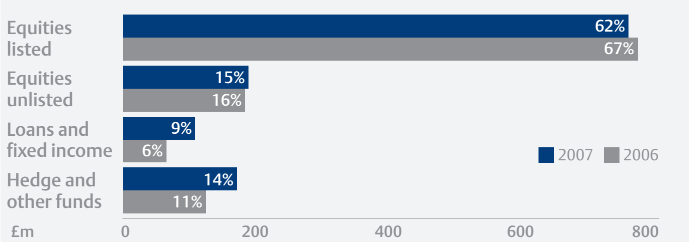
The chart below analyses the investment portfolio by business sector. Over the year, there has been a shift in the composition of our portfolio from consumer, with the realisation of our holding in Kerzner International, and into oil and gas, with the acquisition of TGE Gas Engineering and Serica Energy and an increase in our stake in Melrose Resources.

Portfolio value by busines sector



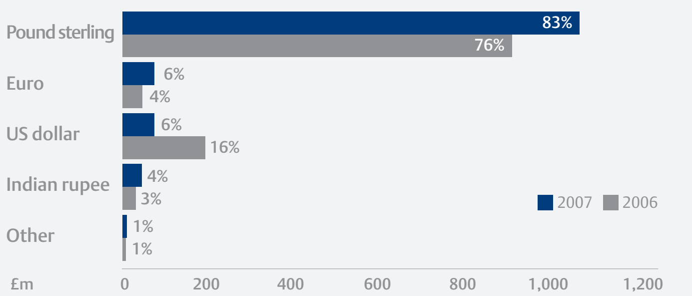
The chart below shows the analysis by security type. The reduction in listed equities resulted from the realisation of our holding in Kerzner International and the increased percentage in loans and fixed income reflected the structure of recent investments.

Portfolio value by security type



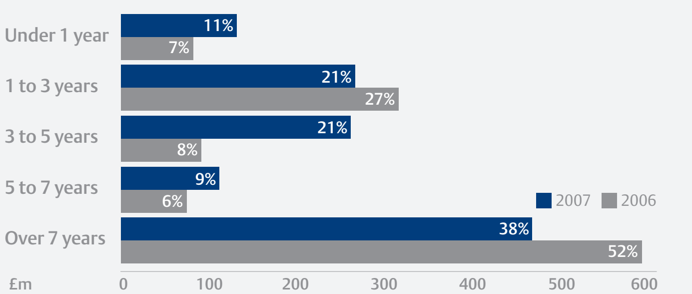
The analysis by currency of the investment instruments is shown in the chart below. The principal change over the year was the move away from the US dollar, due to the sale of our holding in Kerzner International and the increase in pounds sterling as the proceeds from Kerzner International were converted and most of the year's investments were sterling denominated.

Portfolio value by currency



The chart below analyses the investment portfolio value by the age of investments, measured from the date of initial investment. The value of investments held for over 7 years has reduced as a result of the realisation of our holding in Kerzner International. This has been replaced by new investments.

Portfolio value by age



As at 31 March 2007, the weighted average age of the investment portfolio, measured from the date of initial investment, was 8.4 years (2006 – 9.3 years).

The chart below analyses the investment portfolio value by geographical region, based on the country of domicile and the underlying spread of investments in funds. Over the year, there has been a reduction in our North American interests, with the realisation of our holding in Kerzner International, an increase in Europe, with new investments in Ermitage and TGE Gas Engineering, and an increase in our Asian interests, in line with our strategy of increasing our exposure in this region.

Portfolio value by geography

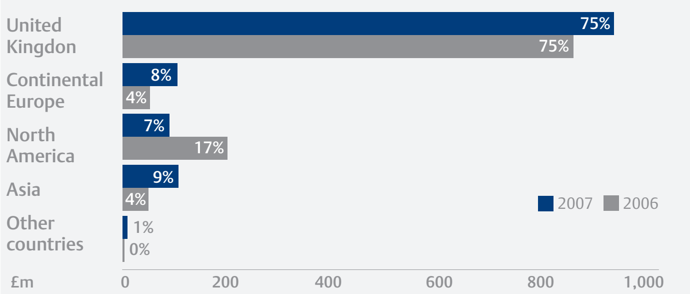


Table 8 lists our investment portfolio holdings of over 1% of net assets.

Financial review

Table 8: Significant holdings

Name	Equity holding %	Country of domicile	Business sector	Nature of business	Total £m	Proportion of net assets %
Close Brothers[1,2]	12.2	UK	Financial	Merchant banking	182.2	13.8
British Empire Securities[1,2]	18.5	UK	Funds	Investment trust	137.2	10.4
Quintain Estates & Development[1]	7.3	UK	Property	Property investment and development	84.6	6.4
Rathbone Brothers[1,2]	10.8	UK	Financial	Fund management	59.8	4.5
Polar Capital funds[2]		Ireland/Cayman	Funds	Hedge and long-only funds	47.4	3.6
Bristow Group[1,2]	6.9	US/UK	Oil and gas	Helicopter services	38.8	2.9
Melrose Resources[1,2]	8.9	UK	Oil and gas	Oil and gas exploration	37.5	2.8
Cobepa[2]	9.4	Belgium	Funds	Investment company	35.9	2.7
Oval[2]	29.0	UK	Financial	Insurance broking	32.6	2.5
Satellite Information Services[2]	22.5	UK	Consumer	Betting information distribution	25.9	2.0
Polar Capital[1,2]	16.8	UK	Financial	Fund management	25.6	1.9
A G Barr[1]	9.4	UK	Consumer	Soft drinks	23.1	1.7
Eddington Triple Alpha Fund[2]		Cayman	Funds	Fund of hedge funds	23.0	1.7
Novae Group[1,2]	6.1	UK	Financial	Insurance services	22.5	1.7
Ermitage[2]	60.0	Jersey	Financial	Hedge funds management	22.1	1.7
Sterling Industries[2]	100.0	UK	Industrial	Engineering	21.8	1.6
TGE Gas Engineering[2]	49.9	Germany	Oil and gas	Gas engineering	19.9	1.5
Terrace Hill[1,2]	8.1	UK	Property	Property development	19.3	1.5
Alok Industries[1,2]	14.9	India	Consumer	Textiles manufacturer	17.0	1.3
India Capital Growth Fund[1,2]	26.3	Guernsey	Funds	Investment company	16.7	1.3
Incisive Media[2]		UK	Consumer	Business publishing	16.5	1.2
Avanti Screenmedia[1,2]	25.1	UK	Consumer	Screen media services	15.9	1.2
The Sloane Club[2]	100.0	UK	Consumer	Residential club owner and operator	14.0	1.1
Serica Energy[1]	8.4	UK	Oil and gas	Oil and gas exploration	13.7	1.0
Buckingham Gate[2]	100.0	UK	Property	Property investment	13.2	1.0
Other investments					262.7	19.9
Total investments					1,228.9	92.9
Net current assets					94.3	7.1
Net assets					1,323.2	100.0

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

Business highlights

Caledonia's investment style and philosophy differentiates us from both mainstream equity investors and traditional fund managers. We use our capital, allied to our experience and reputation, to back and support management teams to develop their businesses, whether as listed or private companies. This flexible approach, together with our long term investment horizon and supportive stance, are the hallmarks of Caledonia and, as the following business highlights of the year illustrate, can generate good returns and create interesting investment opportunities.

Kerzner International

The year started with the announcement, in April, of a management-led buyout of Kerzner International, the worldwide hotel and casino operator in which we held a residual 8% stake. Our original investment was made in 1994, when we backed Sol Kerzner, the founder of Sun International, in his acquisition and development of Paradise Island in the Caribbean as a world class destination resort. Sun International was listed on the New York Stock Exchange in 1996 and later changed its name to Kerzner International. Throughout our period of ownership we were represented on the board. We were therefore able to play a pivotal role in the evaluation and eventual success of the MBO approach and work with the various parties to ensure a realisation of our second biggest investment at an attractive valuation of £131m thus realising over the years some £216m from a gross investment of £43m. This brought a long and productive association with Sol Kerzner, the founder, to a fruitful conclusion.

Business highlights

Caledonia's approach and reputation delivers results to both vendors and management teams through investment in 'people businesses'.

TGE Gas Engineering

In May, we completed the management buyout of TGE Gas Engineering, a German based turn-key engineering business, investing £8.4m for a 49.9% stake. The business was acquired from Tractebel Engineering, part of the Suez Group, to whom it had become non-core. We were attracted by the quality of the management team, who have spent twenty years together building the business, and by the growth prospects for energy infrastructure investment that will drive TGE's performance. Our focus on relationships, long term perspective and experience with mid-size companies were key attractions of Caledonia to both management and the vendor. Since investment we have provided a further £10.8m to support the growth of the business.

Ermitage

In May, we invested £22.1m for a 60% stake in Ermitage, a well-established Jersey-based hedge fund management business. Ermitage had been put up for sale by its South African parent but, with an existing agreed sale stalled, we were able to offer the vendors an alternative transaction. This was achieved through quickly establishing a good rapport with the management who recognised our credentials and track record in backing successful asset managers. We have already helped the development of the business, which manages $2.8bn, through providing additional capital to invest in funds managed by Ermitage.

Since making our investment, Ermitage has been successful in winning a $120m contract from one of the world's largest pension funds.

Caledonia can invest in both listed and private companies but above all backs management to grow their businesses. Our longer term view means that it is not necessary to promote an IPO, trade sale or public to private transaction as an 'exit' before this optimises shareholder value.

Celerant

Another management-led buyout, which also completed in May, was our acquisition of a 49% stake in Celerant Consulting at a total cost of £15.9m. Celerant is a global management consulting business which specialises in delivering operational efficiencies and savings to its worldwide clients, especially in the chemical and energy sectors. Celerant was sold as a non-core asset by Novell, a US listed software services group, which was keen to ensure that the transaction proceeded at an acceptable price but with a high degree of certainty. Caledonia was attractive to the management as a long term partner and we were able to reassure Novell that we could complete the transaction with certainty at the agreed price.

Incisive Media

In December, Incisive Media plc, a UK listed business publisher, was taken private through a management buyout financed by Apax Partners. Having first invested in Incisive Media in April 2004, we were keen to continue to back the management team as we shared their view that it would be better to grow the business through acquisitions as a private equity backed company with the benefit of higher gearing. We therefore worked with the company, management and the bidder, together with their advisers, to ensure that all Incisive Media shareholders were offered an opportunity to roll over their investment through a share alternative offered by the acquiring vehicle. We are delighted to continue, alongside Apax and management, as an investor in Incisive Media with board representation and look forward to the opportunity to put more capital to work in the business as it makes further acquisitions. Two such acquisitions have already been completed since December.

Business highlights

Caledonia also backs listed companies seeking cornerstone investors in equity fundraisings.

Polar Capital

Where we have originally backed a business and its management team as a private company our permanent capital base and flexibility do not oblige us to predetermine an IPO as a required exit. An excellent example of this is Polar Capital, a fund management business in which we were founder shareholders in 2001, providing assistance for the management team in establishing the company and using our capital over the following years to provide 'seeding' for a number of Polar Capital's hedge and equity funds. We have worked closely with management ever since to facilitate an ownership structure and entrepreneurial culture which enabled them to attract top quality fund managers to expand their business which now manages over $3bn of assets. The culmination of this stage in Polar Capital's development was its successful flotation on AIM in February which placed a value on our 16.8% holding of £20.3m (compared to our equity investment cost of £0.7m). We continue to have board representation in the listed company and remain as convinced as we have been from the start of the long term potential of Polar Capital's business.

Begbies Traynor

In March 2007, we invested £11.4m for a 9.3% stake in Begbies Traynor plc, the AIM listed UK corporate insolvency and recovery specialists. We first met the management team, who founded the business and are major shareholders, in 2006. We were impressed by their achievements and business model and spent time developing our understanding of the company's management and business. We were pleased to be able to provide a cornerstone investment in a £22.0m equity placing and look forward to supporting the development of this successful business.

Caledonia is applying its investment approach and philosophy to develop its business in fast growing Asian economies.

We believe that Caledonia's investment model, which seeks to identify good management teams and develop strong long term relationships, is particularly well suited to the growing markets of India and China. In both countries we have, over recent years, been working with local partners to identify companies, usually with high levels of family or management ownership, which are receptive to this approach. We are building up our investment exposure and experience in a controlled way which also addresses the inherent risks of investing in commercial environments which are less well developed than the UK and other industrialised economies.

India

We now have Indian investments totalling £71.8m. During the year, we increased our investment in three India listed companies and provided cornerstone funding to two AIM listed funds investing in India.

Our India listed investments include Alok Industries, a textile manufacturer in which we hold a 14.9% stake valued at £17.0m, Varun Shipping, a shipping company transporting LPG, crude oil and petroleum products in which we hold an 11.1% stake valued at £9.6m, and Dewan Housing Finance, a provider of housing finance in which we hold a 2.2% stake which, together with our holding of convertible bonds issued by the company, is valued at £7.0m.

We also hold stakes in two AIM listed funds investing in India. We hold a 26.3% stake valued at £16.7m in India Capital Growth Fund, a strategic investor in small to mid-cap Indian companies, and a 19.6% stake valued at £11.0m in Eredene Capital, a specialist Indian property fund.

Business highlights

China

In China, we have invested or committed £13.6m. We are a significant strategic investor in a Shanghai-based growth capital private equity fund, Capital Today, where we helped an experienced team establish their first fund with a £10.2m cornerstone investment commitment, of which £1.2m was drawn at the year end. We also invested £3.4m in 2005 in a private textile company, Kingdom Group, which is one of the world's leading producers of linen yarn. Kingdom Group was floated on the Hong Kong Stock Exchange in December 2006 and we have retained our investment, now worth £8.0m, through a 10.7% stake in the listed company.

Vietnam

More recently we have been researching investment opportunities in Vietnam, working closely with local business advisors.

Risks and uncertainties

Principal risks and uncertainties

Caledonia has a risk management framework that provides a structured process for identifying, assessing and managing risks associated with the company's business objectives and strategy.

External risk

External risks arise from political, legal, regulatory and economic changes. Failure to comply with regulations could result in the company losing its listing and/or being subjected to UK corporation tax on its capital gains.

The company seeks to operate within applicable legal and regulatory frameworks. A compliance committee meets weekly and reviews Caledonia's current business for regulatory compliance, as well as considering investment proposals from a compliance perspective. The board receives and reviews regular reports on the controls in place to prevent non-compliance of the company with rules and regulations.

Strategic risk

Strategic risks arise from the concept, design and implementation of the company's business model and key decisions on investment levels and capital allocations. An inappropriate investment strategy could result in poor returns for shareholders. The board reviews strategy periodically.

Investment risk

Investment risk occurs in respect of specific investment decisions, subsequent performance of an investment or concentration of exposure to an economic sector or geographical region.

In addition to financial, legal and market due diligence, Caledonia's investment appraisal includes a rigorous assessment of investee management's track record of success and commitment to growing their business. All potential investments are presented to Caledonia's investment management committee, which comprises executive directors and other senior managers, and meets weekly. Any individual investment of £20m or more requires board approval.

Having made the investment decision, a process is put in place for managing the relationship with the investee company for the period through to realisation. This will usually include board representation by a Caledonia investment executive. The executive will make regular reports to the investment management committee on issues relevant to the investments for which he or she is responsible and there is a process of cyclical reporting to the board.

Caledonia invests in a range of economic sectors and geographical regions. The portfolio is monitored monthly against board approved guidelines to ensure that there is no undue exposure.

Treasury and funding risk

Treasury risks principally comprise counterparty risk, uncertainty in market prices and rates and the requirement to access adequate funds to meet investment needs or other obligations as they fall due.

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.

Risks and uncertainties

Caledonia's foreign exchange risk management policy allows for exposure to structural and transactional currency movements. In the event that there is an 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.

Counterparty risk is managed through an approved list of counterparties with maximum aggregate exposures agreed by the board.

Day-to-day management of treasury activities is delegated to executive directors and to the Group Treasurer. A detailed report on liquid assets and cash flow projections is submitted to the investment management committee on a weekly basis. Monthly reports on Caledonia's funding position and cash flow forecasts are considered by the board.

Operational risk

Operational risk arises from potentially inadequate or failed processes, people and systems or from external factors.

Inadequate or failed processes could result in the misappropriation of assets, loss of income and debtor receipts and mis-reporting of NAV per share. The board regularly reviews statements on internal controls and procedures and subjects the books and records of the company to an annual audit.

The ability to recruit, develop and retain capable people is of fundamental importance to Caledonia's strategy and the loss of key staff could adversely affect investment returns. 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.

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.

Historic record

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

Years ended 31 March	Share price p/share	Annual dividend p/share	Special dividend p/share	Cumulative performance based on 1997: Share price total return	FTSE All-Share Total Return	Annual dividend	Retail Price Index
1997	770.0	19.0	30.0	100	100	100	100
1998	879.0	20.5	–	124	137	106	104
1999	732.5	22.0	–	106	146	114	106
2000	771.5	23.0	70.0	115	160	122	108
2001	797.5	24.0	–	134	143	128	111
2002	847.5	25.0	–	146	138	133	112
2003	642.5	26.0	–	115	97	139	116
2004	1017.0	27.0	–	187	127	144	119
2005	1367.0	28.2	–	258	147	150	123
2006	1980.0	29.6	–	380	188	157	126
2007	2066.0	31.1	–	403	209	173	132
Compound annual returns							
5 year				22.4	8.6	5.3	3.2
10 year				15.0	7.7	5.6	2.8

1. Annual dividends are based on the year to which they relate, rather the year in which they are recognised as required under IFRS.
2. The elective special dividends paid in July 2004 and July 2006 and consequent cancellations of shares are 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 2007:

Month	Net asset value p/share	Share price p/share	FTSE All-Share	Discount/ (premium) share price to NAV %	Cumulative performance based on March 2006: Net asset value/share	Share price	FTSE All-Share
Mar 2006	2061	1980	3048	3.9	100	100	100
Apr 2006	2069	1975	3074	4.5	100	100	101
May 2006	1992	1878	2917	5.7	97	95	96
Jun 2006	1952	1907	2968	2.3	95	96	97
Jul 2006	1950	1803	3004	7.5	95	91	99
Aug 2006	1980	1980	3008	–	96	100	99
Sep 2006	2083	2029	3050	2.6	101	102	100
Oct 2006	2094	2128	3140	(1.6)	102	107	103
Nov 2006	2099	2113	3120	(0.7)	102	107	102
Dec 2006	2142	2080	3221	2.9	104	105	106
Jan 2007	2172	2020	3212	7.0	105	102	105
Feb 2007	2210	2006	3198	9.2	107	101	105
Mar 2007	2283	2066	3283	9.5	111	104	108

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

Board of directors


01


03


02


04

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 Polar Capital. Age 64.

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 59.

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 53.

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 and a non-executive director of Eredene Capital. Age 50.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05 Jamie Cayzer-Colvin
Executive Director
He joined the Caledonia group in 1995, initially working at its Amber speciality chemicals subsidiary 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 Chemicals and a non-executive director of Celerant, Ermitage, India Capital Growth Fund, Polar Capital and Rathbone Brothers. Age 42.

06 John May
Executive Director
Appointed an executive director of Caledonia in 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, Kingdom Holdings, Oval and Satellite Information Services. Age 52.

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 2005. He is a non-executive director of Avanti Communications, Cobepa, Melrose Resources, Terrace Hill, TGE Gas Engineering and chairman of Sterling Industries. Age 39.

08 James Loudon
Non-Executive Deputy Chairman
Appointed a non-executive director of Caledonia in 1995 and non-executive deputy chairman in 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 64.

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 5 years as senior partner until his retirement in 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 67.

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 59.

11 Richard Goblet d'Alviella
Non-Executive Director
A Belgian national, he was appointed a non-executive director of Caledonia in 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 58.

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 Marston's, having served as its managing director from 1986 to 2001. He is also a non-executive director of Persimmon and of Tribal Group. Age 52.

Directors' report

The directors present their report and accounts for the year ended 31 March 2007. 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. During the year, the company acquired a 60% interest in Ermitage Ltd, a Jersey-based fund of hedge funds manager. There have been no other significant changes in the activities of the operating subsidiaries.

The company has been approved by Her Majesty's Revenue and Customs ('HMRC') as an investment trust for its year ended 31 March 2004 and continues to manage its affairs so as to comply with the requirements for investment trust status. Confirmation of investment trust status is granted retrospectively by HMRC for each financial year. Applications for approval for the years ended 31 March 2005 and 2006 have been made and an application for approval for the year ended 31 March 2007 will be made subsequent to the approval of these accounts by shareholders of the company.

Annual general meeting
The seventy-eighth 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, 19 July 2007 at 11.30 am. The notice of the annual general meeting and details of all of the resolutions to be put to shareholders are set out in a separate circular which accompanies this annual report.

Directors and their interests
The directors of the company, all of whom served throughout the year, are shown on pages 26 and 27.

The interests of the directors and their families in the ordinary share capital of the company as at 31 March 2007 were as follows:

	Beneficial 2007 No	Beneficial 2006 No	Non-beneficial 2007 No	Non-beneficial 2006 No
P N Buckley	536,500	590,000	306,201	306,761
T C W Ingram	87,466	86,061	–	–
J H Cartwright	12,810	12,810	–	–
The Hon C W Cayzer[1]	60,730	90,730	83,759	91,759
J M B Cayzer-Colvin	385,771	385,771	19,422	19,582
J M May	5,250	2,600	–	–
W P Wyatt[2]	145,645	153,645	12,500	12,500
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. The Hon C W Cayzer's beneficial interests included 12,500 shares in which Mr W P Wyatt had a non-beneficial interest (2006 – 12,500 shares).
2. Mr W P Wyatt's beneficial interests included 83,759 shares in which The Hon C W Cayzer had a non-beneficial interest (2006 – 91,759 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 or calling for awards vesting under the company's deferred bonus plan. 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 2007, the trust held 703,284 shares (2006 – 695,189 shares). Dividends have been waived on the shares held by the trust. Shares held by the trust are not included in the table above.

On 5 April 2007, Mr W P Wyatt was appointed a trustee of a trust which holds 4,593 ordinary shares in the company and therefore he was deemed by virtue of the Companies Act 1985 to have acquired a non-beneficial interest in these shares. The beneficiaries of the trust are the children of The Hon C W Cayzer and therefore the trust's shares are included in The Hon C W Cayzer's beneficial interests shown in the table above. There have been no other changes in directors' interests shown above notified up to the date of approval of these accounts.

Details of the directors' options to acquire ordinary shares in the company and awards over ordinary shares under the company's deferred bonus plan as at 31 March 2007 are set out in the directors' remuneration report on pages 49 to 53.

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 29 May 2007, being the latest practicable date prior to the printing of this annual report, the following had notified the company that they held 3% or more of the voting rights of the company:

	Number of voting rights	Percentage of voting rights
The Cayzer Trust Company Ltd	19,622,642	33.5%
Sofina sa	2,746,777	4.7%

The total number of voting rights held by The Cayzer Trust Company Ltd ('Cayzer Trust') comprised 19,563,072 direct voting rights (33.4%) and 59,570 indirect voting rights (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 £181,000.

Going concern
The directors are satisfied that the company and the group have adequate resources to continue to operate for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing the financial statements.

Auditors
KPMG Audit Plc resigned as the company's auditors on 20 November 2006 following a tender process conducted by Caledonia's Audit Committee. Deloitte & Touche LLP were appointed by the directors to fill the casual vacancy and a resolution for their appointment as auditors of the company will be proposed at the annual general meeting.

A description of how the Audit Committee ensures the objectivity and independence of the auditors is set out on page 55 within the corporate governance report.

The directors who held office at the date of approval of this directors' report confirm that, so far as each is 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
30 May 2007

Directors' responsibility statement

The directors are responsible for preparing the annual report and the financial statements. The directors are required to prepare financial statements for the group in accordance with International Financial Reporting Standards ('IFRS') and have also elected to prepare financial statements for the company in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors will also be required to:

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements of IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of the directors' report and directors' remuneration report in compliance with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the company website. Legislation in the United Kingdom 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 2007 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 1 to 33. 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 auditors' 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 ('IFRS') as adopted by the European Union are set out in the statement of directors' responsibilities.

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.

In addition, we 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 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 as described in the contents section 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 IFRS as adopted by the European Union, of the state of the group's and the parent company's affairs as at 31 March 2007 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.

Deloitte & Touche LLP.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
30 May 2007

Income statement

for the year ended 31 March 2007

	Note	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Gains and losses on investments held at fair value through profit or loss	8	96.5	352.7	66.0	321.6
Gains and losses on derivatives used to hedge the fair value of investments		5.6	(9.0)	5.9	(9.0)
Provisions	20	–	(10.0)	(3.1)	(6.9)
Investment income	1	40.1	22.6	25.5	21.4
Gross portfolio return		142.2	356.3	94.3	327.1
Management expenses	2	(11.0)	(10.8)	(11.0)	(10.8)
Other expenses	2	(1.1)	(1.0)	(1.1)	(1.0)
Net portfolio return		130.1	344.5	82.2	315.3
Revenue from sales of goods and services		–	–	135.0	109.1
Operating expenses	2	–	–	(120.0)	(106.9)
Gain on disposal of available for sale investments		–	–	–	0.3
Gain on disposal of operations	24	–	–	4.4	31.4
Gain on investment property	11	–	–	–	1.7
Share of results of joint ventures	12	–	–	6.1	1.0
Profit before finance costs		130.1	344.5	107.7	351.9
Gains on money market funds held at fair value through profit or loss		1.0	0.8	1.0	0.8
Treasury interest receivable	3	3.5	3.6	4.3	4.6
Exchange movements		(0.7)	(0.1)	(0.7)	(0.1)
Finance costs	4	(0.3)	(0.8)	(4.1)	(3.2)
Profit before tax		133.6	348.0	108.2	354.0
Taxation	5	2.5	1.4	(0.3)	(0.4)
Profit for the year		136.1	349.4	107.9	353.6
Attributable to					
Equity holders of the parent		136.1	349.4	106.1	353.5
Minority interest		–	–	1.8	0.1
		136.1	349.4	107.9	353.6
Basic earnings per ordinary share	7	228.6p	551.4p	178.3p	558.3p
Diluted earnings per ordinary share	7	226.9p	549.2p	176.9p	556.1p

Statement of recognised income and expense

for the year ended 31 March 2007

	Note	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Exchange differences on translation of foreign operations		–	–	(1.2)	0.7
Actuarial gains and losses on defined benefit pension schemes	19	(0.3)	(1.2)	0.2	(1.8)
Tax on items recognised directly in equity	5	1.9	0.3	1.7	0.3
Net income recognised directly in equity		1.6	(0.9)	0.7	(0.8)
Transferred to profit or loss on sale of available for sale investments		–	–	–	(0.3)
Profit for the year		136.1	349.4	107.9	353.6
Total recognised income and expense		137.7	348.5	108.6	352.5
Attributable to					
Equity holders of the parent		137.7	348.5	106.8	352.4
Minority interest		–	–	1.8	0.1
		137.7	348.5	108.6	352.5

The accounting policies and notes to the financial statements on pages 34 to 48 are an integral part of these financial statements.

Balance sheet
at 31 March 2007

	Note	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Non-current assets					
Investments held at fair value through profit or loss	8	**1,228.1**	**1,145.2**	1,125.9	1,049.0
Investments in subsidiaries held at cost	8	**0.8**	**2.8**	–	–
Available for sale investments	8	**–**	**–**	0.5	0.5
Intangible assets	9	**–**	**–**	40.7	4.0
Property, plant and equipment	10	**–**	**–**	78.6	69.1
Investment property	11	**–**	**–**	5.8	5.8
Interests in joint ventures	12	**–**	**–**	11.6	9.6
Deferred tax assets	13	**5.8**	**1.2**	8.0	2.4
Non-current assets		**1,234.7**	**1,149.2**	1,271.1	1,140.4
Current assets					
Inventories	14	**–**	**–**	19.5	30.2
Trade and other receivables	15	**6.5**	**4.2**	29.0	27.8
Current tax assets	5	**–**	**–**	0.2	0.5
Money market funds held at fair value through profit or loss	8	**–**	**75.8**	0.3	75.8
Cash and cash equivalents	16	**108.6**	**103.8**	123.2	164.7
Current assets		**115.1**	**183.8**	172.2	299.0
Total assets		**1,349.8**	**1,333.0**	1,443.3	1,439.4
Current liabilities					
Bank overdrafts	16	**–**	**–**	(1.5)	(8.2)
Interest-bearing loans and borrowings	17	**–**	**–**	(1.3)	(0.7)
Trade and other payables	18	**(4.8)**	**(4.0)**	(27.1)	(25.4)
Employee benefits	19	**–**	**–**	(3.1)	(9.9)
Current tax liabilities		**(5.2)**	**(6.5)**	(6.6)	(8.8)
Provisions	20	**(13.5)**	**(13.5)**	(14.1)	(11.0)
Current liabilities		**(23.5)**	**(24.0)**	(53.7)	(64.0)
Non-current liabilities					
Interest-bearing loans and borrowings	17	**–**	**–**	(64.7)	(41.3)
Employee benefits	19	**(0.9)**	**(1.4)**	(5.4)	(8.0)
Deferred tax liabilities	13	**(2.2)**	**(0.6)**	(3.6)	(0.7)
Non-current liabilities		**(3.1)**	**(2.0)**	(73.7)	(50.0)
Total liabilities		**(26.6)**	**(26.0)**	(127.4)	(114.0)
Net assets		**1,323.2**	**1,307.0**	1,315.9	1,325.4
Equity					
Share capital	22	**3.3**	**3.6**	3.3	3.6
Share premium	22	**1.3**	**1.3**	1.3	1.3
Capital redemption reserve	22	**1.2**	**1.2**	1.2	1.2
Capital reserve	22	**1,048.6**	**947.5**	–	–
Retained earnings	22	**268.8**	**353.4**	1,305.9	1,317.9
Foreign exchange translation reserve	22	**–**	**–**	(0.7)	0.5
Equity attributable to owners of the parent		**1,323.2**	**1,307.0**	1,311.0	1,324.5
Minority interest	22	**–**	**–**	4.9	0.9
Total equity		**1,323.2**	**1,307.0**	1,315.9	1,325.4
Net asset value per ordinary share (undiluted)	7	**2283p**	**2061p**		
Net asset value per ordinary share (diluted)	7	**2258p**	**2044p**		

The financial statements on pages 31 to 48 were approved by the board on 30 May 2007 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 48 are an integral part of these financial statements.

Cash flow statement

for the year ended 31 March 2007

	Note	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Cash flow from operating activities					
Dividends received		**29.7**	**18.6**	12.8	17.4
Interest received		**7.9**	**7.8**	7.2	9.1
Cash received from customers		**–**	**–**	144.8	115.8
Cash paid to suppliers		**(10.1)**	**(13.3)**	(130.5)	(132.7)
Taxes paid		**–**	**–**	(4.5)	(3.2)
Group relief received		**0.4**	**1.4**	–	–
Net cash flow from operating activities		**27.9**	**14.5**	29.8	6.4
Cash flow from investing activities					
Purchases of property, plant and equipment		**–**	**–**	(18.9)	(4.1)
Proceeds from disposal of property, plant and equipment		**–**	**–**	0.7	1.9
Purchases of investments held at fair value through profit or loss		**(290.4)**	**(160.2)**	(253.3)	(149.2)
Purchases of money market funds held at fair value through profit or loss		**–**	**(85.0)**	–	(85.0)
Proceeds on disposal of investments held at fair value through profit or loss		**309.5**	**323.0**	255.0	274.4
Proceeds on disposal of money market funds held at fair value through profit or loss		**76.8**	**10.0**	76.8	10.0
Net receipts from derivatives		**4.4**	**(7.5)**	5.1	(7.5)
Purchase of interest in joint venture		**–**	**–**	–	(1.1)
Purchase of subsidiary net of cash acquired	23	**–**	**–**	(17.1)	–
Proceeds on disposal of subsidiaries net of cash disposed	24	**–**	**–**	3.0	80.3
Taxes received		**–**	**–**	–	1.3
Net cash flow from investing activities		**100.3**	**80.3**	51.3	121.0
Cash flow from financing activities					
Interest paid		**(0.3)**	**(0.3)**	(2.7)	(2.3)
Distributions paid to holders of equity shares		**(18.5)**	**(18.2)**	(18.5)	(18.2)
Dividends paid to minority interests		**–**	**–**	(0.4)	–
Elective special dividend paid		**(102.9)**	**–**	(102.0)	–
Proceeds from new borrowings		**43.0**	**–**	83.8	7.0
Repayment of borrowings from a subsidiary		**–**	**(10.2)**	–	–
Repayment of borrowings		**(43.0)**	**–**	(73.9)	(4.0)
Net purchase of own shares		**(1.7)**	**(1.9)**	(1.7)	(1.9)
Net cash flow from financing activities		**(123.4)**	**(30.6)**	(115.4)	(19.4)
Net increase/(decrease) in cash and cash equivalents		**4.8**	**64.2**	(34.3)	108.0
Cash and cash equivalents at year start		**103.8**	**39.6**	156.5	48.4
Exchange gains/(losses) on cash and cash equivalents		**–**	**–**	(0.5)	0.1
Cash and cash equivalents at year end	16	**108.6**	**103.8**	121.7	156.5

The accounting policies and notes to the financial statements on pages 34 to 48 are an integral part of these financial statements.

Accounting policies

General information

Caledonia Investments plc is an investment trust company domiciled in the United Kingdom and incorporated in England, under the Companies Acts 1908 to 1917. 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 Stock Exchange and the New Zealand Exchange.

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 30 May 2007. At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- IFRS 7 'Financial Instruments: Disclosures' and the related amendments to IAS 1 on capital disclosures.
- IFRIC 8 'Scope of IFRS 2'.
- IFRIC 9 'Re-assessment of embedded derivatives'.
- IFRIC 10 'Interim Financial Reporting and Impairment'.
- IFRIC 12 'Service Concession Agreements'.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the group except for additional disclosures in capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

IFRIC 11 'IFRS 2 – Group and Treasury share transactions' was adopted in the year and has resulted in a change in the accounting policy for share-based payments. The interpretation provides additional guidance, where employees of a subsidiary are granted rights to equity instruments of its parent as consideration for the services provided to the subsidiary, IFRIC 11 requires the subsidiary to recognise the expense as an equity settled share-based payment transaction, with a corresponding increase recognised in equity representing a contribution from the parent.

Significant accounting policies

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the EU and therefore the group financial statements comply with Article 4 of the EU IAS Regulation. IFRS 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.

Caledonia is an investment trust company. However, because it holds majority stakes and therefore has the power to control, 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.

The financial statements have been prepared on an historical cost basis, except for the revaluation of certain financial instruments and properties. The principal accounting policies are set out below.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. In particular, the comparatives have been adjusted to take into account the reclassification of money market gains, treasury interest and exchange movements as finance costs.

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 sold.

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 at the balance sheet date.

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 held 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 held at fair value through profit or loss, including foreign exchange movements, 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 57.

The full amount of distributions from investment limited partnerships is treated as disposal proceeds. Any surplus distributions after repaying any partner's loans are set off against previously recognised net income before being treated as realised gains.

Income

Dividends receivable on equity shares are recognised as revenue when the shareholders' right to receive payment has been established, normally the ex-dividend date. 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, loans and non-equity shares are recognised on an effective interest rate basis, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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 accrual basis.

Expenses

All expenses are accounted for on an accrual 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.

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

Dividends are recognised in the period in which they are appropriately authorised and no longer at the discretion of the entity. For interim dividends, this will normally mean the date on which they are paid and, for final dividends, the date on which they are approved in general meeting.

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 payments

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.

Where employees of a subsidiary are granted rights to the equity instruments of its parent as consideration for the services provided to the subsidiary, the subsidiary recognises an equity settled share-based payment transaction expense with a corresponding increase recognised in equity representing a contribution from the parent.

An employee share trust is used for distributing option shares and deferred bonus awards 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 or calling of awards.

The transactions the employee share trust undertakes are considered to be performed by the trust as an agent for Caledonia. The transactions of the employee share trust 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 employee share trust as at the balance sheet date are accounted for as if they were treasury shares.

National Insurance on share option scheme gains and deferred bonus awards

National Insurance contributions payable on the exercise of certain employee share options at the date of exercise and deferred bonus awards at the date of call have been charged as an expense spread over the respective vesting periods. The charge is based on the difference between the market value of the underlying shares at the balance sheet date and the exercise price for share options or nil for deferred bonus awards 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 transferred into the capital reserve from profit or loss:

- 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.

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.

Intangible assets

Brands, trademarks, computer software and customer relationships

Brands, trademarks, computer software and customer relationships acquired by the group are stated at cost less accumulated amortisation and impairment losses. Where such items are not deemed to have an indefinite life, amortisation is expensed on a straight-line basis over their estimated useful lives.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets, 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.

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).

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

Accounting policies

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. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis.

Lessee
Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

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 or the company buys shares into treasury, 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 or transferred. Where such shares are subsequently transferred, 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.

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

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 entity.

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 held by subsidiaries 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 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Investment income				
Dividends from equity shares				
Listed UK	13.3	11.3	13.3	11.3
Listed non-UK	1.1	0.2	1.1	0.4
Unlisted	2.9	3.9	3.2	5.3
Subsidiaries	12.2	2.0	–	–
Interest on loan investments				
Listed UK	0.3	0.3	0.3	0.3
Unlisted	6.1	3.1	6.8	3.4
Subsidiaries	3.4	1.1	–	–
Share of private equity limited partnership net income	0.2	0.7	0.2	0.7
	39.5	22.6	24.9	21.4
Other income				
Underwriting commission	0.2	–	0.2	–
Deal fees	0.4	–	0.4	–
	40.1	22.6	25.5	21.4

2. Expenses

Investing operations

Management expenses

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Personnel expenses	6.6	6.3	6.6	6.3
Depreciation	0.1	0.2	0.1	0.2
Auditors' remuneration	0.3	0.3	0.3	0.3
Other administrative expenses	4.0	4.0	4.0	4.0
	11.0	10.8	11.0	10.8

Caledonia Group Services Ltd, a wholly owned subsidiary, provides investment management services to the company and charges for its services on the basis of net expenses incurred. The table above includes an analysis of this expense.

Other expenses

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Transaction costs	0.5	1.0	0.5	1.0
Elective special dividend expenses	0.6	–	0.6	–
	1.1	1.0	1.1	1.0

Transaction costs were expenses incidental to the acquisition of investments held at fair value through profit or loss and expenses incurred as part of aborted investment purchases or sales.

Trading operations

Operating expenses

	Group 2007 £m	Group 2006 £m
Cost of sales	81.1	69.5
Distribution expenses	10.6	16.0
Administrative expenses	28.3	21.4
	120.0	106.9

Operating expenses included the following items:

	Group 2007 £m	Group 2006 £m
Depreciation	2.8	3.5
Amortisation	0.3	–
Impairment loss on goodwill	0.6	–
Direct operating expenses of investment property		
Generated rental income	1.3	1.0
Did not generate rental income	–	0.1
Impairment reversal on trade receivables	(0.2)	(0.6)
Auditors' remuneration	0.1	0.6

Further information

Auditors' remuneration

Fees payable to Deloitte & Touche LLP (2006 – KPMG Audit Plc) were as follows:

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Audit services				
Company audit	0.1	0.1	0.1	0.1
Consolidation audit	0.1	0.2	0.1	0.3
Annual report	0.2	0.3	0.2	0.4
Subsidiaries audit	–	–	0.1	0.2
	0.2	0.3	0.3	0.6
Other services				
Taxation advice	–	–	–	0.1
Corporate finance	–	–	–	0.2
Other services	0.1	–	0.1	–
	0.1	–	0.1	0.3
	0.3	0.3	0.4	0.9

Personnel expenses

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Wages and salaries	4.0	4.7	26.1	31.7
Compulsory social security contributions	0.6	0.5	3.8	3.9
Contributions to defined contribution plans	0.2	0.1	1.5	2.6
Defined benefit pension plans expense (note 19)	0.2	0.1	3.9	0.6
Increase in liability for long service leave	–	–	(0.2)	0.3
Equity-settled share-based payments	1.6	0.3	1.6	0.3
National Insurance on share options/awards	–	0.6	–	0.6
	6.6	6.3	36.7	40.0

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

	Company 2007 No	Company 2006 No	Group 2007 No	Group 2006 No
Average number of employees	40	40	719	1,148

3. Treasury interest receivable

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Interest on bank deposits	3.3	3.6	4.3	4.6
Guarantee fees	0.2	–	–	–
	3.5	3.6	4.3	4.6

4. Finance costs

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Interest on bank loans and overdrafts	0.3	–	4.0	2.8
Interest on loans from subsidiaries	–	0.4	–	–
Other interest costs	–	0.4	0.1	0.4
	0.3	0.8	4.1	3.2

Notes to the financial statements

5. Taxation

Recognised in the income statement

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Current tax expense				
Current year	(1.5)	0.3	1.8	3.0
Adjustments for prior years	0.1	(0.9)	(0.3)	(0.6)
	(1.4)	(0.6)	1.5	2.4
Deferred tax expense				
Origination and reversal of timing differences	(1.1)	(0.8)	(1.2)	(2.0)
Reduction in tax rate	0.2	–	0.2	–
Benefit of tax losses recognised	(0.2)	–	(0.2)	–
	(1.1)	(0.8)	(1.2)	(2.0)
Total tax expense	(2.5)	(1.4)	0.3	0.4

Reconciliation of effective tax rate

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Profit before tax	133.6	348.0	108.2	354.0
Tax at the domestic rate of 30%	40.0	104.4	32.5	106.2
Non-deductible expenses	0.3	0.3	1.9	0.7
Utilisation of tax losses	(3.1)	–	(3.5)	(0.2)
Losses for the year unrelieved	–	–	0.6	1.4
Non-taxable gains and losses on investments	(30.3)	(100.9)	(23.2)	(102.7)
Non-taxable UK dividend income	(8.1)	(4.3)	(4.6)	(3.9)
Tax exempt revenues	–	–	(0.7)	–
Other timing differences	(1.4)	–	(2.4)	(0.5)
Over provided in prior years	0.1	(0.9)	(0.3)	(0.6)
	(2.5)	(1.4)	0.3	0.4

Recognised directly in equity

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Relating to actuarial gains/(losses) on defined benefit pension schemes	–	(0.3)	0.2	(0.3)
Relating to share options	(1.9)	–	(1.9)	–
	(1.9)	(0.3)	(1.7)	(0.3)

Current tax assets and liabilities

The group's current tax asset of £0.2m (2006 – £0.5m) represented the amount of income taxes recoverable in respect of current and prior periods that exceed payments.

6. Dividends

	2007 p	2007 £m	2006 p	2006 £m
Amounts recognised as distributions to equity holders in the period				
Final dividend for the year ended 31 March 2006 (2005)	20.5	13.0	19.5	12.4
Interim dividend for the year ended 31 March 2007 (2006)	9.5	5.5	9.1	5.8
Elective special dividend		102.9		
	30.0	121.4	28.6	18.2
Proposed final dividend for the year ended 31 March 2007 (2006)	21.6	12.5	20.5	13.0

The proposed final dividend has not been included as a liability in these financial statements. This dividend, if approved by shareholders at the annual general meeting to be held on 19 July 2007, will be payable on 2 August 2007 to holders of shares on the register on 29 June 2007. The ex-dividend date will be 27 June 2007.

For the purposes of section 842 of the Income and Corporation Taxes Act 1988, the dividends payable for the year ended 31 March 2007 are the interim dividend paid, the elective special dividend and the final dividend payable for that period, amounting to £120.9m (2006 – £18.8m).

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 2007 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 March 2007, calculated as follows:

Profit attributable to ordinary shareholders

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Profit for the year	136.1	349.4	106.1	353.5

Weighted average number of ordinary shares

	Company 2007 000's	Company 2006 000's	Group 2007 000's	Group 2006 000's
Issued ordinary shares at period start	64,206	64,206	64,206	64,206
Effect of shares held in treasury	(103)	(100)	(103)	(100)
Effect of shares held by the employee share trust	(697)	(740)	(697)	(740)
Effect of shares cancelled in July 2006	(3,869)	–	(3,869)	–
Shares held by a subsidiary	–	–	(17)	(51)
Weighted average number of ordinary shares during the period	59,537	63,366	59,520	63,315

Diluted earnings per share

The calculation of diluted earnings per share of the company and of the group at 31 March 2007 was based on profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 March 2007, calculated as follows:

Profit attributable to ordinary shareholders (diluted)

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Profit attributable to ordinary shareholders	136.1	349.4	106.1	353.5
After-tax effect of interest on share options proceeds	–	0.2	–	0.2
Profit attributable to ordinary shareholders (diluted)	136.1	349.6	106.1	353.7

Weighted average number of ordinary shares (diluted)

	Company 2007 000's	Company 2006 000's	Group 2007 000's	Group 2006 000's
Weighted average number of ordinary shares during the period	59,537	63,366	59,520	63,315
Effect of share options and deferred bonus awards	455	294	455	294
Weighted average number of ordinary shares (diluted) during the period	59,992	63,660	59,975	63,609

Net asset value per share

The company's undiluted 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 by a subsidiary or 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 2007 p	Net asset value per share 2006 p	Net assets attributable 2007 £m	Net assets attributable 2006 £m	Number of shares 2007 000's	Number of shares 2006 000's
Undiluted	2283	2061	1,323.2	1,307.0	57,952	63,411
Effect of exercising outstanding share options/ deferred bonus awards	(25)	(17)	12.9	10.1	1,217	1,014
Diluted	2258	2044	1,336.1	1,317.1	59,169	64,425

8. Investments

Company

	2007 £m	2006 £m
Non-current investments		
Investments held at fair value through profit or loss	1,228.1	1,145.2
Investment in subsidiaries held at cost	0.8	2.8
	1,228.9	1,148.0
Current investments		
Money market funds	–	75.8

The movements in non-current investments were as follows:

	UK listed £m	Non-UK listed £m	Unlisted £m	Subsid-iaries £m	Total £m
Carrying 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
Disposal proceeds	(149.8)	(27.4)	(82.8)	(47.0)	(307.0)
Reclassifications	–	8.1	(8.1)	–	–
Gains/losses on investments	208.9	40.8	50.2	52.8	352.7
Carrying value at 31 March 2006	597.6	180.5	270.9	99.0	1,148.0
Purchases at cost	100.1	27.2	124.1	38.6	290.0
Disposal proceeds	(46.5)	(126.8)	(73.4)	(64.5)	(311.2)
Reclassifications	(12.2)	3.4	8.8	–	–
Gains/losses on investments	53.0	(10.9)	24.3	30.1	96.5
Partnership distributions	–	–	0.4	–	0.4
Rolled-up interest	–	–	3.3	1.9	5.2
Carrying value at 31 March 2007	692.0	73.4	358.4	105.1	1,228.9

Partnership distributions represented the proportion of distributions from private equity limited partnerships transferred against their current accounts.

Rolled-up interest is the non-current accrued interest on loans.

Group

	2007 £m	2006 £m
Non-current investments		
Investments held at fair value through profit or loss		
UK listed securities	692.0	597.6
Non-UK listed securities	73.4	180.5
Unlisted securities	360.5	270.9
	1,125.9	1,049.0
Available for sale investments		
Unlisted securities	0.5	0.5
	1,126.4	1,049.5
Current investments		
Money market funds	0.3	75.8

9. Intangible assets

Group

	Goodwill £m	Customer relation-ships £m	Other £m	Total £m
Cost				
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
Acquisition of operations	24.5	11.8	0.2	36.5
Other acquisitions	1.2	–	0.5	1.7
Disposal of operations	–	–	(0.5)	(0.5)
Effect of movements in foreign exchange	(0.4)	–	–	(0.4)
Balance at 31 March 2007	34.3	11.8	0.9	47.0
Amortisation and impairment				
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
Amortisation	–	–	0.3	0.3
Impairment	0.6	–	–	0.6
Effect of movements in foreign exchange	(0.3)	–	–	(0.3)
Balance at 31 March 2007	5.9	–	0.4	6.3
Carrying amounts				
At 31 March 2005	3.0	–	0.6	3.6
At 31 March 2006	3.4	–	0.6	4.0
At 31 March 2007	28.4	11.8	0.5	40.7

Customer relationships related to identifiable customer related intangible assets acquired on the purchase of the Ermitage group. These customer relationships have an indefinite useful life as they relate to key clients, whose hedge funds under management are expected to remain for the foreseeable future.

Other intangible assets included brands and trademarks, recipes and formulas and computer software.

Impairment charge

The impairment charge of £0.6m in 2007 (2006 – £nil) was recognised in operating expenses of trading operations in the income statement.

Impairment tests for goodwill

The carrying amount of goodwill was predominantly attributable to a single cash generating unit, Ermitage group. The recoverable amount of the unit has been determined on the basis of the fair value less costs to sell based on recent forecasts from the unit management's business plan and comparable market transactions.

Notes to the financial statements

10. Property, plant and equipment

Group

	Property £m	Plant £m	Equip-ment £m	Total £m
Cost				
Balance at 31 March 2005	75.9	15.8	15.1	106.8
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
Acquisition of operations	–	–	0.2	0.2
Other acquisitions	10.9	2.2	1.6	14.7
Disposal of operations	(0.1)	(4.2)	(3.3)	(7.6)
Other disposals	(0.6)	(0.2)	(0.3)	(1.1)
Effect of movements in foreign exchange	(0.8)	(0.6)	(0.3)	(1.7)
Balance at 31 March 2007	80.0	3.1	9.8	92.9
Depreciation and impairment				
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
Depreciation charge for the year	0.8	1.1	1.0	2.9
Disposal of operations	–	(0.6)	(5.9)	(6.5)
Other disposals	–	(0.2)	(0.3)	(0.5)
Effect of movements in foreign exchange	(0.3)	(0.4)	(0.2)	(0.9)
Balance at 31 March 2007	11.6	0.9	1.8	14.3
Carrying amounts				
At 31 March 2005	65.2	8.0	6.0	79.2
At 31 March 2006	59.5	4.9	4.7	69.1
At 31 March 2007	68.4	2.2	8.0	78.6

Security

At 31 March 2007, properties with a carrying amount of £22.7m (2006 – £35.2m) were subject to charges to secure bank loans (note 17).

11. Investment property

Group

	2007 £m	2006 £m
Balance at the period start	5.8	4.1
Fair value adjustments	–	1.7
Balance at the period end	5.8	5.8

The carrying amount of investment property was the fair value of the property as determined by the directors of the company. In 2006, a registered independent appraiser, having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued, performed the valuation. 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.

12. Interests in joint ventures

The group had the following interests in joint ventures:

	Country of domicile	Ownership 2007 %	Ownership 2006 %
Moredun LP	UK	33	33
Willmoreton Properties Ltd	UK	50	50
York Investors LLP	UK	25	25
CLR Developments Ltd	UK	44	44
GPG Premises LLP	UK	25	–

The group's share of post-acquisition total recognised profit or loss in the above joint ventures for the year ended 31 March 2007 was £6.1m (2006 – £1.0m).

Summarised financial information of joint ventures was as follows:

	Assets £m	Liabilities £m	Equity £m	Revenue £m	Profit/ (loss) £m
2007					
Moredun LP	56.8	(38.0)	18.8	10.1	6.9
Willmoreton Properties Ltd	14.4	(8.7)	5.7	1.1	1.1
York Investors LLP	18.0	(11.7)	6.3	2.3	1.6
CLR Developments Ltd	1.1	–	1.1	0.2	0.2
GPG Premises LLP	4.9	(3.5)	1.4	17.1	10.9
	95.2	(61.9)	33.3	30.8	20.7
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

13. Deferred tax assets and liabilities

Company

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities were attributable to the following

	Assets £m	Liabilities £m	Net £m
2007			
Investments	–	(2.2)	(2.2)
Employee benefits	2.8	–	2.8
Provisions	2.8	–	2.8
Tax losses	0.2	–	0.2
	5.8	(2.2)	3.6
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

Unrecognised deferred tax assets

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

	2007 £m	2006 £m
Deductible temporary differences	–	3.3

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets were not recognised in respect of these items because it was not probable that future taxable profit would be available against which the company could 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
2007				
Investments	(2.5)	0.3	–	(2.2)
Employee benefits	0.1	0.8	1.9	2.8
Provisions	3.0	(0.2)	–	2.8
Tax losses	–	0.2	–	0.2
	0.6	1.1	1.9	3.6
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

Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities were attributable to the following:

	Assets £m	Liabilities £m	Net £m
2007			
Investments	–	(2.2)	(2.2)
Employee benefits	4.8	–	4.8
Provisions	2.8	–	2.8
Tax losses	0.2	–	0.2
Other items	0.2	(1.4)	(1.2)
	8.0	(3.6)	4.4
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

Unrecognised deferred tax assets

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

	2007 £m	2006 £m
Deductible temporary differences	–	3.9
Tax losses	5.4	5.8
	5.4	9.7

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets were not recognised in respect of these items because it was not probable that future taxable profit would be available against which the company could utilise the benefits.

Tax losses of £1.3m (2006 – £0.7m) expire between two and five years and the balance does not expire.

Movement in temporary differences during the year

	Balance at period start £m	Recogn-ised in income £m	Recognised in equity Taxation £m	Recognised in equity Exchange differences £m	Balance at period end £m
2007					
Investments	(2.5)	0.3	–	–	(2.2)
Employee benefits	1.9	1.4	1.7	(0.2)	4.8
Provisions	3.0	(0.2)	–	–	2.8
Tax losses	–	0.2	–	–	0.2
Other items	(0.7)	(0.5)	–	–	(1.2)
	1.7	1.2	1.7	(0.2)	4.4
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

14. Inventories

	Group 2007 £m	Group 2006 £m
Raw materials and consumables	3.0	5.5
Work in progress	0.8	1.0
Finished goods	3.1	6.8
Properties held for sale	12.6	16.9
	19.5	30.2

Inventories included properties with a cost of £1.2m (2006 – £0.6m) that were not expected to be realised within one year.

15. Trade and other receivables

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Trade receivables and prepayments	6.5	4.2	28.8	27.8
Derivatives	–	–	0.2	–
	6.5	4.2	29.0	27.8

16. Net cash and cash equivalents

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Bank balances	2.0	42.4	14.2	61.7
Short term deposits	106.6	61.4	109.0	103.0
Cash and cash equivalents	108.6	103.8	123.2	164.7
Bank overdrafts	–	–	(1.5)	(8.2)
	108.6	103.8	121.7	156.5

Bank overdrafts were included in current liabilities in the balance sheet.

17. Interest-bearing loans and borrowings

	Group 2007 £m	Group 2006 £m
Non-current liabilities		
Secured bank loans	20.4	31.3
Unsecured loans	42.4	9.8
Finance leases	0.3	–
Cumulative preference shares	0.1	0.2
Unsecured bond issues	1.5	–
	64.7	41.3
Current liabilities		
Current portion of secured bank loans	1.2	0.7
Finance leases	0.1	–
	1.3	0.7

Bank loans of £10.2m (2006 – £32.0m) were secured by a charge over certain properties of the group and bank loans of £11.4m (2006 – £nil) were secured by a charge over other assets of the group.

18. Trade and other payables

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Trade payables	3.7	1.1	8.4	9.2
Non-trade payables and accrued expenses	1.1	1.5	18.7	14.8
Derivatives	–	1.4	–	1.4
	4.8	4.0	27.1	25.4

Group non-trade payables and accrued expenses included an amount of £5.0m (2006 – £nil) that was expected to be settled after more than one year.

Notes to the financial statements

19. Employee benefits

	Company		Group	
	2007 £m	2006 £m	2007 £m	2006 £m
Current liabilities				
Short term compensated absences	–	–	0.3	–
Pension contributions	–	–	–	8.5
Profit sharing bonus	–	–	2.8	1.4
	–	–	3.1	9.9
Non-current liabilities				
Defined benefit pension obligations	–	0.4	4.2	6.7
National Insurance on share options and deferred bonus awards	0.9	1.0	0.9	1.0
Profit sharing bonus	–	–	0.1	–
Liability for long term service leave	–	–	0.2	0.3
	0.9	1.4	5.4	8.0
	0.9	1.4	8.5	17.9

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		Group	
	2007 £m	2006 £m	2007 £m	2006 £m
Present value of funded obligations	23.0	21.9	60.7	65.9
Fair value of plan assets	(23.0)	(21.5)	(56.5)	(59.2)
Present value of net obligations	–	0.4	4.2	6.7

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

	Company		Group	
	2007 £m	2006 £m	2007 £m	2006 £m
Balance at period start	21.9	16.6	65.9	55.3
Disposal of operations	–	–	(9.6)	–
Service cost	0.7	0.3	4.9	1.0
Interest costs	1.1	0.9	2.7	2.9
Employee contributions	–	–	0.1	0.1
Defined benefit obligations (gain)/loss	(0.3)	4.5	(0.2)	9.7
Actual benefit payments	(0.4)	(0.4)	(1.6)	(1.8)
Settlement and curtailment	–	–	–	(0.3)
Exchange rate	–	–	(1.5)	(1.0)
Balance at period end	23.0	21.9	60.7	65.9

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

	Company		Group	
	2007 £m	2006 £m	2007 £m	2006 £m
Balance at period start	21.5	14.7	59.2	41.2
Disposal of operations	–	–	(6.1)	–
Expected return on assets	1.6	1.1	3.7	3.0
Actuarial gain/(loss)	(0.6)	3.3	–	7.9
Employer contributions	0.9	2.8	2.3	9.2
Employee contributions	–	–	0.1	0.1
Actual benefit payments	(0.4)	(0.4)	(1.6)	(1.8)
Exchange rate	–	–	(1.1)	(0.4)
Balance at period end	23.0	21.5	56.5	59.2

Amounts recognised in the income statement were as follows:

	Company		Group	
	2007 £m	2006 £m	2007 £m	2006 £m
Current service costs	0.7	0.3	4.9	1.0
Interest on obligations	1.1	0.9	2.7	2.9
Expected return on plan assets	(1.6)	(1.1)	(3.7)	(3.0)
Settlement and curtailment	–	–	–	(0.3)
	0.2	0.1	3.9	0.6

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

	Company		Group	
	2007 £m	2006 £m	2007 £m	2006 £m
Management expenses of investing activities	0.2	0.1	0.2	0.1
Operating expenses of trading activities	–	–	3.7	0.5
	0.2	0.1	3.9	0.6

Amounts recognised in equity were as follows:

	Company		Group	
	2007 £m	2006 £m	2007 £m	2006 £m
Actuarial gains and losses	(0.3)	(1.2)	0.2	(1.8)

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

	Company		Group	
	2007 £m	2006 £m	2007 £m	2006 £m
Plan assets				
Equities	22.6	15.9	55.3	43.9
Bonds	–	0.8	0.3	3.4
Other assets	0.4	4.8	0.9	11.9
	23.0	21.5	56.5	59.2
Expected returns				
Equities	8.0%	8.0%	7.8%	7.7%
Bonds	4.7%	4.7%	4.6%	4.6%
Other assets	4.8%	4.8%	5.0%	4.7%
	7.9%	7.1%	7.7%	6.9%

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

	Company		Group	
	2007 %	2006 %	2007 %	2006 %
Discount rate at period end	5.4	5.0	5.2	5.0
Future salary increases	5.1	5.1	4.5	4.3
Future pension increases	2.8	2.8	3.0	3.0
Price inflation	3.0	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.

In addition, the company has special option arrangements for Mr Ingram and Mr May. The terms of grants under these arrangements are similar to those for options granted under the 1998 scheme other than in respect of the performance retesting criteria. Details of these options are set out in the directors' remuneration report on page 53.

The company also has a deferred bonus plan under which senior employees compulsorily defer part of their annual bonus, being any bonus in excess of 50% of their basic salary for the bonus year, into shares and may voluntarily defer up to 50% of their remaining cash bonus into shares. The company will match the number of shares comprised in the voluntary deferral, subject to service and company performance criteria.

The terms and conditions of the grants outstanding as at 31 March 2007 were as follows, whereby all grants are settled by physical delivery of shares:

Grant date	Entitlement	Number of shares	Vesting conditions
Share options			
02.09.98	Option grant to senior staff	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	Option grant to senior staff	22,500	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	Option grant to senior staff	57,249	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	Option grant to senior staff	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	Option grant to senior staff	89,893	Three/six years of service and NAV outperforms RPI by 9% or FTSE All-Share
05.07.02	Option grant to 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	Option grant to senior staff	153,301	Three/six years of service and NAV outperforms RPI by 9% or FTSE All-Share
20.11.03	Option grant to 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	Option grant to senior staff	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	Option grant to senior staff	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%
01.06.06	Option grant to senior staff	172,690	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%
		1,131,177	
Deferred bonus awards			
01.06.06	Compulsory award to senior staff	44,488	Three years of service
01.06.06	Voluntary award to senior staff	20,859	Three years of service or earlier termination of employment
01.06.06	Matching shares to senior staff	20,859	Three years of service and 50% vests if NAV outperforms RPI by 9% and/or 50% vests if NAV outperforms FTSE All-Share by 3%
		86,206	

All share options have a life of 10 years and all deferred bonus awards have a life of 4 years.

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

	Weighted average exercise price 2007 p	Number of options 2007 000's	Weighted average exercise price 2006 p	Number of options 2006 000's
Outstanding at the period start	843	1,014	843	1,084
Exercised during the period	789	(56)	771	(254)
Granted during the period	1187	173	1580	184
Outstanding at the period end	1140	1,131	995	1,014

The options outstanding at 31 March 2007 have an exercise price in the range of 722.5p to 1878p and a weighted average contractual life of 10 years.

The fair value of services received in return for share options granted are measured indirectly, 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 lattice model. This takes account of the impact of future events, such as early exercise by employees and 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 were as follows:

	Senior employees 2007	Senior employees 2006
Fair value at measurement date	496p	264p
Share price	1878p	1580p
Exercise price	1878p	1580p
Expected volatility	22.7%	11.9%
Exercise multiple	2.0	2.0
Expected dividends	1.9%	2.1%
Risk-free interest rate (based on national government bonds)	4.6%	4.2%

The expected volatility is based on the historic volatility, calculated as the average volatility over a period equal to the expected life of the share options.

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.

The fair value of services received in return for deferred share awards were measured directly, by reference to the fair value of services received during the period. This was based on the amount of annual bonus that was compulsorily and voluntarily deferred in accordance with the rules of the company's deferred bonus plan.

Employee expenses were as follows:

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Share options granted up to 2004	0.1	0.1	0.1	0.1
Share options granted in 2005	0.1	0.1	0.1	0.1
Share options granted in 2006	0.1	0.1	0.1	0.1
Share options granted in 2007	0.2	–	0.2	–
Deferred bonus awards in 2006	0.7	–	0.7	–
Deferred bonus awards in 2007	0.4	–	0.4	–
	1.6	0.3	1.6	0.3

20. Provisions

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Balance at the period start	13.5	–	11.0	0.6
Provisions made during the year	–	13.5	3.1	10.4
Balance at the period end	13.5	13.5	14.1	11.0
Current	13.5	13.5	14.1	11.0

Of the provisions made in the previous 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 of investments and warranty claims and are based on an estimate of the expenditure to be incurred as a result of past events. The matters giving rise to the provisions 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 listed and unlisted 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 rolling five year periods. The group invests in a range of investments, including listed and unlisted 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 cyclical 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 58 and 59. 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 not changed over the year.

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

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Assets				
US dollar	71.8	189.0	77.3	198.7
Euro	71.3	42.7	52.9	66.6
Indian rupee	43.1	29.7	43.1	29.7
Hong Kong dollar	8.0	3.5	8.0	3.5
Canadian dollar	1.9	3.5	1.9	3.5
Australian dollar	–	–	1.4	1.8
	196.1	268.4	184.6	303.8

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 five years. The maturity dates of the fixed income instruments correspond to their repricing dates.

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					
2007					
Investments held at fair value	27.0	18.3	47.5	1,135.3	1,228.1
Cash and cash equivalents	108.6	–	–	–	108.6
	135.6	18.3	47.5	1,135.3	1,336.7
2006					
Investments held 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
Group					
2007					
Investments held at fair value	25.3	18.3	19.4	1,062.9	1,125.9
Available for sale investments	–	–	–	0.5	0.5
Money market funds	0.3	–	–	–	0.3
Cash and cash equivalents	123.2	–	–	–	123.2
	148.8	18.3	19.4	1,063.4	1,249.9
Borrowings	(66.0)	–	(1.5)	–	(67.5)
2006					
Investments held 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)

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

	Company 2007 %	Company 2006 %	Group 2007 %	Group 2006 %
Assets				
Cash and cash equivalents	5.4	4.6	5.4	4.6
Investments in debt securities	11.0	5.6	11.5	5.7
Weighted average	8.0	5.2	7.6	5.1
Liabilities				
Borrowings	–	–	5.7	4.9

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 held 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 2007, the financial assets exposed to credit risk were as follows:

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Investments in debt instruments	92.8	56.5	63.0	31.6
Operating and other receivables	6.5	4.2	29.0	27.8
Money market funds	–	75.8	0.3	75.8
Cash and cash equivalents	108.6	103.8	123.2	164.7
	207.9	240.3	215.5	299.9

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 2007.

Fair value

Most of the group's financial instruments are held at fair value on the balance sheet. Usually, the fair value of the financial instruments can be reliably determined within a reasonable range of estimates. 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 57.

22. Capital and reserves

Share capital and share premium

	Ordinary shares £m	Deferred ordinary shares £m	Share premium £m	Total £m
Balance at 31 March 2005 and 2006	3.2	0.4	1.3	4.9
Cancellation of shares	(0.3)	–	–	(0.3)
Balance at 31 March 2007	2.9	0.4	1.3	4.6

The number of fully paid shares outstanding was as follows:

	Ordinary shares		Deferred ordinary shares	
	2007 000's	2006 000's	2007 000's	2006 000's
Balance at the period start	64,206	64,206	8,000	8,000
Cancelled	(5,411)	–	–	–
Balance at the period end	58,795	64,206	8,000	8,000

The company has also issued share options and made deferred bonus awards (note 19).

As at 31 March 2007, the authorised share capital of the company comprised 107,181,309 ordinary shares (2006 – 112,592,324) and 8,000,000 (2006 – 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 ordinary 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 ordinary shares were issued. This component of the deferred ordinary shares has 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.

By a special resolution of the company passed on 26 June 2006 and confirmed by an order of the High Court of Justice in England and Wales dated 12 July 2006, the authorised and issued share capital of the company was reduced by £270,551, being the nominal amount of the 5,411,015 ordinary shares on which shareholders elected to receive the special dividend referred to in note 6, which were then cancelled.

Authority to purchase own shares

At an extraordinary general meeting held on 26 June 2006, 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 (excluding shares held in treasury), at a price not more than the higher of: (a) 5% greater than the average of the middle market quotations for such ordinary shares during the five business days preceding any such purchase; and (b) the higher of: (i) the price of the last independent trade in such ordinary shares; and (ii) the highest current independent bid relating thereto on the trading venues where the purchase is carried out, nor less than 5 pence, being the nominal value of an ordinary share.

The authority expires on 1 January 2008 or, if earlier, at the conclusion of the next annual general meeting.

On the same date, shareholders who were not members of the Cayzer family concert party ('Cayzer Concert Party') 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 Cayzer 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 26 June 2007.

Pursuant to the above authority, the company purchased 40,000 of its ordinary shares into treasury during the year, taking the total number of ordinary shares held in treasury at 31 March 2007 to 140,000. Since the year end, the company has purchased a further 30,000 ordinary shares into treasury.

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 2007, the capital redemption reserve was £1.2m (2006 and 2005 – £1.2m). There was no movement in the capital redemption reserve in the current or prior years.

Reserves

Company

	Capital reserve		Retained earnings	
	2007 £m	2006 £m	2007 £m	2006 £m
Gains and losses on investments	96.5	352.7	–	–
Gains and losses on derivatives	5.6	(9.0)	–	–
Provisions	–	–	–	(10.0)
Investment income	–	–	40.1	22.6
Management expenses	–	–	(11.0)	(10.8)
Transaction and other expenses	(0.5)	(1.1)	(0.6)	0.1
Gains on money market funds	1.0	0.8	–	–
Treasury interest receivable	–	–	3.5	3.6
Exchange movements	–	–	(0.7)	(0.1)
Finance costs	–	–	(0.3)	(0.8)
Taxation	0.2	(1.3)	2.3	2.7
Actuarial gains and losses on pension	–	–	(0.3)	(1.2)
Tax on items taken directly to equity	–	–	1.9	0.3
Total recognised income and expense	102.8	342.1	34.9	6.4
Net purchase of own shares	(1.7)	(1.9)	–	–
Cancellation of shares	–	–	0.3	–
Share-based payments	–	–	1.6	0.3
Dividends to shareholders	–	–	(121.4)	(18.2)
	101.1	340.2	(84.6)	(11.5)
Balance at the period start	947.5	607.3	353.4	364.9
Balance at the period end	1,048.6	947.5	268.8	353.4

Notes to the financial statements

Group

	Translation reserve £m	Fair value reserve £m	Retained earnings £m	Minority interest £m
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
Total recognised income and expense	(1.2)	–	108.0	1.8
Subsidiaries acquired	–	–	–	1.6
Cancellation of shares	–	–	0.3	–
Net purchase of own shares	–	–	(1.4)	–
Repayment of borrowings from minority	–	–	–	1.0
Share-based payments	–	–	1.6	–
Dividends to shareholders	–	–	(120.5)	(0.4)
Balance at 31 March 2007	(0.7)	–	1,305.9	4.9

The foreign exchange translation reserve comprised all foreign exchange differences arising from the translation of the financial statements of foreign operations that were 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 included the cumulative net change in fair value of available for sale investments until the investment is derecognised.

23. Acquisition of subsidiaries

On the 23 May 2006, the Group acquired 60% of the issued share capital of Ermitage Ltd for cash consideration of £22.1m. Ermitage Ltd is the parent company of a group of companies involved in hedge fund management. This transaction has been accounted for by the purchase method of accounting. The book value of net assets acquired equates to fair value.

Net assets acquired were as follows:

	2007 £m	2006 £m
Intangible assets	12.0	–
Property, plant and equipment	0.2	–
Non-current asset investments	1.1	–
Trade and other receivables	2.7	–
Current asset investments	0.6	–
Cash and cash equivalents	5.0	–
Non current interest bearing loans and borrowings	(12.3)	–
Current interest bearing loans and borrowings	(1.2)	–
Trade and other payables	(7.1)	–
Current tax liability	(1.0)	–
Employee benefits	(0.8)	–
	(0.8)	–
Minority interests	(1.6)	–
Net liabilities acquired	(2.4)	–
Goodwill	24.5	–
Consideration	22.1	–
Satisfied by		
Cash	22.1	–
Net cash outflow arising on acquisition		
Cash consideration	22.1	–
Cash and cash equivalents acquired	(5.0)	–
	17.1	–

Ermitage Ltd and subsidiaries contributed £14.3m to the group's revenue and £4.6m to the group's profit before tax for the period between the date of acquisition and the balance sheet date.

Ermitage Ltd acquired the hedge fund operations from Liberty Group Limited as part of a management buyout, concurrent with the investment by Caledonia, consequently group revenues and profits attributable to equity holders would have been the same as those reported in the primary statements for the financial year had the acquisition been completed on the first day of the financial year.

24. Disposal of subsidiaries

The aggregate net assets of subsidiaries sold were as follows:

	2007 £m	2006 £m
Intangible assets	0.5	–
Property, plant and equipment	1.1	9.4
Investments held at fair value through profit or loss	–	34.8
Inventories	3.5	4.3
Trade and other receivables	1.3	4.8
Cash and cash equivalents	(1.1)	1.3
Non-current employee liabilities	(3.5)	–
Trade and other payables	(4.2)	(3.3)
Current tax liability	(0.1)	(0.9)
Deferred tax liability	–	(0.2)
	(2.5)	50.2
Gain on disposal	4.4	31.4
Total consideration	1.9	81.6
Satisfied by		
Cash	1.9	81.6
Net cash inflow arising on disposal		
Cash consideration received	1.9	81.6
Cash and cash equivalents sold	1.1	(1.3)
	3.0	80.3

25. Operating leases

Leases as lessee

Non-cancellable operating lease rentals were payable as follows:

	Group 2007 £m	Group 2006 £m
Less than one year	1.2	1.0
Between one and five years	5.0	2.6
More than five years	10.1	3.7
	16.3	7.3

The group leases properties and various items of equipment under operating leases. None of the leases included contingent rentals.

During the year ended 31 March 2007, £1.3m (2006 – £0.5m) 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 11). The future minimum lease receipts under non-cancellable leases are as follows:

	Group 2007 £m	Group 2006 £m
Less than one year	0.7	0.7
Between one and five years	0.4	1.4
More than five years	0.3	0.1
	1.4	2.2

During the year ended 31 March 2007, £1.1m (2006 – £0.9m) was recognised as income in the income statement in respect of operating leases.

26. Finance leases

Leases as lessee

Non-cancellable finance lease rentals were payable as follows:

	Group 2007 £m	Group 2006 £m
Less than one year	0.1	–
Between one and five years	0.2	–
More than five years	0.2	–
	0.5	–
Future finance charges	(0.1)	–
Present value of lease obligations	0.4	–
Current	0.1	–
Non-current	0.3	–
	0.4	–

The carrying amount of buildings and plant and machinery held under finance leases was £0.3m and £0.1m respectively (2006 – £nil and £nil).

For the year ended 31 March 2007, the average effective borrowing rate was 6.6%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The group's obligations under finance leases are secured by the lessor's rights over the leased assets.

27. 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.

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Investments				
Loan and other commitments contracted but not called	73.9	85.4	73.9	85.4

28. 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 £1.1m (2006 – £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.

29. Related parties

Identity of related parties

The company and group has a related party relationship with its subsidiaries (note 31), associates (note 32), 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 Cayzer Trust, which held 33.4% of the voting shares of the company as at 31 March 2007 (2006 – 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 and age. Details of directors' pension benefits are set out on pages 51 and 52 in the directors' remuneration report.

The key management personnel compensation was as follows:

	Company 2007 £m	Company 2006 £m	Group 2007 £m	Group 2006 £m
Short term employee benefits	2.7	2.8	2.7	2.8
Post employment benefits	0.2	0.2	0.2	0.2
Equity compensation benefits	1.3	0.2	1.3	0.2
	4.2	3.2	4.2	3.2

Total remuneration of directors is included in 'personnel expenses' (note 2).

During the year, the group invoiced and received £0.1m (2006 – £0.1m) in administration fees from Cayzer Trust.

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 transactions 2007 £m	Balance at period end 2007 £m	Amount of transactions 2006 £m	Balance at period end 2006 £m
Income statement items				
Guarantee fees	0.2	0.2	–	–
Dividends receivable on equity shares	12.2	–	2.0	–
Capital distributions	29.6	–	–	–
Interest receivable on loan securities	3.4	1.8	1.1	–
Management fees payable	(11.3)	(3.3)	(12.0)	(0.6)
Interest payable on borrowings	–	–	(0.4)	–
Taxation	0.4	–	(0.9)	0.4
Balance sheet items				
Liquidations	(3.6)	–	(9.0)	–
Loans advanced	5.4	29.8	8.6	24.4
Off balance sheet items				
Guarantees	35.9	70.1	11.9	34.2

Associates and joint ventures

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

	Amount of transactions 2007 £m	Balance at period end 2007 £m	Amount of transactions 2006 £m	Balance at period end 2006 £m
Company				
Deal fees	0.4	–	–	–
Dividends receivable on equity shares	3.3	–	2.8	–
Interest receivable on loan securities	5.5	3.1	1.2	–
Share subscriptions	13.5	–	16.7	–
Loans advanced/(repaid)	27.6	49.2	6.4	21.6
Other group companies				
Dividends receivable on equity shares	0.1	–	1.6	–
Directors' fees receivable	0.2	–	0.2	–
Management fees payable	(0.1)	–	(0.1)	–

30. 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.
- Financial services: the management of hedge funds.
- Industrial and consumer products and services: the manufacture and distribution of specialty chemicals and the manufacture and installation of heat transfer systems principally in the UK, Europe and the US. The ownership and running of a residential club in the UK and the provision of secure self-storage facilities in Italy.
- Property: rural and commercial property investment, development and trading in the UK.

	Investing £m	Financial services £m	Industrial/ consumer £m	Property £m	Total £m
2007					
Gross portfolio return	113.2	–	–	–	113.2
Trading revenue	–	14.3	99.0	22.4	135.7
Inter-segment sales	(15.8)	–	–	(0.7)	(16.5)
	97.4	14.3	99.0	21.7	232.4
Segment result	86.3	4.6	5.9	4.8	101.6
Unallocated expenses					–
Operating profit					101.6
Net finance income					0.5
Share of results of joint ventures					6.1
Taxation					(0.3)
Profit for the year					107.9
Segment assets	1,232.8	47.8	94.7	48.2	1,423.5
Interest in joint ventures					11.6
Unallocated assets					8.2
Total assets					1,443.3
Segment liabilities	11.8	21.7	81.4	2.3	117.2
Unallocated liabilities					10.2
Total liabilities					127.4
Capital expenditure	0.2	1.8	13.5	0.9	16.4
Depreciation	0.1	–	1.8	1.0	2.9
Amortisation	–	0.2	0.1	–	0.3
2006					
Gross portfolio return	337.1	–	–	–	337.1
Trading revenue	–	–	106.7	3.5	110.2
Inter-segment sales	(3.1)	–	–	(1.1)	(4.2)
	334.0	–	106.7	2.4	443.1
Segment result	316.3	–	35.9	0.5	352.7
Unallocated expenses					(1.8)
Operating profit					350.9
Net finance income					2.1
Share of results of joint ventures					1.0
Taxation					(0.4)
Profit for the year					353.6
Segment assets	1,192.8	–	195.4	38.7	1,426.9
Interest in joint ventures					9.6
Unallocated assets					2.9
Total assets					1,439.4
Segment liabilities	21.7	–	73.4	9.4	104.5
Unallocated liabilities					9.5
Total liabilities					114.0
Capital expenditure	0.1	–	2.2	2.0	4.3
Depreciation	0.2	–	3.5	–	3.7

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

	Europe £m	North America £m	Other regions £m	Total £m
2007				
Revenue from external customers	177.7	39.2	15.5	232.4
Total assets	1,281.3	106.9	55.1	1,443.3
Capital expenditure	15.9	0.5	–	16.4
2006				
Revenue from external customers	325.8	105.2	12.1	443.1
Total assets	1,157.5	230.2	51.7	1,439.4
Capital expenditure	4.1	0.2	–	4.3

31. Group entities

Significant subsidiaries were as follows:

Name	Country of domicile	Ownership 2007 %	Ownership 2006 %
Amber Chemical Co Ltd	UK	100	100
Buckingham Gate Ltd	UK	100	100
Caledonia Group Services Ltd	UK	100	100
Caledonia Treasury Ltd	UK	100	100
Easybox Sarl	Luxembourg	100	99
Edinmore Holdings Ltd	UK	100	100
Ermitage Ltd	Jersey	60	–
St Lawrence Properties Ltd	UK	93	93
Sloane Club Holdings Ltd	UK	100	100
Sterling Industries PLC	UK	100	100

A complete list of subsidiaries will be submitted with the parent company's annual return to the Registrar of Companies.

32. 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 domicile	Ownership 2007 %	Ownership 2006 %
Avanti Screenmedia plc	UK	25	
Celerant Consulting Ltd	UK	49	–
Eredene Capital plc	UK	20	–
India Capital Growth Fund Ltd	Guernsey	26	22
Marketform Acquisition Co Ltd	UK	27	27
Omniport Holdings Ltd	UK	39	39
Oval Ltd	UK	32	32
Polar Capital Holdings plc	UK		25
Satellite Information Services Ltd	UK	23	24
TGE Gas Engineering	Germany	50	–

A complete list of associates will be submitted with the parent company's annual return to the Registrar of Companies.

Aggregated amounts relating to associates, extracted on a 100% basis, were as follows:

	2007 £m	2006 £m
Assets	616.1	352.5
Liabilities	(381.6)	(234.5)
Equity	234.5	118.0
Revenues	305.1	197.1
Profit/(loss)	6.3	45.6

33. 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.

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, share options and deferred share awards 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, who 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 2007. In addition, the Remuneration Committee received advice from Freshfields Bruckhaus Deringer in relation to the company's 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, but not excessive, 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 2008 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 2008 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 2008 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. At the determination of the Remuneration Committee and subject to the compulsory deferral provisions of the company's deferred bonus plan, bonuses may either be paid in cash or as an employer contribution to registered pension schemes.

The maximum potential bonus that may currently be awarded is 100% of basic salary, of which a maximum of 50% of basic salary is determined by reference to the company's performance and 50% by reference to individual performance. The company performance related element of bonus is determined by reference to the performance of the company's net asset value ('NAV') per share compared with that of the FTSE All-Share index over the financial year. Bonus payments commence if the performance of the company's NAV per share matches that of the FTSE All-Share index, with the maximum entitlement payable if NAV per share outperforms the FTSE All-Share index by 6% or more. The individual performance element is measured by reference to performance objectives set at the start of the financial year. The Remuneration Committee however retains the discretion to reduce the amount of bonus payable if NAV per share growth in the financial year is negative and/or 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.

Awards under the deferred bonus 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 age 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. None of Messrs T C W Ingram, J M May or W P Wyatt participate in a company pension scheme (although Mr Wyatt participated in the Caledonia Group Personal Pension Plan ('GPPP') prior to setting up his own personal pension

Directors' remuneration report

arrangements in October 2006), but instead a fixed percentage of basic salary is paid into personal pension arrangements or, in the case of Mr May, 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 for the year ended 31 March 2007 was 25% for Mr Ingram and 10% for Messrs May and Wyatt. Mr J M B Cayzer-Colvin participates in the GPPP, a defined contribution scheme into which employer contributions of 10% of basic salary were made on his behalf. 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 company sponsored 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 demanding performance conditions are 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 basic 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 basic 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.

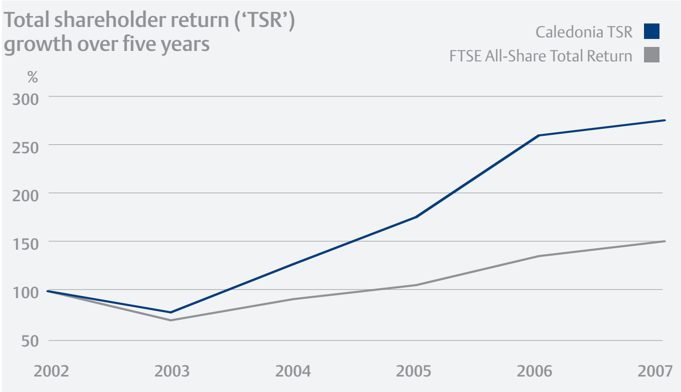
Policy on non-executive directors' remuneration and terms of appointment

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 from the company for their services as non-executive directors. For the year ended 31 March 2007, the basic fee for non-executive directors was £29,000 (2006 – £28,000) and fees of £3,000 (2006 – £3,000) were paid for the chairmanships of the Audit and Remuneration Committees, with a further £3,000 (2006 – £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 2007 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.



Source: Caledonia and FTSE/Datastream

Statement on directors' remuneration (audited)

Total emoluments of the directors were as follows:

	2007 £'000	2006 £'000
Emoluments	3,472	3,549
Gains on exercise of share options	377	1,073
	3,849	4,622

Statement on directors' emoluments (audited)

The emoluments of individual directors were as follows:

	Fees and salaries £'000	Benefits[1] £'000	Cash bonus £'000	Deferred shares[2] £'000	Total 2007 £'000	Total 2006 £'000
Executive						
P N Buckley	281	19	70	141	511	569[3]
T C W Ingram	420	19	105	210	754	779
J H Cartwright	258	19	65	116	458	493
The Hon C W Cayzer	210	17	105	63	395	388
J M B Cayzer-Colvin	170	17	85	51	323	290
J M May	293	19	73	161	546	584
W P Wyatt	170	17	85	59	331	297
Non-executive						
J R H Loudon	29	–	–	–	29	28
C M Allen-Jones	35	–	–	–	35	34
M E T Davies	32	–	–	–	32	31
R Goblet d'Alviella	29	–	–	–	29	28
D G F Thompson	29	–	–	–	29	28
	1,956	127	588	801	3,472	3,549

1. Benefits mainly comprised cash alternatives in lieu of company cars and private medical insurance.
2. Deferred shares, forming part of the bonus, comprise the compulsory and voluntary contributions under the company's deferred bonus plan and will be satisfied in shares shortly after the announcement of the company's preliminary results for the year, as described below.
3. In addition to the total amount for 2006 shown in the table, £50,000 was paid in respect of Mr Buckley's bonus award for that year as an employer pension contribution.

In addition to the amounts shown in the table above, Mr J M May was paid an amount of £25,931 before tax (2006 – £nil) in lieu of contributions to his personal money purchase pension arrangements as described in the statement on directors' pensions below. For the year to 31 March 2006, Mr Ingram was paid an amount of £51,450 before tax in lieu of contributions to his personal pension arrangements and Mr W P Wyatt was paid an amount of £3,460 in lieu of contributions to the GPPP, as contributions brought forward from the previous year were paid into his plan in that year, which meant that the group was unable to pay the full 10% of his salary into his plan due to HMRC limits. 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 £48,000 (2006 – £42,477). Mr Ingram was appointed to the board of Sage Group before he joined Caledonia. Mr May received a fee from Catapult Venture Managers amounting in the year to £18,125 (2006 – £4,531). For the year to 31 March 2006, Mr May also received a fee of £722 from Covenant Healthcare for his services as chairman until his resignation on 14 April 2005. All 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.

Directors' deferred share awards

The deferred bonus column in the table above shows the amount of bonus to be compulsorily and voluntarily deferred into shares under the company's 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 the company'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.

Deferred share awards held by directors as at 31 March 2007 are shown in the following table. There have been no changes in directors' deferred share awards up to the date of this report.

				Number of shares			Market	Market	
Name	Type	Award date	Opening balance	Awarded	Called	Closing balance	price at award	price at call	Vesting date
P N Buckley	Compulsory	01.06.06	–	7,987	–	7,987	1878.0p	–	01.04.09
	Voluntary	01.06.06	–	3,993	–	3,993	1878.0p	–	01.04.09
	Matching	01.06.06	–	3,993	–	3,993	1878.0p	–	01.04.09
			–	15,973	–	15,973			
T C W Ingram	Compulsory	01.06.06	–	10,117	–	10,117	1878.0p	–	01.04.09
	Voluntary	01.06.06	–	5,058	–	5,058	1878.0p	–	01.04.09
	Matching	01.06.06	–	5,058	–	5,058	1878.0p	–	01.04.09
			–	20,233	–	20,233			
J H Cartwright	Compulsory	01.06.06	–	5,314	–	5,314	1878.0p	–	01.04.09
	Voluntary	01.06.06	–	3,321	–	3,321	1878.0p	–	01.04.09
	Matching	01.06.06	–	3,321	–	3,321	1878.0p	–	01.04.09
			–	11,956	–	11,956			
The Hon C W Cayzer	Compulsory	01.06.06	–	4,552	–	4,552	1878.0p	–	01.04.09
J M B Cayzer-Colvin	Compulsory	01.06.06	–	3,354	–	3,354	1878.0p	–	01.04.09
J M May	Compulsory	01.06.06	–	7,521	–	7,521	1878.0p	–	01.04.09
	Voluntary	01.06.06	–	3,760	–	3,760	1878.0p	–	01.04.09
	Matching	01.06.06	–	3,760	–	3,760	1878.0p	–	01.04.09
			–	15,041	–	15,041			
W P Wyatt	Compulsory	01.06.06	–	3,727	–	3,727	1878.0p	–	01.04.09
	Voluntary	01.06.06	–	1,863	–	1,863	1878.0p	–	01.04.09
	Matching	01.06.06	–	1,863	–	1,863	1878.0p	–	01.04.09
			–	7,453	–	7,453			

Compulsory deferred share awards

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 commencing on the first day of the financial year in which the award is made. The vesting of these shares is not subject to a further performance condition.

Voluntary deferred share awards

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 first day of the financial year in which the award is made or the date the director ceases to be an employee of the Caledonia group for any reason.

Matching share awards

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 NAV per share over the three financial years starting with the year in which the award is made (the 'Prescribed Period'). This performance of NAV per share will be compared against different indices as follows:

- 50% of the matching shares will only vest if NAV per share over the Prescribed Period outperforms the Retail Prices Index by at least 9%.
- The remaining 50% of the matching shares will only vest if NAV 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 those described above. Any such amended or different performance targets will be described in the directors' remuneration report for the relevant year.

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 2007 (per annum)	a	289,101	114,268	100,000
Increase in accrued pension during the year (per annum)	b	25,598	9,795	13,143
Increase in accrued pension during the year, net of inflation (per annum)	c	12,950	4,780	8,974
Transfer value of increase in accrued pension over the year, net of director contributions	d	221,802	47,638	116,014
Transfer value of accrued pension at 31 March 2007	e	5,217,271	1,525,559	1,363,858
Transfer value of accrued pension at 31 March 2006	f	5,107,551	1,329,775	1,123,422
Change in transfer value over the year, net of director contributions	g	109,720	185,444	240,436

1. Except for Mr P N Buckley, the accrued pensions are the amounts which would be paid at normal retirement age, ignoring any revaluation, if the director had left service at 31 March 2007. Mr Buckley reached normal retirement age on 23 September 2004 but has continued in employment. The amount shown in row (a) for Mr Buckley represents the accrued pension that would have been paid at 31 March 2007.
2. The increase in accrued pension, net of inflation, in row (c) is calculated by subtracting the pension accrued to 31 March 2006 multiplied by the increase in the Retail Prices Index for the year to 31 March 2007, from the accrued pension to 31 March 2007. 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 over the year is made up entirely of increases due to the late payment of his pension.
3. The transfer value shown in row (d) represents the value of the increase in accrued pension during the year, as set out in row (c), minus director's contributions.
4. During the year, a part (£50,000) of Mr Buckley's bonus award for the year ended 31 March 2006 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 total value of such contributions, with interest, was £265,670 at 31 March 2007 and £199,010 at 31 March 2006. The amounts in rows (a) to (d) do not include allowance for these contributions. The transfer values set out in rows (e) and (f) do, however, include the respective values of these contributions.

5. The change in transfer value over the year shown in row (g) (calculated as row (e) less row (f) and any director's contributions) reflects 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.

During the year, the company made contributions to a money purchase personal pension plan for the benefit of Mr T C W Ingram of £105,000 (2006 – £36,960, together with cash payments in lieu of pension contribution of £51,450 before tax). As described above, and in accordance with his service contract, Mr J M May elected to receive his pension entitlement by way of a cash payment in lieu of pension of £25,931 before tax (2006 – employer pension contribution of £28,250). Mr J M B Cayzer-Colvin is a member of the GPPP, a defined contribution scheme into which employer contributions of £17,000 (2006 – £14,000) were paid during the year on his behalf. Mr W P Wyatt was a member of the GPPP prior to establishing his own money purchase pension arrangements in October 2006 into which the company made employer contributions of £17,000 (2006 – £10,540 and £3,460 before tax in cash in lieu of pension contributions).

Statement on directors' share options (audited)

Options to acquire ordinary shares in the company held by the directors during the year ended 31 March 2007 and gains on the exercise of share options were as shown in the table below.

Name	Option scheme	Grant date	Opening balance	Number of options Granted	Number of options Exercised	Closing balance	Exercise price	Market price at exercise	Gains on exercise 2007 £'000	Gains on exercise 2006 £'000	Exercisable from date	Expiry date
P N Buckley	Executive	31.07.96	7,000	–	(7,000)	–	745.0p	1803.0p	74			
	Executive	16.07.97	6,000	–	(6,000)	–	677.5p	1803.0p	68			
	Executive	02.09.98	100,000	–	–	100,000	740.0p				02.09.01	02.09.08
	Executive	26.07.99	9,000	–	–	9,000	757.5p				26.07.02	26.07.09
	Executive	19.07.00	8,500	–	–	8,500	722.5p				19.07.03	19.07.10
	Executive	24.07.01	12,500	–	–	12,500	810.0p				24.07.04	24.07.11
			143,000	–	(13,000)	130,000			142	–		
T C W Ingram	Executive	05.07.02	55,334	–	–	55,334	782.5p				05.07.05	05.07.12
	Special	05.07.02	55,334	–	–	55,334	782.5p				05.07.05	05.07.12
	Executive	20.11.03	35,400	–	(11,800)	23,600	945.0p	2170.0p	144		20.11.06	20.11.13
	Executive	26.05.04	32,700	–	–	32,700	1055.0p				26.05.07	26.05.14
	Executive	19.08.05	36,075	–	–	36,075	1580.0p				19.08.08	19.08.15
	Executive	01.06.06		33,546	–	33,546	1878.0p				01.06.09	01.06.16
			214,843	33,546	(11,800)	236,589			144	572		
J H Cartwright	Executive	19.07.00	7,000	–	(7,000)	–	722.5p	2020.0p	91			
	Executive	24.07.01	16,000	–	–	16,000	810.0p				24.07.04	24.07.11
	Executive	05.07.02	2,335	–	–	2,335	782.5p				05.07.05	05.07.12
	Executive	20.11.03	24,800	–	–	24,800	945.0p				20.11.06	20.11.13
	Executive	26.05.04	22,800	–	–	22,800	1055.0p				26.05.07	26.05.14
	Executive	19.08.05	23,685	–	–	23,685	1580.0p				19.08.08	19.08.15
	Executive	01.06.06		20,646	–	20,646	1878.0p				01.06.09	01.06.16
			96,620	20,646	(7,000)	110,266			91	221		
The Hon C W Cayzer	Executive	26.07.99	5,500	–	–	5,500	757.5p				26.07.02	26.07.09
	Executive	19.07.00	6,000	–	–	6,000	722.5p				19.07.03	19.07.10
	Executive	24.07.01	8,500	–	–	8,500	810.0p				24.07.04	24.07.11
	Executive	05.07.02	2,500	–	–	2,500	782.5p				05.07.05	05.07.12
	Executive	20.11.03	17,100	–	–	17,100	945.0p				20.11.06	20.11.13
	Executive	26.05.04	16,500	–	–	16,500	1055.0p				26.05.07	26.05.14
	Executive	19.08.05	18,035	–	–	18,035	1580.0p				19.08.08	19.08.15
	Executive	01.06.06		16,773	–	16,773	1878.0p				01.06.09	01.06.16
			74,135	16,773	–	90,908			–	280		
J M B Cayzer-Colvin	Executive	19.07.00	17,500	–	–	17,500	722.5p				19.07.03	19.07.10
	Executive	24.07.01	18,000	–	–	18,000	810.0p				24.07.04	24.07.11
	Executive	05.07.02	6,000	–	–	6,000	782.5p				05.07.05	05.07.12
	Executive	20.11.03	9,000	–	–	9,000	945.0p				20.11.06	20.11.13
	Executive	26.05.04	9,500	–	–	9,500	1055.0p				26.05.07	26.05.14
	Executive	19.08.05	13,290	–	–	13,290	1580.0p				19.08.08	19.08.15
	Executive	01.06.06		13,578	–	13,578	1878.0p				01.06.09	01.06.16
			73,290	13,578	–	86,868			–	–		
J M May	Executive	20.11.03	28,000	–	–	28,000	945.0p				20.11.06	20.11.13
	Special	20.11.03	28,000	–	–	28,000	945.0p				20.11.06	20.11.13
	Executive	26.05.04	25,900	–	–	25,900	1055.0p				26.05.07	26.05.14
	Executive	19.08.05	26,815	–	–	26,815	1580.0p				19.08.08	19.08.15
	Executive	01.06.06		23,362	–	23,362	1878.0p				01.06.09	01.06.16
			108,715	23,362	–	132,077			–	–		
W P Wyatt	Executive	19.07.00	13,348	–	–	13,348	722.5p				19.07.03	19.07.10
	Executive	24.07.01	18,000	–	–	18,000	810.0p				24.07.04	24.07.11
	Executive	05.07.02	6,000	–	–	6,000	782.5p				05.07.05	05.07.12
	Executive	20.11.03	9,000	–	–	9,000	945.0p				20.11.06	20.11.13
	Executive	26.05.04	9,500	–	–	9,500	1055.0p				26.05.07	26.05.14
	Executive	19.08.05	13,290	–	–	13,290	1580.0p				19.08.08	19.08.15
	Executive	01.06.06		13,578	–	13,578	1878.0p				01.06.09	01.06.16
			69,138	13,578	–	82,716			–	–		
			779,741	121,483	(31,800)	869,424			377	1,073		

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

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 financial years prior to expiry. For options granted from 1998 to 2001 under the 1998 scheme, the target requires the company's adjusted NAV per share to outperform either the Retail Prices 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 NAV per share to outperform either the Retail Prices 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 NAV per share outperforms the Retail Prices Index by at least 9% over the relevant measurement period, with the other 50% vesting if the company's NAV 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 NAV per share outperforms the Retail Prices Index by at least 9% over the measurement period. The other 50% of the shares comprised in the option will vest if NAV per share outperforms the FTSE All-Share index by at least 3% over the measurement period. The measurement period for these purposes will be the 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, the options will lapse.

The performance targets have been met for all options granted under up to 2004. The Remuneration Committee 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 financial statements under International Financial Reporting Standards ('IFRS') commencing with the year ending 31 March 2006. A reconciliation of the company's audited balance sheet as at 31 March 2005 from UK GAAP to IFRS was undertaken and the difference amounted to an increase in NAV under IFRS of £5.3m, equating to approximately 0.5% of NAV. Accordingly, the Remuneration Committee does not expect the adoption of IFRS to have had a material effect on the performance targets for options already granted under the 1998 scheme but, if necessary, will make adjustments to the extent considered appropriate to ensure that the basis of calculation of NAV per share is consistent over the relevant performance measurement period.

The special options shown in the table above for Mr Ingram relate to options over 83,000 shares originally granted to Mr Ingram on 5 July 2002 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 the company'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. Tranches vest in full if TSR exceeds that of the Index by an average of at least 2% per annum over the relevant measurement period. If TSR equals that of the Index, none of that tranche will be exercisable and there will be proportionate vesting of a tranche if 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, since when Mr Ingram has exercised all of the one-third tranche (27,666 shares) in full. For the remaining two-thirds tranche, being the options over 55,334 shares shown in the table above, 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 also 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 and the performance target in respect of the one-third tranche (9,333 shares) has now been met.

As at 31 March 2007, the market price of the company's shares was 2066p (2006 – 1980p) and the range during the year was 1720p to 2258p.

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 30 May 2007 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 usually 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, all of whom served throughout the year, are shown on pages 26 and 27.

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 directors appear on pages 26 and 27.

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, analysts 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 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 twelve year tenure as a non-executive director exceeds the nine year limit specified in the Combined Code criteria for independence (although absent the Combined Code's nine year limit the board would have regarded him as independent) 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, keeps 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.

The Combined Code also 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 the nine year limit on length of service as a non-executive director included in the Combined Code's criterion for independence, means that provisions B.2.1 and C.3.1 of the Combined Code are not met. However, the board otherwise regards Mr Loudon as independent and considers his length of experience with the company, as well as his business career, to be significant assets. Accordingly, the board believes 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 61.

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 2006 annual board performance evaluation and to consider the contribution and commitment of the non-executive directors retiring at the 2006 annual general meeting, prior to giving recommendations for their 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 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 five times during the year. The matters considered by the Remuneration Committee included:

- The determination of bonuses for executive directors and review of bonuses for other senior executives for the year ended 31 March 2006.
- A review of the company's bonus schemes to ensure consistency of bonus increments for all levels of staff in relation to company performance.
- The grant of options and deferred bonus awards under the company's executive share option scheme and deferred bonus plan.
- A review of the impact of the Employment Equality Age Regulations 2006 on the rules of the company's executive share option scheme and deferred bonus plan and approval of consequential minor amendments thereto.
- The determination of basic salaries for executive directors and review of salaries for other senior executives for the year commencing 1 April 2007.

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 49 to 53.

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 therein. 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, whose meetings are also attended by the auditors, and key valuations are then reviewed by the Audit Committee. 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. In addition, the chairman of the Audit Committee, Mr C M Allen-Jones, is a member of the Financial Reporting Council.

The Audit Committee met five times during the year, including three times without any of the executive directors present. During the year, the business undertaken by the Audit Committee included:

- A review of the performance of the external auditors, KPMG Audit Plc, and the level of fees charged for its services.
- The conduct of a tender for the group audit and resultant recommendation to the board of a change of auditors to Deloitte & Touche LLP.
- Consideration of the scope of the annual audit and agreement with the external auditors of the key areas of focus.
- Consideration of the reports from the external auditors concerning their audit of the annual financial statements of the company and their review of the interim report.
- Consideration of the financial disclosures contained in the annual and interim reports to shareholders.
- The review of reports from management on the effectiveness of the company's system of internal financial control.
- Consideration of the need or otherwise for an internal audit function.
- A review of 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.
- An evaluation of the performance of the Audit Committee itself.
- Assurance of the company's compliance with the requirements for approval as an investment trust.

Corporate governance report

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 once during the year.

Attendance at meetings

The following table identifies the number of board and committee meetings held in the year to 31 March 2007 and the attendance record of individual directors.

	Board	Nomination Committee	Remuneration Committee	Audit Committee	Governance Committee
Number of meetings in the year	12[1]	1	5	5	1
Attendances by					
P N Buckley	11	1	–	–	–
T C W Ingram	12	–	–	–	–
J H Cartwright	12	–	–	–	–
The Hon C W Cayzer	11	–	–	–	–
J M B Cayzer-Colvin	12	–	–	–	–
J M May	12	–	–	–	–
W P Wyatt	11	–	–	–	–
C M Allen-Jones	12	1	5	5	1
M E T Davies	12	1	5	–	1
R Goblet d'Alviella	9	–	–	–	–
J R H Loudon	12	1	5	4	–
D G F Thompson	12	1	–	5	1

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 2007, 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 and chairman, 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 2007 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, three associate directors and the group financial controller 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.

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, whose meetings are also attended by the auditors, and key valuations are then reviewed by the Audit Committee.

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

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 senior independent non-executive director attends some of these meetings. The annual general meeting also provides a forum for shareholders 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.

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 to the company's holding in each of the financial instruments, representing their fair values.

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 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. 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 profit.

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 discount 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.

Significant investments

At 31 March 2007, the valuation of all holdings valued at over 1% of net assets was £966.2m. The residual cost of these investments at that date was £451.0m.

Investment	Business sector	Country of domicile	Year first invested	Residual cost £m	Proportion of equity shares held	Valuation £m	Income in year[1] £m	Net assets[2] £m	Earnings[2] £m
Close Brothers									
Merchant banking	Financial	UK	1987						
Equity shares				33.7	12.2%	182.2	6.1		
				33.7		182.2	6.1	662.4	108.6
British Empire Securities									
Investment trust	Funds	UK	1991						
Equity shares				16.6	18.5%	137.2	1.5		
				16.6		137.2	1.5	701.3	88.6
Quintain Estates & Development									
Property investment and development	Property	UK	1994						
Equity shares				14.3	7.3%	84.6	1.0		
				14.3		84.6	1.0	676.7	56.7
Rathbone Brothers									
Fund management	Financial	UK	1995						
Equity shares				15.0	10.8%	59.8	1.5		
				15.0		59.8	1.5	159.1	32.1
Polar Capital funds									
Hedge and long-only funds	Funds	Ireland/Cayman	2001						
Shares in open-ended funds				42.1		47.4	–		
				42.1		47.4	–		
Bristow Group									
Helicopter services	Oil and gas	US/UK	1991						
Equity shares (US)				21.2	6.9%	30.2	–		
Convertible preference shares (US)				8.0		7.7	0.2		
Equity shares (UK)				0.2	46.0%	0.9	–		
				29.4		38.8	0.2	310.0	33.3
Melrose Resources									
Oil and gas exploration	Oil and gas	UK	2003						
Equity shares				22.7	8.9%	37.5	0.1		
				22.7		37.5	0.1	172.5	23.6
Cobepa									
Investment company	Funds	Belgium	2004						
Equity shares				24.5	9.4%	35.9	0.4		
				24.5		35.9	0.4	274.8	23.7
Oval									
Insurance broking	Financial	UK	2003						
Equity shares				10.0	29.0%	16.4	–		
Convertible loans				12.2		16.2	1.0		
				22.2		32.6	1.0	33.9	1.6
Satellite Information Services									
Betting information distribution	Consumer	UK	2005						
Equity shares				16.7	22.5%	25.9	–		
				16.7		25.9	–	13.5	14.6
Polar Capital									
Fund management	Financial	UK	2001						
Equity shares				0.7	16.8%	25.6	1.4		
				0.7		25.6	1.4	15.4	22.9
A G Barr									
Soft drinks	Consumer	UK	1987						
Equity shares				1.3	9.4%	23.1	0.6		
				1.3		23.1	0.6	71.4	13.2
Eddington Capital Triple Alpha Fund									
Fund of hedge funds	Funds	Cayman	2003						
Shares in open-ended fund				15.3		23.0	–		
				15.3		23.0	–	22.0	2.5

Investment	Business sector	Country of domicile	Year first invested	Residual cost £m	Proportion of equity shares held	Valuation £m	Income in year[1] £m	Net assets[2] £m	Earnings[2] £m
Novae Group									
Insurance services	Financial	UK	2003						
Equity shares				16.6	6.1%	17.6	–		
Convertible loans				4.9		4.9	0.3		
				21.5		22.5	–	239.8	21.5
Ermitage									
Hedge funds manager	Financial	Jersey	2006						
Equity shares				3.0	60.0%	3.0	–		
Loans				17.3		19.1	2.0		
				20.3		22.1	2.0	6.3	1.6
Sterling Industries									
Engineering	Industrial	UK	1987						
Equity shares				20.2	100%	21.5	5.0		
Preference shares				0.3		0.3	–		
				20.5		21.8	5.0	11.9	5.6
TGE Gas Engineering									
Gas engineering	Oil and gas	Germany	2006						
Equity shares				2.8	49.9%	2.7	–		
Loans				16.4		17.2	0.9		
				19.2		19.9	0.9	3.1	(16.1)
Terrace Hill									
Property development	Property	UK	2004						
Equity shares				4.7	8.1%	19.3	0.3		
				4.7		19.3	0.3	107.0	4.0
Alok Industries									
Textiles	Consumer	India	2004						
Equity shares				19.5	14.9%	17.0	0.3		
				19.5		17.0	0.3	102.7	15.2
India Capital Growth Fund									
Investment company	Funds	Guernsey	2005						
Equity shares				19.9	26.3%	16.1	–		
Warrants				–		0.6	–		
				19.9		16.7	–	69.9	(3.7)
Incisive Media									
Publishing	Consumer	UK	2004						
Partners' ordinary capital				0.4		0.5	–		
Partners' preferred capital				13.6		16.0	–		
Equity shares				–		–	0.2		
				14.0		16.5	0.2	73.6	7.4
Avanti Screenmedia									
Screen media services	Consumer	UK	2005						
Equity shares				16.5	25.1%	15.9	–		
				16.5		15.9	–	37.8	3.1
The Sloane Club									
Residential club owner and operator	Consumer	UK	1991						
Equity shares				14.0	100%	14.0	2.3		
				14.0		14.0	2.3	13.5	2.3
Serica Energy									
Oil and gas exploration	Oil and gas	UK	2006						
Equity shares				13.4	8.4%	13.7	–		
				13.4		13.7	–	64.4	(7.3)
Buckingham Gate									
Property investment	Property	UK	2000						
Equity shares				13.0	100%	13.2	2.1		
				13.0		13.2	2.1	21.0	2.2

1. Income in the year represents dividends received (inclusive of any overseas withholding tax) and gross interest receivable in the year to 31 March 2007.
2. Net assets and earnings figures are taken from the most recent audited financial statements of the investee business. The figures shown are the total earnings on ordinary activities after tax and net assets of each business. Due to 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.

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 1142, 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 above, 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 above, but where there is more than one registered holder, all holders should sign.

Monthly net asset values
The company publishes a net asset value announcement and monthly fact sheet shortly after the month end, which include its undiluted and diluted net asset values per share. These 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	30 May 2007
Annual report published	18 June 2007
Annual general meeting	19 July 2007
Final dividend paid	2 August 2007
Interim results announced	27 November 2007
Interim report published	10 December 2007
Interim dividend paid	8 January 2008

Caledonia Investments ISA
The Caledonia Investments Individual Savings Account ('ISA') is a tax efficient savings account that allows participants to invest up to £7,000 (£7,200 from 6 April 2008) each tax year. Lump sum payments or regular monthly deposits can be made to the ISA.

The plan manager of the ISA is Capita Financial Managers Ltd, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0GA. The administrator of the ISA is Capita IRG Trustees Ltd, which can be contacted at Regulated Business, 34 Beckenham Road, Beckenham, Kent BR3 4TU or telephoned on 0870 162 3135.

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

Caledonia Investments Share Savings Plan
The Caledonia Investments 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 Share Savings Plan is provided by Capita IRG Trustees Ltd, which can be contacted at Regulated Business, 34 Beckenham Road, Beckenham, Kent BR3 4TU or telephoned on 0870 162 3135.

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

PEPs and ISAs
Caledonia's shares can be treated as qualifying investments for the purposes of the 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
Graeme P Denison
Jonathan R Hale
Anthony E G Hambro
Sheena D McNeill
Paul M Whiteley

Secretary
Graeme P Denison

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