CALEDONIA
INVESTMENTS

Performance driven

Annual report 2008

Year ended 31 March 2008

identify
invest
involve

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

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

We are performance driven.

Financial highlights

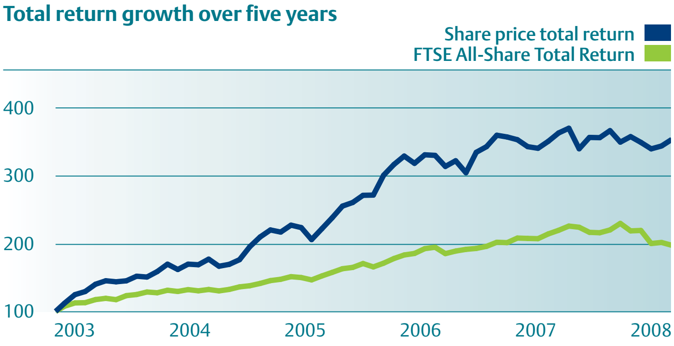
Results summary

	31 March 2008	31 March 2007	Change %
Total equity	£1,252m	£1,323m	-5.4
Diluted NAV per share	2155p	2258p	-4.6
Annual dividend per share	32.5p	31.1p	4.5
Share price	2050p	2066p	-0.8
Discount	4.9%	8.5%	
FTSE All-Share index	2,927	3,283	-10.9

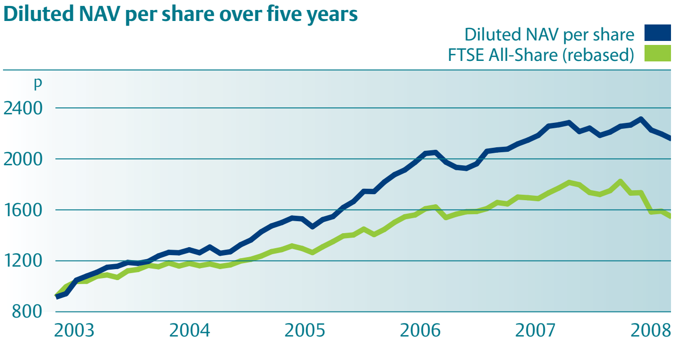
Total return growth

	5 year %	10 year %
Share price	254.0	228.5
FTSE All-Share index	98.7	41.4
Outperformance	155.3	187.1

Total return growth over five years



Diluted NAV per share over five years



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

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

155%

Increase in the proposed final dividend to 22.6p per share

4.6%

Results

In a difficult year for markets, it is not surprising to report that our fifth year as an investment trust has resulted in a decline of 4.6% in our net asset value per share, although this should be taken in the context of an 10.9% decline in the FTSE All-Share index. Given that the share prices of our second and fourth largest holdings, being Close Brothers and Quintain Estates, fell by 39% and 50% respectively, this outperformance reflects the sound quality of our overall portfolio. It also reinforces the validity of our long standing investment approach, which is to take significant stakes for the longer term in promising quoted and unquoted companies with management teams whom we have got to know and trust. This is similarly reflected in our continued longer term outperformance against our benchmark FTSE All-Share Total Return index over five and ten years of 155% and 187% respectively.

Share price and discount

Our share price fell by 0.8% over the year from 2066 pence to 2050 pence and, against the 5% decline in net asset value per share already mentioned, this reflected a narrowing of the share price discount from 8.5% to 4.9%. Our share price total return over one year, which assumes reinvestment of dividends, was positive at 0.8%.

Dividend

We are pleased to propose a 4.6% increase of 1.0 pence in the final dividend to 22.6 pence per share payable on 14 August 2008. This will bring the total dividend for the year to 32.5 pence, representing an increase of 4.5% over the previous year and costing £18.7m. We shall have increased our annual dividend to shareholders for forty-one consecutive years.

Portfolio and liquidity

The Chief Executive reviews the detailed changes to our portfolio in his report. In overall terms we have adopted a more cautious approach to the market over the past year with investments made in five new situations totalling £48m compared with 14 new situations in the previous year costing £128m. Follow-on investments totalled £156m compared with £162m last year. Together investments made exceeded realisations during the year by £89m, which, adjusted for movements in working capital, reduced our net liquidity from £109m to £24m. Whilst we remain cautious about markets, we would wish to be in a position to take advantage of the potentially interesting opportunities which are likely to arise from these difficult times and we are looking at arranging appropriate borrowing facilities.

"Continuing outperformance against our benchmark again validates our investment approach."

Peter Buckley
Chairman

Economic and political background

I have customarily made reference to the economic and political background and the impact it has on our business and for some years I have been strongly critical of the present Government. In the past year many of their chickens have come home to roost and what a shabby lot they look. Shorn of integrity and economic competence, Rooster Brown has even less feathers than Rooster Blair and lacks the latter's knack of preening himself. It is heartening that the recent local elections, exemplified by the change of the Mayor in London and the Crewe by-election, would both suggest that the electorate is seeking change.

Fuelled by the greed of the US investment banks, the principal culprits in the sub-prime crisis, many other banks had lowered their standards to an alarming degree which the Government, through its Brown-imposed three way regulatory framework of Treasury, Bank of England and Financial Services Authority, utterly failed to spot. Over the past period of relative plenty, Brown has consistently and stealthily raised taxes and public expenditure in a way which has failed to deliver proper value. He blusters about prudent economic management when Britain is now at the lower end of a number of European economic league tables. Blair and Brown both promised a referendum on the new constitutional reforms in Europe and then reneged. What is particularly distressing in all this, is a growing politicisation of the civil service and the lack of example being set by those at the top in both politics and banking, with self interest dominating the willingness to take responsibility, which is hardly the right ethic to instil in future generations. All of this impinges on the prospects for growth in our economy.

Last year some of these factors led us to ask our shareholders for the authority to make contributions of up to £60,000 to the Conservative Party so that it can be equipped better to form an alternative government. I am pleased to report that we had a ringing endorsement in favour of this from the overwhelming majority of our shareholders. The year just past has strengthened our belief in this initiative although the Conservatives will have to be careful and consistent with their policy pronouncements. We shall ask our shareholders for permission to donate again to the Conservative Party with an increase in the contribution to £75,000 in case the next twelve months turns out to be an election year. The focus of giving will remain on building resource in the marginal seats where the past year's contributions were also targeted.

Staff

We are fortunate to have a close knit and dedicated team at Caledonia and it has been a busy year for them. Regulations, which often emanate from an unaccountable bureaucracy in Brussels or are imposed on industry in a manner which the UK Government opts out of for its own account as in the public sector pensions arena, continue to grow alarmingly and impose an unwelcome additional burden on the workload of our team and, worse, for the competitiveness of our economy in global markets. I would like to thank the Caledonia team on behalf of shareholders for their unstinting and diligent efforts.

Outlook

The financial markets have suffered unprecedented difficulties and the impact of all this is only now filtering through to the wider economy. This undoubtedly has further to go and inflation is likely to be the next issue to consider. So there is no easy road ahead but opportunities are bound to present themselves which we shall address with our traditional approach ever mindful of the difficult environment.

Peter Buckley
Chairman

Chief Executive's report

Outperformance of diluted NAV per share against the FTSE All-Share index over the year

6.3%

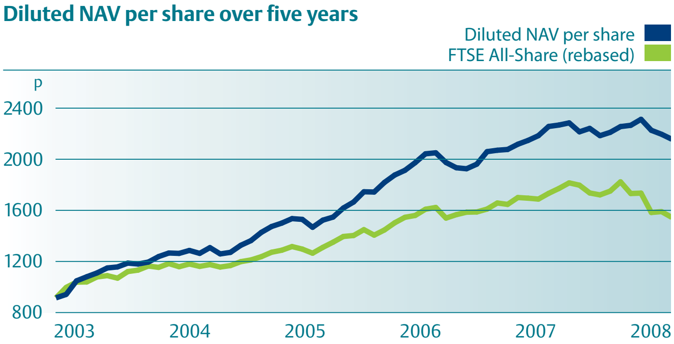
Invested in the year, including £48m in new opportunities

£204m

This time last year we expressed a cautious stance to investment, and the last 12 months have shown this to be right. We have seen considerable turbulence in the markets and major falls in many asset values. Over the 12 months ended 31 March 2008, the FTSE All-Share index fell by 10.9%. Against this backdrop the much smaller fall in our own diluted net asset value ('NAV') per share of 4.6%, although disappointing in absolute terms, nonetheless represented outperformance of 6.3% against the FTSE All-Share index and has demonstrated the resilience of our business model in these conditions.

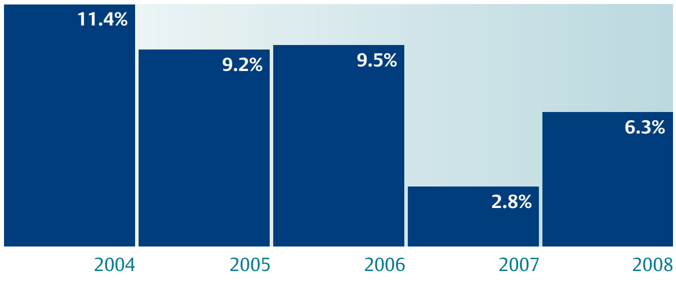
Our aim is to ensure that over rolling five year periods our total shareholder return consistently outperforms the FTSE All-Share Total Return index, as well as producing positive absolute returns. To achieve that aim, we put our efforts into ensuring that our NAV per share consistently outperforms the FTSE All-Share index over the medium term. Although we cannot always expect in the shorter term period of one year to meet this objective, nonetheless it should be noted that for each of the last five years – since we converted to investment trust status and have been measuring NAV on a consistent basis – our NAV per share has outperformed the FTSE All-Share index as demonstrated in the charts below. These indicate that our long term approach to investment is working to produce for our shareholders the results to which we aspire, and has been delivering in both upturns and downturns in the market.

Diluted NAV per share over five years



Our business philosophy, which centres around being a long term supportive and constructively involved shareholder, does mean that we do not normally liquidate our shareholdings in good companies just because of anticipated downturns in the market as a whole. Instead, during the last financial year and in order to provide some downside protection of the value of our portfolio in a falling market, we invested, through a subsidiary, a total of £12m in FTSE 250 put options. The value of these put options had of course substantially grown by the end of the period as a result of both falls in the index and increased volatility and this increase (of £7.6m pre-tax) has helped in part to offset the falls in value of some of our investments.

Diluted NAV per share to FTSE All-Share outperformance
years ended at 31 March



Significant changes in value

The falls in market prices of equities in the financial and property sectors have been particularly severe and, over the 12 months, the FTSE Financial sector as a whole fell by 23.6%, while the Real Estate sector fell by 35.3%. Not surprisingly, the values of a number of our investments in these sectors also fell.

Our investment in Close Brothers fell in value by over £70m. In the short term its business was adversely affected by the unwelcome threat of a hostile bid (which never materialised) by the much smaller Cenkos Securities. Nonetheless, we believe Close Brothers is now particularly well positioned for present market conditions and we have in fact taken advantage of the low share price to invest a further £7.3m during March 2008 as we believe there should be significant potential for value creation over the medium term.

Our investment in Quintain Estates produced the other substantial fall in value with a diminution of £53.4m. Its share price fall over the year was also accentuated by the confirmation from an unwelcome bidder that its potential offer would not proceed. Notwithstanding the malaise in the property sector, we consider Quintain Estates, with its relatively low level of debt and special development situations in Wembley and Greenwich, also to be well positioned for value creation over the longer term.

Other significant falls in value within these sectors included Polar Capital (down £16.9m), Terrace Hill (down £12.6m) and Rathbone Brothers (down £12.0m). In all cases we believe these to be well run, strong companies, and are confident that they will show good gains in value over the medium term.

Substantially offsetting the various falls in value have been a number of notable gains in value including:

- Oval (£27.2m gain), our unquoted UK insurance broking investment, which has been successfully acquiring and consolidating smaller broking businesses and thereby significantly increasing profitability.

"Another year of busy activity, particularly in our active and constructive involvement with investee companies."

Tim Ingram
Chief Executive

- TGE Marine (£15.5m gain), our formerly unquoted marine gas engineering investment headquartered in Bonn, which is enjoying strong revenue and profitability growth. Since our financial year end, this business has listed on the AIM market leading to further substantial value gains.
- Bristow Group (£16.2m gain), the US quoted helicopter operating company, which is benefiting from the buoyant conditions in the oil and gas industry.
- Cobepa (£12.1m gain), the unquoted Brussels based private equity investment company.
- Marketform (£10.5m gain), where we realised our investment in this UK unquoted insurance company through a trade sale.

Investment activity

The year was another one of busy activity. Our Investment Committee analysed 104 new investment opportunities (which compares with 130 the previous year) but, as a result of our cautious stance, only made five new investments totalling £48m (versus 14 totalling £128m in the previous year). We were however more active in follow-on situations where we have been able to benefit from falls in market prices providing good buying opportunities in businesses we know well. We thus invested a further £144m in follow-on business investments and, as mentioned above, £12m in FTSE 250 put options, making a total investment of £204m – considerably lower than the £290m we had invested in the previous year.

More information on investments is given in the business review on page 13. It is worth noting that as at 31 March 2008 the total value of our Indian investments (including two UK quoted entities that focus exclusively on India) was £88m, representing 7.0% of shareholders' funds – up from 5.4% at the previous year end, and reflecting both further investment and growth in value.

Much effort is spent on being actively and constructively involved with the managements of our investee companies to help create long term value. It is our normal policy for Caledonia executives to join the board of an investee company where we have a significant stake and at the year end we had our executives on the boards of 26 of our top 30 investments.

Realisations totalled £114m, substantially down on the £317m realised during the previous year. The largest was the sale for £21m of our 27% stake in Marketform, an unquoted insurance company, which represented a 100% uplift in the value of this investment as at 31 March 2007. More information on realisations is given on page 13 in the business review.

During the year, we purchased into treasury 277,229 of our shares at a total cost of £5.6m.

We started the year with around £109m of liquidity. Essentially as a result of the above activity this reduced to about £24m at 31 March 2008.

Costs

We continued to keep a tight rein on costs, believing that every pound spent is a pound less of our shareholders' net assets. Although our investment style is considerably more hands-on than most investment trusts, it is our continuing aim to contain our pre-tax total expense ratio ('TER') around the 1% level, and to keep it significantly below the average for the investment trust industry as a whole.

Our pre-tax TER for the year was 1.0%, which is significantly below the pre-tax weighted investment trust industry average of 1.4%. Moreover, given that our expenses contain all performance payments to executives, including bonus and share-based payments, this compares very favourably indeed with the private equity industry, which also involves a 'hands-on' investment style, but which industry is much shorter term than Caledonia and one where investors typically have to pay fees of both 2% per annum of assets managed and 20% of the gains made.

Outlook

The immediate economic outlook is not encouraging. In the US, consumer debt, including mortgages, has increased over the last seven years from around 65% of annual GDP to 94% – it is a similar picture in the UK with the ratio increasing from 70% to just over 100%. The UK economy is now starting to feel the adverse effects of this excessive binge-borrowing. Recession is a real possibility. However, we believe we are well positioned through being invested and involved in sound businesses that we understand well and where usually we have board participation.

As the economic situation further unfolds, we expect a number of particularly good investment opportunities to arise and may well put in place term bank facilities for up to £100m.

Tim Ingram

Tim Ingram
Chief Executive

Business review

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 quoted and unquoted 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.

Business review

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 managements, 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.

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 views 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:

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

Diluted net asset value per share

Net asset value ('NAV') per share, on a diluted basis, was 2155p at 31 March 2008, compared with 2258p at the same date in 2007 and 2044p in 2006. The decrease over the year of 103p (-4.6%) resulted principally from the movement in portfolio value (-11.8%) and annual dividends paid (-1.5%).

Diluted NAV per share
at 31 March

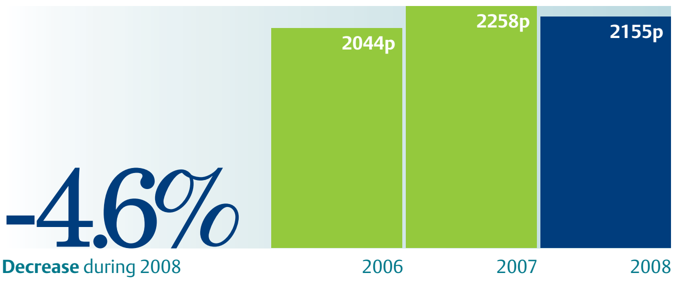


Table 1 shows the components of the movement in diluted NAV per share over the year.

Table 1: Movement in diluted NAV per share

	Net assets £m	Number of shares 000's	Dilution adjustment 000's	Diluted NAV/share p
At 31 March 2007	1,323.2	57,952	646	2258
Total return	(43.3)	–	–	(74)
Annual dividends[1]	(18.2)	–	–	(32)
Treasury shares	(10.6)	(521)	37	–
Employee share options	(0.8)	3	(12)	–
Share-based payments	1.6	–	–	3
At 31 March 2008	1,251.9	57,434	671	2155

1. NAV per share movement is taken as the dividend per share.

The company's NAV at 31 March 2008 of £1,251.9m (2007 – £1,323.2m) differs from the group's consolidated NAV of £1,247.9m (2007 – £1,311.0m) 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 incurred a negative total return for the year ended 31 March 2008 of £43.3m, which equates to -3.3% on opening equity, compared with +10.5% in 2007. The key components were net losses on investments, partially offset by investment income recognised over the year. The loss for the year and net income recognised directly in equity together comprise the company's total return, summarised in table 2.

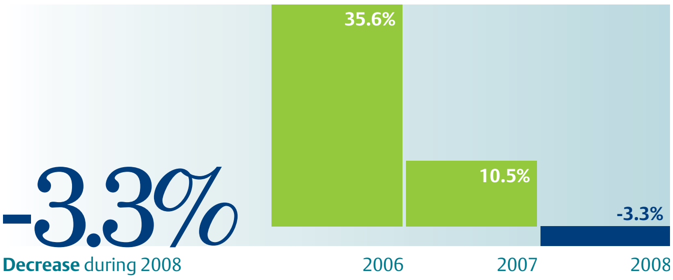
Table 2: Total return

	2008 £m	2007 £m
Gains and losses on investments	(70.2)	96.5
Gains and losses on derivatives	0.3	5.6
Investment income	39.5	40.1
Investment income impairment	(9.3)	–
Gross portfolio return	(39.7)	142.2
Management expenses	(11.2)	(11.0)
Other expenses	(1.7)	(1.1)
Net portfolio return	(52.6)	130.1
Treasury income and expenses	3.9	3.5
Taxation	4.8	2.5
Profit/(loss) for the year	(43.9)	136.1
Gains and losses recognised in equity	0.6	1.6
Total recognised income and expense ('total return')	(43.3)	137.7

Business review

Financial review

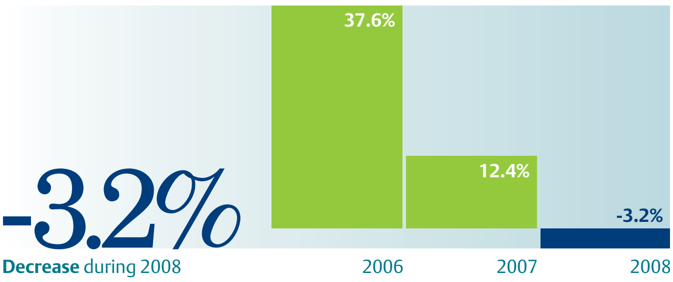
Total return
years ended 31 March



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 reduced performance in 2008, compared with 2007, reflected the downturn in equity markets. The FTSE All-Share index fell by 10.9% in 2008, compared with an increase of 7.7% in 2007.

Gross portfolio return
years ended 31 March



Net gains and losses on investments for the year amounted to a £70.2m loss compared with a gain of £96.5m for the previous year. An analysis of this return is given in table 3.

Table 3: Net gains and losses on investments

	2008 £m	2007 £m
Unquoted investments	91.2	54.4
Quoted investments	(161.4)	42.1
	(70.2)	96.5

Gains on unquoted investments included £27.2m for Oval, the UK regional insurance broker, £15.5m for TGE Marine, the German gas transport and storage engineering business, £12.1m for Cobepa, the Belgian investment company, and £10.5m for Marketform, the non-US medical insurance services business, the value of which was realised near the year end. Losses on unquoted investments included £17.7m relating to Incisive Media, the UK business to business publisher and £9.7m for Ermitage, the Jersey-based funds of hedge funds manager. Losses on quoted investments included £70.7m for Close Brothers, £53.4m for Quintain Estates, £16.9m for Polar Capital, £12.6m for Terrace Hill and £12.0m for Rathbone Brothers, partially offset by gains including £16.2m for Bristow Group.

Net gains on derivatives of £0.3m comprised gains on a forward currency purchase contract, compared with £5.6m in 2007, of which £6.0m related to gains on forward currency sale contracts, to hedge our US dollar exposure, and £0.4m related to a loss on a basket of options to hedge against fluctuations in deferred proceeds on the sale of an investment.

Investment income of £39.5m was 1.5% lower than the £40.1m booked in 2007. This decrease resulted principally from the receipt in 2007 of dividends from Sterling Industries, the Sloane Club and Buckingham Gate, which were not repeated in 2008. The investment income impairment in 2008 comprised an impairment of interest accrued from high-yielding loan notes.

An analysis of gross portfolio returns in 2008 is shown in table 4.

Table 4: Gross portfolio returns

	Gains/ (losses) £m	Net income £m	Gross returns £m
Oval	27.2	1.1	28.3
TGE Marine	15.5	2.7	18.2
Bristow Group	16.2	0.4	16.6
Cobepa	12.1	0.8	12.9
Marketform	10.5	0.6	11.1
Rathbone Brothers	(12.0)	1.7	(10.3)
Ermitage	(9.7)	(1.8)	(11.5)
Terrace Hill	(12.6)	0.4	(12.2)
Polar Capital	(16.9)	0.7	(16.2)
Incisive Media	(17.7)	–	(17.7)
Quintain Estates	(53.4)	1.3	(52.1)
Close Brothers	(70.7)	11.5	(59.2)
Other investments	41.6	10.8	52.4
	(69.9)	30.2	(39.7)

Oval's return of £28.3m reflected improved trading and a recent arm's length market transaction. TGE Marine's increase of £18.2m reflected a substantial improvement in the offshore business. Bristow Group benefited from high levels of activity in the oil and gas industry, with firm oil prices and strong demand. Cobepa's investment portfolio showed strong gains. Marketform's uplift resulted from the sale of our stake during the year. A decline in the equity markets over the year was reflected in the reduced market prices of Rathbone Brothers, Terrace Hill, Polar Capital, Quintain Estates and Close Brothers. 'Other investments' comprised a number of investments with gross returns of less than £7.0m of gain or loss each.

Expenses
Management expenses comprised the costs incurred in managing the operations of the company and totalled £11.2m for the year, compared with £11.0m in 2007.

Other expenses of £1.7m (2007 – £1.1m) comprised transaction costs of potential and completed investments of £0.3m (2007 – £0.5m), £0.6m of performance fees to third party managers and £0.8m of other costs. In 2007, £0.6m of expenses related to the elective special dividend.

Treasury income and expenses
Treasury income and expenses, totalling £3.9m (2007 – £3.5m), reflected the net returns on treasury assets during the year. The company held net liquidity in term deposits, averaging £58.6m over the year. Also included were exchange losses of £0.2m (2007 – £0.7m), which arose from holding foreign currency balances.

Dividends
During the year, we paid dividends of 31.5p per share (2007 – 30.0p), amounting to £18.2m (2007 – £18.5m), representing the final dividend in respect of the year ended 31 March 2007 of 21.6p per share and the interim dividend in respect of the year ended 31 March 2008 of 9.9p per share. Caledonia maintains a progressive dividend policy and has an unbroken record of annual dividend increases over the last 41 consecutive years.

In July 2006, we paid £102.9m in the form of an elective special dividend of 1902.17p for each share elected subsequent to an offering to shareholders to participate in a return of funds. The elected shares were subsequently cancelled for £nil consideration.

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

At 31 March 2008, 661,131 shares were accounted as held in treasury, of which 277,229 shares were bought during the year at a cost of £5.6m and 243,902 shares were subject to a buy-back arrangement whereby, for the duration of the close period from 1 April 2008 to the announcement of our preliminary results on 29 May 2008, we had given an irrevocable undertaking to our broker, JPMorgan Cazenove, to purchase the company's shares on our behalf, within certain parameters. This instruction was subject to a maximum of £5.0m or 250,000 shares. At 31 March 2008, £5.0m represented the equivalent value of 243,902 shares at the mid-market price on that day.

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 2008, 700,079 shares were held by the trust, decreased from 703,284 shares held at the end of the previous year. During the year, the trust transferred 68,781 shares to staff on exercise of share options and bought 65,576 shares. These transactions resulted in a net payment by the trust of £0.8m.

NAV per share dilution
The NAV per share dilution adjustment measures the effect of re-issuing treasury shares at a discount to NAV per share and from the exercise of executive share options and the calling of deferred bonus shares by assuming that these events take place at the year end. The adjustment is expressed as a free shares equivalent.

At 31 March 2008, re-issuing the 661,131 shares (2007 – 140,000 shares) accounted as held in treasury at the closing mid-market price would have yielded proceeds of £13.6m (2007 – £2.9m). In addition, the exercise of the 1,205,896 in-the-money executive share options and calling of deferred bonus shares (2007 – 1,217,383) would have yielded proceeds of £12.3m (2007 – £12.9m).

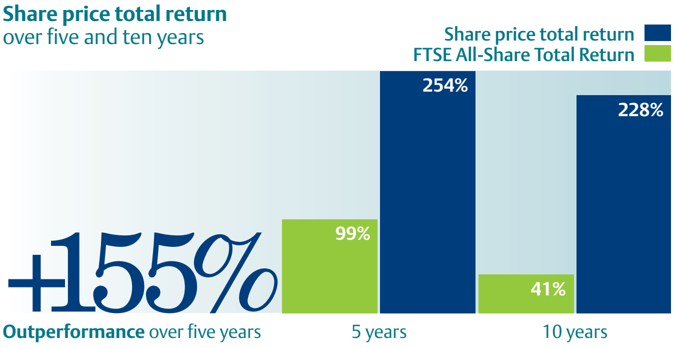
The NAV dilution adjustment of 671,000 (2007 – 646,000) represents the issue of an equivalent number of shares for £nil consideration to achieve the same dilution effect.

Share price total return
We measure our longer term performance by comparing our share price total return against the FTSE All-Share Total Return index over five and ten year periods 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.

The chart below shows that shares in Caledonia have produced a total return to investors of 254% over five years and 228% over ten years, compared with total returns of 99% and 41% respectively from the FTSE All-Share index – outperformance of 155% and 187%.

Share price total return
over five and ten years

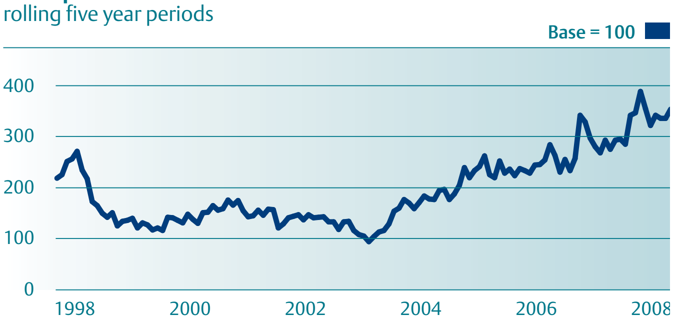


Business review

Financial review

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 positive total return on a rolling five year basis. This measure is illustrated in the following chart:

Share price total return
rolling five year periods



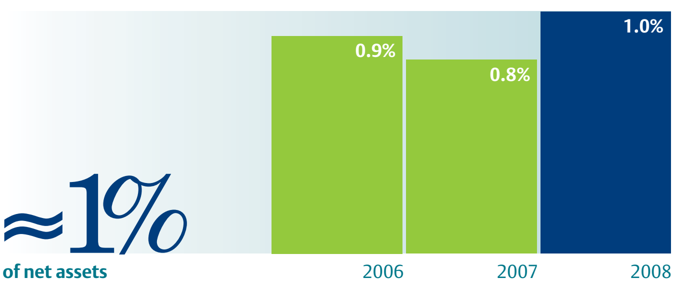
Over the last ten years, we have made a positive total return over rolling five year periods, except for a short period in late March and early April 2003.

Total expenses ratio

The calculation of our pre-tax total expenses ratio ('TER') is based on our adjusted annualised management expenses, divided by closing net assets. Management expenses reflect the cost of managing the investment portfolio and exclude third party performance fees, investment transaction costs and restructuring costs.

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 awards relate. 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 £1.7m to £12.9m in 2008, by £0.1m to £11.1m in 2007 and by £1.4m to £12.2m in 2006.

Total expense ratio
years ended 31 March



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 104 new investment opportunities, compared with 130 in 2007.

Cash flows

The key cash flows during the year comprised an aggregate inflow of £115.0m (2007 – £309.5m) from the realisation of investments and outflow of £199.7m (2007 – £290.4m) for the purchase of investments. In addition, in 2007, there was a cash outflow of £102.9m in respect of the elective special dividend paid in July 2006.

At the year end, we held cash equivalents totalling £23.5m (2007 – £108.6m).

Gearing

Caledonia had no debt at 31 March 2008 (2007 – £nil). During 2007, borrowings rose to £43.0m for a short period to finance in part the elective special dividend. Those borrowings were repaid between July and September 2006 from the proceeds of investment realisations.

Subsidiary companies of Caledonia had borrowings totalling £67.8m at 31 March 2008 (2007 – £66.0m) to finance operations. Caledonia provided bank guarantees in respect of £63.7m of these borrowings (2007 – £51.5m).

Investment portfolio

The value of the investment portfolio at 31 March 2008 was £1,248.1m, compared with £1,228.9m at 31 March 2007.

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

	2008 £m	2007 £m
Opening investment portfolio	1,228.9	1,148.0
Investment	203.8	290.0
Realisation proceeds[1]	(114.4)	(316.8)
Gains and losses on investments[1]	(70.2)	102.1
Rolled-up interest	–	5.2
Limited partnership current accounts	–	0.4
Closing investment portfolio	1,248.1	1,228.9

1. 2007 comparatives included £5.6m of net gains on derivatives.

Investment

Caledonia invested a total of £203.8m in the year, compared with £290.0m in 2007. 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					
London & Stamford Property	6.8	Equity	Guernsey	Property investment	19.5
Retif	15.4	Equity/ loans	France	Shop fittings supplier	12.9
Vietnamese portfolio		Equity	Vietnam	Various	9.7
Celona[1]		Loans	UK	Telecoms	5.0
Arihant	3.3	Equity	India	Property development	1.0
					48.1
Follow-on investments					
Quintain Estates	10.0	Equity	UK	Property invest/ development	27.5
Incisive Media		Capital	UK	Business publisher	15.6
Hedging subsidiary[2]	100	Loans	UK	FTSE 250 put options	12.0
Polar Capital funds		Shares	Cayman	Hedge funds	10.0
Eddington Capital fund		Shares	Cayman	Fund of hedge funds	10.0
Serica Energy	13.2	Equity	UK	Oil and gas exploration	9.8
Oval	24.1	Equity/ loans	UK	Insurance broking	9.1
Avanti Communications	24.4	Equity/ loans	UK	Satellite comms services	8.0
Close Brothers	12.9	Equity	UK	Merchant banking	7.3
Other investments					46.4
					155.7
Total					203.8

1. The company also holds warrants to subscribe for shares representing up to 49.9% of the equity.
2. Subsidiary company used to purchase FTSE 250 put options.

During the year, we appraised 104 new opportunities and invested £48.1m in five of these. Of the new investments, £10.7m was invested in Asia, in line with our strategy of increasing our investment exposure to this region. 'Other investments' comprised a number of follow-on investments of less than £5.0m each.

Realisations

Caledonia made full and partial realisations of holdings during the year with total proceeds of £114.4m (2007 – £316.8m), a summary of which is given in table 7.

Table 7: Realisations

Name	Nature of realisation	Proceeds £m	Realised gain £m
Polar Capital funds	Redemptions	23.3	1.6
Marketform	Full sale of holding	21.0	5.8
CF AVI Global Fund	Redemption	9.3	2.3
BIA Pacific Fund	Redemption	6.0	1.9
Kandia	Capital distribution	5.8	1.2
Pragma	Capital distribution	5.7	4.1
Conduit Latin American Power fund	Capital distributions	5.4	1.6
Other realisations		37.9	13.7
		114.4	32.2

We sold our stake in Marketform, the non-US medical insurance services company, for £21.0m, realising a gain over cost of £5.8m. 'Other realisations' comprised a number of realisations with proceeds or realised gains or losses of less than £5.0m each.

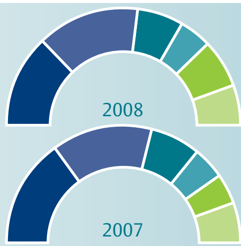
Analysis

Portfolio value by business sector

The chart below analyses the investment portfolio by business sector. Over the year, there has been a shift in the weighting of our portfolio from financial, reflecting the overall decline in market values of financial stocks in the wake of the US sub-prime mortgage crisis, and into industrial, with the investment in Retif and increase in the valuation of TGE Marine.

Portfolio value by business sector

	2008 %	2007 %
Financial	26	30
Funds	28	28
Property	13	14
Oil and gas	9	9
Industrial	13	8
Consumer	11	11



Business review

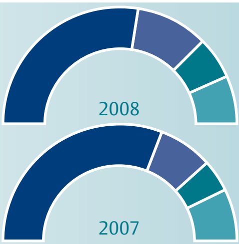
Financial review

Portfolio value by security type

The chart below shows the analysis by security type. The reduction in quoted equities resulted from the overall decline in equity markets over the year and the increased percentage in unquoted equities reflected an increase in values resulting from improved trading prospects and recent transactions in specific investments.

Portfolio value by security type

	2008 %	2007 %
Equities quoted	55	62
Equities unquoted	20	15
Loans and fixed income	12	9
Hedge and other funds	13	14

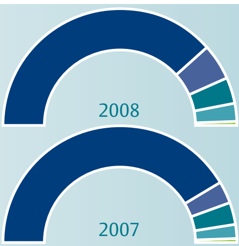


Portfolio value by currency

The analysis by currency of the investment instruments is shown in the chart below. The principal changes over the year were a reduced percentage in sterling, reflecting the general fall in UK equity prices and an increase in the euro as a result of the investment in Retif, increased valuation of European investments and the strength of the euro currency.

Portfolio value by currency

	2008 %	2007 %
Pounds sterling	77	83
Euro	10	6
US dollar	7	6
Indian rupee	5	4
Other	1	1

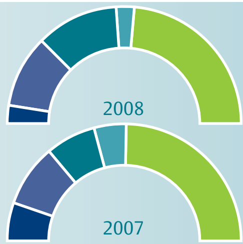


Portfolio value by age

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 under one year has reduced this year as the rate of new investment has slowed.

Portfolio value by age

	2008 %	2007 %
Under 1 year	5	11
1 to 3 years	20	17
3 to 5 years	23	14
5 to 7 years	5	9
Over 7 years	47	49



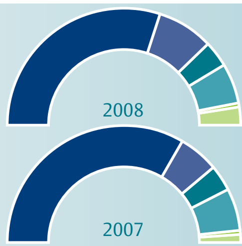
As at 31 March 2008, the weighted average age of the investment portfolio, measured from the date of initial investment, was 9.5 years (2007 – 9.8 years).

Portfolio value by geography

The chart below analyses the investment portfolio value by geographical region, based on the country of listing for quoted securities, country of registration for unquoted securities and underlying geographical allocation for funds. Over the year, there has been a reduction in UK interests, reflecting the general fall in UK equity prices, and an increase in Europe, with new investments and increasing valuations.

Portfolio value by geography

	2008 %	2007 %
United Kingdom	60	67
Continental Europe	16	11
North America	7	7
Asia and Far East	11	12
Other countries	1	1
Unallocated	5	2



Significant holdings

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

Table 8: Significant holdings

Name	Equity holding %	Country of domicile	Business sector	Nature of business	Total £m	Proportion of net assets %
British Empire Securities[1,2]	18.5	UK	Funds	Investment trust	140.0	11.2
Close Brothers[1,2]	12.9	UK	Financial	Merchant banking	118.7	9.5
Oval[2]	24.1	UK	Financial	Insurance broking	65.9	5.3
Quintain Estates[1]	10.0	UK	Property	Property investment and development	58.6	4.7
Bristow Group[1,2]	6.8	US/UK	Oil and gas	Helicopter services	55.0	4.4
Cobepa[2]	9.9	Belgium	Funds	Investment company	48.0	3.8
Rathbone Brothers[1,2]	10.7	UK	Financial	Fund management	47.8	3.8
Eddington Capital funds[2]		Cayman	Funds	Funds of hedge funds	39.7	3.2
TGE Marine[2,3]	49.9	Germany	Industrial	Gas engineering	38.0	3.0
Melrose Resources[1,2]	9.7	UK	Oil and gas	Oil and gas exploration	35.0	2.8
Polar Capital funds[2]		Ireland/Cayman	Funds	Hedge and long-only funds	34.1	2.7
Satellite Information Services[2]	22.5	UK	Consumer	Betting information distribution	24.6	2.0
Sterling Industries[2]	100	UK	Industrial	Engineering	23.2	1.8
Avanti Communications[1,2]	24.4	UK	Consumer	Satellite communications services	22.6	1.8
AG Barr[1]	9.4	UK	Consumer	Soft drinks	20.5	1.6
Alok Industries[1,2]	14.9	India	Consumer	Textiles manufacturer	19.9	1.6
London & Stamford Property[1]	6.8	Guernsey	Property	Property investment	19.5	1.6
Serica Energy[1,2]	13.2	UK	Oil and gas	Oil and gas exploration	18.6	1.5
Novae Group[1,2]	7.2	UK	Financial	Insurance services	18.4	1.5
Union-Castle[2]	100	UK	Financial	Hedging subsidiary	17.3	1.4
The Sloane Club[2]	100	UK	Consumer	Residential club owner and operator	16.8	1.3
Buckingham Gate[2]	100	UK	Property	Property investment	15.4	1.2
India Capital Growth Fund[1,2]	24.0	Guernsey	Funds	Investment company	15.3	1.2
Nova Springboard[2]		Guernsey	Funds	Investment fund	15.2	1.2
Varun Shipping[1,2]	11.0	India	Industrial	Shipping services	14.9	1.2
Retif[2]	15.4	France	Industrial	Shop fittings supplier	14.8	1.2
Incisive Media[2]		UK	Consumer	Business publisher	14.4	1.1
Edinmore[2]	100	UK	Property	Property trading	13.3	1.1
Other investments[4]					262.6	21.0
Total investments					1,248.1	99.7
Cash and other net assets					3.8	0.3
Net assets					1,251.9	100.0

1. Equity securities quoted on UK or overseas stock exchanges.
2. Board representation.
3. Listed on 15 May 2008.
4. Comprised investments of less than 1% of net assets each.

Business review

Business highlights

Caledonia's reputation and successful long term record has been built upon two principles that we believe set us apart.

We have a long term investment horizon, underpinned by a strong balance sheet and stable ownership structure. This enables the management teams we back to pursue their strategies, confident that we are able to resist short term market pressures.

We seek a close involvement with management through board representation and strong and supportive working relationships. This leads to a clear understanding of the objectives and motivations of our management partners and enables us to help them realise their goals.

TGE Marine

TGE Marine (formerly TGE Gas Engineering) is a gas engineering business based in Germany. We facilitated the management buyout from Suez Group in early 2006, supporting the original founder of the business and his management team. We were attracted to this investment by the quality of the management team, who have spent twenty years together building the business, and by the growth prospects in the oil and gas support services sector. One of TGE Marine's areas of expertise is with liquefied natural gas ('LNG'), a fast growing sector of the industry. During the year, TGE Marine took its first order for a small scale LNG carrier and has high hopes for the future. This will complement its strong position in the ethylene carrier market.

As at 31 March 2008, Caledonia had invested £19.2m in TGE Marine. After selling its onshore business, TGE Marine completed a successful IPO on AIM in mid-May 2008. We have retained a 35% stake in the business, in line with our long term investment philosophy.

Caledonia's involvement and supportive stance as a long term investor is ideally suited to companies with ambitious, longer term growth plans.

Oval

Oval is one of the UK's leading commercial insurance brokers specialising in providing risk management and financial services advice to corporate and owner managed businesses. Oval's strategy is to grow its business substantially through the acquisition of quality regional broking businesses and developing strong and profitable relationships with leading insurance providers to Oval's market.

Since we invested in 2003, we have worked very closely with management at Oval to implement this strategy both through providing further capital and working at board level to strengthen and develop the team as the business grows.

Over the last year especially, we have seen this effort bear fruit. Oval made a number of acquisitions and had positioned itself by the end of the year for continued strong growth through a healthy pipeline of further acquisitions, with additional funding from Caledonia, through a £15m convertible loan stock facility, and from an insurance investor.

The UK commercial insurance broking sector has recently seen a lot of takeover and investment activity and Oval is well placed as the leading independently owned broking business in the sector.

Avanti Communications

Avanti is in the process of designing and building an £80m satellite (its first) in conjunction with Astrium and the European Space Agency. The Hylas I is scheduled for launch in the first quarter of 2009 and will deliver broadband and corporate data network services using Ka-band across Europe.

The long term nature of Avanti's satellite project, with the prospect of substantial returns and further projects, ideally suits Caledonia's investment style. We invested £10.0m in equity in 2005 and a further £5.6m to date, increasing our holding to 24.4%. In addition, in July 2007, we provided £7.0m as part of Avanti's £35m debt-raising, to complete funding of the satellite development.

Avanti also has an established satellite-based broadband business, renting space and selling and managing corporate data networks and wholesale broadband services to retailers, as well as a consultancy business advising companies and governments on the design and commercialisation of space technology. Avanti has recently been chosen to lead the UK Government's project to demonstrate the role of satellite communications in road user charging.

Business review

We have taken a cautious approach to investing this year, but have still found a number of new and follow-on opportunities.

Business highlights

London & Stamford Property

London & Stamford Property is a recently launched, Guernsey-based and AIM listed property investment company that aims to benefit from the currently depressed property markets. It plans to invest in commercial property, including office, retail and distribution real estate assets, principally in the UK, but also overseas, where it believes opportunities exist to extract above-average returns. London & Stamford Property will be an active investor and intends to implement strategies to enhance the quality and value of acquired assets and improve annual rental values. The management team has a strong track record, previously building and selling Arlington Securities and Pillar Property.

In November 2007, Caledonia invested £19.5m for a 6.8% stake in London & Stamford Property and we hope to see this company build its portfolio over the next two to three years.

Retif

Retif operates over 150 cash and carry stores selling equipment and consumables to retail stores. The chain is primarily based in France but also has operations in Belgium, the Netherlands, Luxembourg and the UK. Retif carries a comprehensive range of over 7,000 products, including display units and shelving as well as decoration, packaging, stationery, cleaning and labelling products.

The business expects to continue its strong track record of growth by rolling out its well-established retail formula and to make further acquisitions in promising European markets.

In September 2007, Caledonia invested £12.9m in equity and loans in the holding company to support a management buyout of the business by a syndicate of private equity firms, led by Pragma Capital.

Quintain Estates

Quintain Estates is a leading property investment and development company, specialising in strategic property acquisition, redevelopment and asset management across the UK. In addition to a large portfolio of properties and its fund management activities, Quintain Estates has projects at Wembley and the Greenwich Peninsular in London.

Quintain Estates controls over 70 acres of land surrounding the National Stadium at Wembley, with planning consent for 6.1m sq ft and potential for up to 8m sq ft. Quintain Estates has completed the refurbishment of the Grade II listed Wembley Arena – Europe's most successful entertainment venue. As part of these refurbishment plans, the Arena has been re-orientated towards the Stadium, opening onto a spectacular new square for London. The development will also feature office and commercial space, leisure and community facilities and a 450 room 5-star hotel.

Quintain Estates owns 18.5 acres of the Greenwich Peninsula and has the rights to develop 190 acres. The £5bn, 20 year regeneration project will create a vibrant new urban district for London, providing 24,000 permanent new jobs and homes for 20,000 people. The mixed-use development includes over 10,000 new dwellings, 3.5m sq ft of commercial space, 360,000 sq ft of retail, a hotel, open spaces and extensive community facilities. All buildings will be designed and built to the highest current environmental standards.

Caledonia has been a supportive investor in Quintain Estates since 1994. During the year ended 31 March 2008, we invested a further £27.5m to increase our stake to 10.0%.

Serica Energy

Serica Energy is an international oil and gas exploration and production company with activities focussed on Western Europe and South East Asia. Serica Energy has operations in the UK North Sea, Norway, Ireland, Spain, Indonesia and Vietnam and has built a portfolio of exploration, appraisal and development projects, striking a balance between established hydrocarbon producing basins, where the chances of success are relatively high, and untested basins, where success is less certain but the potential rewards are more significant.

Serica Energy is a publicly traded company, listed on the AIM Market in London and on the TSX Venture Exchange in Toronto.

Caledonia first invested in Serica Energy in July 2006, soon after its listing in London and Toronto. During the year ended 31 March 2008, we invested a further £9.8m, increasing our stake to 13.2%.

Business review

We work closely with management teams to understand and help them achieve their business objectives. This approach is ideally suited to backing growing asset management businesses.

Business highlights

Polar Capital

Caledonia has enjoyed a long and profitable relationship with Polar Capital, the successful fund manager, and we continue our support by seeding new fund launches. During the year, Polar Capital launched its long-only Healthcare Opportunities fund, in which we invested £5.0m.

We originally helped the management team establish Polar Capital in 2001 and have worked closely with them ever since to facilitate an ownership structure and entrepreneurial culture which enables them to attract top quality fund managers to expand their business, which now manages some $3.2bn of assets.

The culmination of this stage in Polar Capital's development was its successful flotation on AIM in February 2007. Our current holding is valued at £8.7m, compared with our equity investment cost of £0.7m.

Eddington Capital

Caledonia has built a close relationship with the successful management team at Eddington Capital. We helped establish the business in 2003 and provided £15.0m of seed capital for their flagship product, the Eddington Triple Alpha Fund ('ETAF'). The ETAF is a fund of hedge funds, offering a diversified multi-strategy product, which aims to outperform the mainstream competition without using portfolio-level leverage. The ETAF has been highly successful and has returned 82.8% since its launch in August 2003.

In June 2007, Eddington Capital launched, and Caledonia seeded, the Eddington Macro Opportunities Fund ('EMOF'), a fund of macro-based or macro-related hedge funds with a variety of styles and strategies, which has returned 22.8%. More recently, Eddington has launched the Eddington Equity Opportunities Fund ('EEOF'), a fund of hedge funds looking to maximise returns from opportunities in the global equity markets.

Eddington has adopted some imaginative marketing initiatives, with the issue of the Nomura Eddington Notes – performance linked notes issued by Nomura and giving indirect exposure to the ETAF, EMOF and EEOF. The notes are listed on the London Stock Exchange and were designed to be eligible for Capital Gains Tax treatment in the UK.

Our strategy in Asia has been to work alongside local partners who have a profound knowledge of the marketplace, to seek opportunities that would benefit from our long term investing model.

Vietnam

We have extended the range of our activities in Asia through selectively building a portfolio of £9.7m in four companies in Vietnam, two quoted and two traded over the counter ('OTC'). In each case, we co-invested alongside our local partner and adviser, Dragon Capital, which is one of Vietnam's leading investment management groups.

Our quoted investments were in Sacombank, Vietnam's second largest and fastest growing non-state banking group, and SaigonTel, an information technology group providing a range of telecommunications products and building hi-tech business parks. Our OTC investments comprised Hoang Anh Gia Lai, a diversified manufacturer and one of the largest residential property development businesses in Vietnam, and An Phu Binh Duong, a food irradiation business treating seafood for export.

India and China

Our Indian portfolio is now well established and we continue to build relationships with the managements of the Indian companies in which we invest. We now have direct and indirect Indian investments totalling £87.5m.

Our established Indian quoted investments included Alok Industries, a textile manufacturer, Varun Shipping, a shipping company transporting gas and oil products, and Dewan Housing Finance, a provider of housing finance. During the year, we invested in Arihant, a developer of commercial and residential buildings.

We also hold interests in two AIM listed funds investing in India. The India Capital Growth Fund is a strategic investor in small to mid-cap Indian companies and Eredene Capital is a specialist Indian property and infrastructure fund.

We have been more cautious about the pace at which we develop our investment activities in China. We have developed our relationship with the team of Capital Today, which manages a $280m growth fund in which we are a cornerstone investor, and retain our investment in Kingdom Holdings, a manufacturer of linen yarns.

Business review

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 by the company with rules and regulations.

Strategic risk
Strategic risks arise from the conception, 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 Executive 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 Executive 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.

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 realisation 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 Executive 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 misreporting of NAV per share. The board regularly reviews statements on internal controls and risk management 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 1998: Share price total return	FTSE All-Share Total Return	Annual dividend	Retail Prices Index
1998	879.0	20.5	–	100	100	100	100
1999	732.5	22.0	–	86	107	108	102
2000	771.5	23.0	70.0	93	117	116	105
2001	797.5	24.0	–	108	105	121	107
2002	847.5	25.0	–	119	101	126	109
2003	642.5	26.0	–	93	71	132	112
2004	1017.0	27.0	–	152	93	137	115
2005	1367.0	28.2	–	209	108	142	119
2006	1980.0	29.6	–	308	138	148	121
2007	2066.0	31.1	–	326	153	164	127
2008	2050.0	32.5	–	329	141	171	132
Compound annual returns							
5 year				22.6	6.9	6.3	4.0
10 year				12.6	3.5	5.5	2.8

1. Annual dividends are based on the years to which they relate, rather than the years 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, diluted net asset value per share and discount for each month of the year ended 31 March 2008:

Month	Diluted net asset value p/share	Share price p/share	FTSE All-Share	Discount share price to NAV %	Cumulative performance based on March 2007: Net asset value/share	Share price	FTSE All-Share
Mar 2007	2258	2066	3283	8.5	100	100	100
Apr 2007	2269	2138	3356	5.8	101	103	102
May 2007	2286	2179	3439	4.7	101	105	105
Jun 2007	2217	1980	3404	10.7	98	96	104
Jul 2007	2243	2077	3289	7.4	99	101	100
Aug 2007	2182	2075	3260	4.9	97	100	99
Sep 2007	2212	2135	3317	3.5	98	103	101
Oct 2007	2257	2037	3454	9.7	100	99	105
Nov 2007	2268	2084	3281	8.1	100	101	100
Dec 2007	2314	2025	3287	12.5	102	98	100
Jan 2008	2228	1970	3000	11.6	99	95	91
Feb 2008	2197	1994	3013	9.2	97	97	92
Mar 2008	2155	2050	2927	4.9	95	99	89

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

Board of directors




01 Peter Buckley
Chairman
A member of the Institute of Chartered Accountants of Scotland, he became a director of Caledonia in 1976, held the position of chief executive from 1987 to 2002 and was appointed Chairman in 1994. He is also chairman of the Nomination Committee and a non-executive director of Bristow Group and Polar Capital Holdings. Age 65.

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, ANZ Bank (Europe), Sage Group and Savills. Age 60.

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 and Serica Energy. Age 54.

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 and Varun Shipping. Age 51.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05 Jamie Cayzer-Colvin
Executive Director
He joined the Caledonia group in 1995, initially working at its Amber specialty chemicals subsidiary before becoming an investment executive at Caledonia in 1999. He was appointed an associate director in 2002 and a director in 2005. He is chairman of Amber Chemicals and a non-executive director of Celerant, Close Brothers, Eddington Capital Management, Ermitage, India Capital Growth Fund and Polar Capital Holdings. Age 43.

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, Rathbone Brothers and Satellite Information Services. Age 53.

07 Will Wyatt
Executive Director
He joined the Caledonia group in 1997 as a project manager for 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 Marine and chairman of Sterling Industries. Age 40.

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 65.

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 and Jardine Strategic Holdings, a member of the Financial Reporting Review Panel and vice-chairman of the Council of the Royal College of Art. Age 68.

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 Holdings. Age 60.

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, in which Sofina has interests. Age 59.

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 Tribal Group. Age 53.

Directors' report: statutory information

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 section of this report. There have been no significant changes in the activities of the company or of its operating subsidiaries.

The company has been approved by Her Majesty's Revenue and Customs ('HMRC') as an investment trust for its relevant financial years up to 31 March 2006 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. An application for approval for the year ended 31 March 2007 has been made and an application for approval for the year ended 31 March 2008 will be made subsequent to the approval of these accounts by shareholders of the company.

Annual general meeting

The seventy-ninth annual general meeting of the company will be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN on Tuesday, 29 July 2008 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.

Directors and their interests

The directors of the company, all of whom served throughout the year, are shown on pages 24 and 25.

The interests of the directors and their families in the ordinary share capital of the company as at 31 March 2008 were as follows:

	Beneficial		Non-beneficial	
	2008 No	2007 No	2008 No	2007 No
P N Buckley	479,127	536,500	311,500	306,201
T C W Ingram	88,120	87,466	–	–
J H Cartwright	12,810	12,810	–	–
The Hon C W Cayzer[1]	54,755	60,730	27,881	83,759
J M B Cayzer-Colvin	385,771	385,771	19,422	19,422
J M May	6,250	5,250	–	–
W P Wyatt[2]	99,100	145,645	17,093	12,500
C M Allen-Jones	7,500	7,500	–	–
M E T Davies	2,500	–	–	–
R Goblet d'Alviella	–	–	–	–
J R H Loudon	9,764	9,442	9,930	9,930
D G F Thompson	3,000	2,000	1,500	–

1. The Hon C W Cayzer's beneficial interests included 17,093 shares in which Mr Wyatt had a non-beneficial interest (2007 – 12,500 shares).
2. Mr Wyatt's beneficial interests included 27,881 shares in which The Hon C W Cayzer had a non-beneficial interest (2007 – 83,759 shares).

There have been no 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 2008 are set out in the directors' remuneration report on pages 53 to 59.

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 2006, 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.

Share capital structure

The company has two classes of share capital – ordinary shares of 5p each and deferred ordinary shares of 5p each.

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. All voting rights are however suspended in respect of the company's shares that are held in treasury or by group companies.

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.

At 31 March 2008, 58,794,781 ordinary shares and 8,000,000 deferred ordinary shares were in issue. The ordinary shares therefore represented approximately 88%, and the deferred ordinary shares approximately 12%, of the total issued share capital. Of the ordinary shares in issue at 31 March 2008, 417,229 shares were held in treasury and 3,000 shares held by group companies. As stated above, all voting rights are suspended on these shares.

Restrictions on the transfer of shares

There are no specific restrictions on the transfer of the company's shares, although the articles of association contain provisions whereby the directors may refuse to register a transfer of a certificated share which is not fully paid, provided that such refusal does not prevent dealings in the share from taking place on an open and proper basis. The directors may also refuse to register the transfer of a certificated share unless it is (i) lodged, duly stamped, at the registered office or at such other place as the directors may appoint, accompanied by the certificate for the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer; (ii) in respect of only one class of shares; and (iii) in favour of not more than four transferees.

The directors may suspend the registration of transfers of shares or of transfers of any class of shares at such times and for such periods (not exceeding thirty days in any year) as the board may determine, except that they may not suspend the registration of transfers of any uncertificated shares without the consent of CREST.

The directors may refuse to register a transfer of shares if a shareholder has not supplied information to the company in default of a request duly served under section 793 of the Companies Act 2006 and such shares represent at least 0.25% of the class of shares concerned.

Substantial interests

As at 28 May 2008, 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	19,621,095	33.6%
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 (33.5%) and 58,023 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.

Employee share schemes

The Caledonia Investments plc Employee Share Trust acquires and holds ordinary 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. The voting rights of shares held by the trust are exercisable by the independent trustee. The trustee has also waived all dividends payable in respect of the ordinary shares held by the trust, except to the extent of 0.0001% of such dividends. At 31 March 2008, the trust held 700,079 ordinary shares.

Restrictions on voting rights

The directors may direct that a shareholder shall not be entitled to attend and vote either personally or by proxy or exercise any other right conferred by membership in relation to general meetings of the company in respect of some or all of the shares held by him, if he or any person with an interest in such shares has been duly served with a notice under section 793 of the Companies Act 2006 and is in default for the prescribed period in supplying to the company the information required or, in purported compliance with such a notice, has made a statement which is false or inadequate in a material particular.

Agreements which may restrict the transfer of shares or exercise of voting rights

The company is aware of arrangements entered into in March 2004 between Cayzer Trust and a group of its former shareholders which give Cayzer Trust pre-emption and voting rights over any shares in Caledonia held by those former shareholders.

Appointment and replacement of directors and articles of association

The appointment and replacement of directors is governed by the company's articles of association and prevailing company law.

The articles of association provide that at every annual general meeting one-third of the directors, or if not a multiple of three, the number nearest one-third, shall retire by rotation and therefore be required to seek re-election by shareholders. In addition, in accordance with the recommendations of the Combined Code, the company requires that any non-executive director who has served on the board for over nine years retires and seeks re-election annually. New directors may be appointed by the board, but are subject to election by shareholders at the next general meeting of the company following their appointment. Shareholders may also appoint new directors by ordinary resolution. The articles of association limit the number of directors to not less than two and not more than twelve, unless the shareholders resolve otherwise.

A director may be removed from office if requested to resign by not less than four-fifths of the other directors or by an ordinary resolution of the shareholders.

Any amendment of the articles of association requires the approval of shareholders by a special resolution.

Authority to allot and purchase shares

At the annual general meeting of the company held on 19 July 2007, shareholders granted to the directors authority to allot ordinary shares up to a nominal amount of £977,080, representing approximately 33.33% of the ordinary share capital then in issue, excluding shares held in treasury. The directors were further authorised to issue ordinary shares up to a nominal amount of £146,562 for cash in connection with a rights issue or other than pro rata to existing ordinary shareholders. These authorities last until the next annual general meeting.

At the annual general meeting held on 19 July 2007, shareholders also granted authority for the company to make market purchases of up to 5,862,500 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 venue where the purchase is carried out, nor at a price less than 5 pence, being the nominal value of an ordinary share. This authority lasts until 1 January 2009 or, if earlier, the conclusion of the next annual general meeting. At the same time, 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 in which the Cayzer Concert Party is interested not exceeding 49.9% as a result of purchases by the company. This waiver expires on 19 July 2008.

Change of control agreements

There are no special control rights in relation to the company's shares.

Options granted under the company's executive share option schemes and awards made under the company's deferred bonus plan may become exercisable or vest as a result of a change of control, although the number of shares comprised in those options or awards may be reduced. The service contracts of directors and associate directors also contain provisions whereby a liquidated sum is payable by the company in the event of termination within one year following a change of control. Any such liquidated sum would be equivalent to no more than one year's total emoluments.

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.

Directors' report: statutory information

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 on condition 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 £110,000. During the year, Caledonia Group Services Ltd, a wholly owned subsidiary of the company, made political donations amounting in total to £45,000 to the Conservative Party.

Statement of directors' responsibilities
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: statutory information 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.

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
Resolutions will be proposed at the annual general meeting to re-appoint Deloitte & Touche LLP as auditors of the company and to authorise the directors to agree their remuneration. A description of how the Audit Committee ensures the objectivity and independence of the auditors is set out on page 62 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
Company Secretary
29 May 2008

Responsibility statement by the directors

We confirm that, to the best of our knowledge:

1. the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole
2. the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Signed on behalf of the board:

Tim Ingram
Chief Executive

Jonathan Cartwright
Finance Director

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 2008 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 expense, and the related notes 1 to 34. 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 parts 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 parts 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 2006 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 parts 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 parts of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the parts of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, 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 2008 and of the group's and the parent company's loss for the year then ended;
- the financial statements and the parts of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 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
29 May 2008

Income statement
for the year ended 31 March 2008

	Note	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Gains and losses on investments held at fair value through profit or loss	9	(70.2)	96.5	(80.7)	66.0
Gains and losses on derivatives used to hedge the fair value of investments		0.3	5.6	7.9	5.9
Provisions	21	–	–	–	(3.1)
Investment income	1	39.5	40.1	35.7	25.5
Investment income impairment	2	(9.3)	–	(5.1)	–
Gross portfolio return		(39.7)	142.2	(42.2)	94.3
Management expenses	3	(11.2)	(11.0)	(11.2)	(11.0)
Other expenses	3	(1.7)	(1.1)	(1.7)	(1.1)
Net portfolio return		(52.6)	130.1	(55.1)	82.2
Revenue from sales of goods and services		–	–	120.5	135.0
Operating expenses	3	–	–	(106.6)	(120.0)
Gain/(loss) on disposal of operations	25	–	–	(0.1)	4.4
Gain on investment property	12	–	–	4.4	–
Share of results of joint ventures	13	–	–	0.4	6.1
Profit/(loss) before finance costs		(52.6)	130.1	(36.5)	107.7
Gains on money market funds held at fair value through profit or loss		–	1.0	–	1.0
Treasury interest receivable	4	4.1	3.5	4.5	4.3
Exchange movements		(0.2)	(0.7)	(1.0)	(0.7)
Finance costs	5	–	(0.3)	(4.2)	(4.1)
Profit/(loss) before tax		(48.7)	133.6	(37.2)	108.2
Taxation	6	4.8	2.5	(1.7)	(0.3)
Profit/(loss) for the year		(43.9)	136.1	(38.9)	107.9
Attributable to					
Equity holders of the parent		(43.9)	136.1	(38.1)	106.1
Minority interest		–	–	(0.8)	1.8
		(43.9)	136.1	(38.9)	107.9
Basic earnings per ordinary share	8	-76.0p	228.6p	-65.9p	178.3p
Diluted earnings per ordinary share	8	-76.0p	226.9p	-65.9p	176.9p

Statement of recognised income and expense
for the year ended 31 March 2008

	Note	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Exchange differences on translation of foreign operations		–	–	2.5	(1.2)
Actuarial gains and losses on defined benefit pension schemes	20	1.5	(0.3)	1.5	0.2
Tax on items recognised directly in equity	6	(0.9)	1.9	(0.9)	1.7
Net income recognised directly in equity		0.6	1.6	3.1	0.7
Profit/(loss) for the year		(43.9)	136.1	(38.9)	107.9
Total recognised income and expense		(43.3)	137.7	(35.8)	108.6
Attributable to					
Equity holders of the parent		(43.3)	137.7	(35.1)	106.8
Minority interest		–	–	(0.7)	1.8
		(43.3)	137.7	(35.8)	108.6

The accounting policies and notes to the financial statements on pages 33 to 52 are an integral part of these financial statements.

Balance sheet
at 31 March 2008

	Note	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Non-current assets					
Investments held at fair value through profit or loss	9	1,247.3	1,228.1	1,127.7	1,125.9
Investments in subsidiaries held at cost	9	0.8	0.8	–	–
Available for sale investments	9	–	–	0.5	0.5
Intangible assets	10	–	–	39.5	40.7
Property, plant and equipment	11	–	–	88.3	78.6
Investment property	12	–	–	5.4	5.8
Interests in joint ventures	13	–	–	7.7	11.6
Deferred tax assets	14	1.7	5.8	4.7	8.0
Employee benefits	20	2.0	–	2.0	–
Non-current assets		1,251.8	1,234.7	1,275.8	1,271.1
Current assets					
Inventories	15	–	–	16.2	19.5
Trade and other receivables	16	4.2	6.5	49.6	29.0
Current tax assets		–	–	0.3	0.2
Money market funds held at fair value through profit or loss	9	–	–	–	0.3
Cash and cash equivalents	17	23.5	108.6	42.7	123.2
Current assets		27.7	115.1	108.8	172.2
Total assets		1,279.5	1,349.8	1,384.6	1,443.3
Current liabilities					
Bank overdrafts	17	–	–	–	(1.5)
Interest-bearing loans and borrowings	18	–	–	(16.5)	(1.3)
Trade and other payables	19	(9.7)	(4.8)	(32.7)	(27.1)
Employee benefits	20	–	–	(3.9)	(3.1)
Current tax liabilities		(3.3)	(5.2)	(6.9)	(6.6)
Provisions	21	(13.5)	(13.5)	(14.1)	(14.1)
Current liabilities		(26.5)	(23.5)	(74.1)	(53.7)
Non-current liabilities					
Interest-bearing loans and borrowings	18	–	–	(51.3)	(64.7)
Employee benefits	20	(1.1)	(0.9)	(5.2)	(5.4)
Deferred tax liabilities	14	–	(2.2)	(2.7)	(3.6)
Non-current liabilities		(1.1)	(3.1)	(59.2)	(73.7)
Total liabilities		(27.6)	(26.6)	(133.3)	(127.4)
Net assets		1,251.9	1,323.2	1,251.3	1,315.9
Equity					
Share capital	23	3.3	3.3	3.3	3.3
Share premium	23	1.3	1.3	1.3	1.3
Capital redemption reserve	23	1.2	1.2	1.2	1.2
Capital reserve	23	998.1	1,063.5	–	–
Retained earnings	23	274.3	268.8	1,266.7	1,320.8
Foreign exchange translation reserve	23	–	–	1.7	(0.7)
Own shares	23	(26.3)	(14.9)	(26.3)	(14.9)
Equity attributable to owners of the parent		1,251.9	1,323.2	1,247.9	1,311.0
Minority interest	23	–	–	3.4	4.9
Total equity		1,251.9	1,323.2	1,251.3	1,315.9
Undiluted net asset value per ordinary share	8	2180p	2283p		
Diluted net asset value per ordinary share	8	2155p	2258p		

The financial statements on pages 30 to 52 were approved by the board on 29 May 2008 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 33 to 52 are an integral part of these financial statements.

Cash flow statement
for the year ended 31 March 2008

	Note	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Operating activities					
Dividends received		25.6	29.7	25.3	12.8
Interest received		7.5	7.9	7.3	7.2
Cash received from customers		–	–	127.6	144.8
Cash paid to suppliers		(13.5)	(10.1)	(116.5)	(130.5)
Taxes received/(paid)		2.9	–	1.7	(4.5)
Group relief received		1.4	0.4	–	–
Net cash flow from operating activities		23.9	27.9	45.4	29.8
Investing activities					
Purchases of investments held at fair value through profit or loss		(199.7)	(290.4)	(188.3)	(253.3)
Proceeds on disposal of investments held at fair value through profit or loss		115.0	309.5	108.1	251.0
Proceeds on disposal of money market funds held at fair value through profit or loss		–	76.8	0.3	76.8
Net receipts/(payments) from derivatives		0.3	4.4	(11.3)	5.1
Purchases of property, plant and equipment		–	–	(9.5)	(18.9)
Proceeds on disposal of property, plant and equipment		–	–	1.1	0.7
Proceeds on disposal of joint ventures		–	–	4.0	4.0
Proceeds on disposal of investment property		–	–	4.8	–
Purchases of subsidiaries net of cash acquired	24	–	–	(0.7)	(17.1)
Proceeds on disposal of subsidiaries net of cash disposed	25	–	–	(1.5)	3.0
Net cash flow from/(used in) investing activities		(84.4)	100.3	(93.0)	51.3
Financing activities					
Interest paid		–	(0.3)	(3.9)	(2.7)
Distributions paid to holders of equity shares		(18.2)	(18.5)	(18.2)	(18.5)
Dividends paid to minority interests		–	–	(0.1)	(0.4)
Elective special dividend paid		–	(102.9)	–	(102.0)
Proceeds from new borrowings		–	43.0	6.0	83.8
Repayment of borrowings		–	(43.0)	(9.5)	(73.9)
Net purchase of own shares		(6.4)	(1.7)	(6.4)	(1.7)
Net cash flow used in financing activities		(24.6)	(123.4)	(32.1)	(115.4)
Net increase/(decrease) in cash and cash equivalents		(85.1)	4.8	(79.7)	(34.3)
Cash and cash equivalents at year start		108.6	103.8	121.7	156.5
Exchange gains/(losses) on cash and cash equivalents		–	–	0.7	(0.5)
Cash and cash equivalents at year end	17	23.5	108.6	42.7	121.7

The accounting policies and notes to the financial statements on pages 33 to 52 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 29 May 2008. In the current year, the group has adopted IFRS 7 'Financial Instruments: Disclosures', which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 'Presentation of Financial Statements'. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the group's financial instruments and management of capital (note 22). 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 8 'Operating Segments'
- IFRIC 12 'Service Concession Agreements'
- IFRIC 13 'Customer Loyalty Programmes'
- IFRIC 14 'The limit of a defined benefit asset, minimum funding requirements and their interaction'.

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 segment disclosures when IFRS 8 comes into effect on 1 January 2009 and the possible restriction of defined benefit pension assets when IFRIC 14 comes into effect on 1 January 2008.

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.

Foreign currency translation

Transactions in foreign currencies are recorded at the rate 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 or 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 64.

Distributions from investment limited partnerships are treated as disposal proceeds or income in accordance with the nature of the distribution. Any surplus capital distributions after repaying any partner's loans and capital are treated as realised gains.

Accounting policies

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 from investment limited partnerships is recognised as revenue when received.

Where uncertainty arises over the collectability of an amount already included in income, the uncollectible amount or the amount in respect of which the recovery has ceased to be probable, is recognised as an expense. When the uncertainty over collectability is removed, normally on receipt, the income is recognised in the income statement.

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 or disposal 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 trust companies that 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 adjusted to the extent that it is 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 schemes are charged as an expense as they fall due.

For defined 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
- Taxation on items recognised in the capital reserve.

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 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.

Accounting policies

Share capital
Equity instruments issued by the company are recorded as 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 except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

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 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Investment income				
Dividends from equity shares				
Quoted UK	18.6	13.3	18.6	13.3
Quoted non-UK	2.4	1.1	2.4	1.1
Unquoted	5.3	2.9	5.3	3.2
Subsidiaries	0.3	12.2	–	–
Interest on loan investments				
Quoted UK	0.2	0.3	0.2	0.3
Unquoted	8.7	6.1	8.7	6.8
Subsidiaries	3.5	3.4	–	–
Distributions from limited partnerships	0.3	0.2	0.3	0.2
	39.3	39.5	35.5	24.9
Other income				
Underwriting commission	–	0.2	–	0.2
Deal fees	0.2	0.4	0.2	0.4
	39.5	40.1	35.7	25.5

2. Investment income impairment

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Loan investments				
Unquoted	(5.1)	–	(5.1)	–
Subsidiaries	(4.2)	–	–	–
	(9.3)	–	(5.1)	–

The investment income impairment on loan investments comprised the amount of interest previously included in revenue and over which an uncertainty of collectability has now arisen.

3. Expenses
Investing operations
Management expenses

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Personnel expenses	8.2	6.6	8.2	6.6
Depreciation	0.1	0.1	0.1	0.1
Auditors' remuneration	0.5	0.3	0.5	0.3
Other administrative expenses	2.4	4.0	2.4	4.0
	11.2	11.0	11.2	11.0

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 includes both an analysis of this expense and Caledonia's own management expenses.

Other expenses

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Transaction costs	0.3	0.5	0.3	0.5
Performance fees	0.6	–	0.6	–
Other expenses	0.8	–	0.8	–
Elective special dividend expenses	–	0.6	–	0.6
	1.7	1.1	1.7	1.1

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 2008 £m	Group 2007 £m
Cost of sales	66.7	81.1
Distribution expenses	11.5	10.6
Administrative expenses	28.4	28.3
	106.6	120.0

Operating expenses included the following items:

	Group 2008 £m	Group 2007 £m
Depreciation	4.7	2.8
Amortisation	1.5	0.3
Impairment loss on goodwill	0.3	0.6
Direct operating expenses of investment property that generated rental income	0.1	1.3
Impairment reversal on trade receivables	–	(0.2)
Auditors' remuneration	0.2	0.1

Further information
Auditors' remuneration

Fees payable to Deloitte & Touche LLP were as follows:

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Audit services				
Company audit	0.1	0.1	0.1	0.1
Consolidation audit	–	0.1	0.1	0.1
Annual report	0.1	0.2	0.2	0.2
Subsidiaries' audit	–	–	0.1	0.1
	0.1	0.2	0.3	0.3
Other services				
Taxation advice	0.4	–	0.4	–
Other services	–	0.1	–	0.1
	0.4	0.1	0.4	0.1
	0.5	0.3	0.7	0.4

Notes to the financial statements

Personnel expenses

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Wages and salaries	5.6	4.0	32.8	26.1
Compulsory social security contributions	0.7	0.6	4.2	3.8
Contributions to defined contribution plans	0.2	0.2	0.9	1.5
Defined benefit pension plans expense[1]	(0.2)	0.2	(0.3)	3.9
Increase in liability for long service leave	–	–	–	(0.2)
Equity-settled share-based payments[1]	1.6	1.6	1.6	1.6
National Insurance on share awards	0.3	–	0.3	–
	8.2	6.6	39.5	36.7

1. See note 20 'Employee benefits'.

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

	Company 2008 No	Company 2007 No	Group 2008 No	Group 2007 No
Average number of employees	43	40	630	719

4. Treasury interest receivable

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Interest on bank deposits	3.5	3.3	4.1	4.3
Other interest receivable	0.4	–	0.4	–
Guarantee fees	0.2	0.2	–	–
	4.1	3.5	4.5	4.3

5. Finance costs

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Interest on bank loans and overdrafts	–	0.3	4.1	4.0
Other interest costs	–	–	0.1	0.1
	–	0.3	4.2	4.1

6. Taxation
Recognised in the income statement

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Current tax expense				
Current year	1.7	(1.5)	8.1	1.8
Adjustments for prior years	(7.5)	0.1	(7.9)	(0.3)
	(5.8)	(1.4)	0.2	1.5
Deferred tax expense				
Origination and reversal of timing differences	0.8	(1.1)	2.0	(1.2)
Reduction in tax rate	–	0.2	–	0.2
Benefit of tax losses recognised	0.2	(0.2)	(0.5)	(0.2)
	1.0	(1.1)	1.5	(1.2)
	(4.8)	(2.5)	1.7	0.3

Reconciliation of effective tax rate

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Profit/(loss) before tax	(48.7)	133.6	(37.2)	108.2
Tax at the domestic rate of 30%	(14.6)	40.0	(11.2)	32.5
Effect of tax rate in foreign jurisdictions	–	–	(0.3)	–
Non-deductible expenses	2.9	0.3	2.7	1.9
Utilisation of tax losses	(2.1)	(3.1)	(4.1)	(3.5)
Losses for the year unrelieved	–	–	1.7	0.6
Non-taxable (gains)/losses on investments	26.3	(30.3)	29.9	(23.2)
Non-taxable UK dividend income	(6.7)	(8.1)	(6.7)	(4.6)
Tax exempt revenues	–	–	(1.2)	(0.7)
Other timing differences	(3.1)	(1.4)	(1.2)	(2.4)
Over-provided in prior years	(7.5)	0.1	(7.9)	(0.3)
	(4.8)	(2.5)	1.7	0.3

Recognised directly in equity

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Relating to actuarial gains on defined benefit pension schemes	0.4	–	0.4	0.2
Relating to share based payments	0.5	(1.9)	0.5	(1.9)
	0.9	(1.9)	0.9	(1.7)

Current tax assets and liabilities
The group's current tax asset of £0.3m (2007 – £0.2m) represented the amount of income taxes recoverable in respect of current and prior periods that exceeded payments.

7. Dividends
Amounts recognised as distributions to equity holders in the period and the proposed final dividend were as follows:

	2008 p	2008 £m	2007 p	2007 £m
Final dividend for the year ended 31 March 2007 (2006)	21.6	12.5	20.5	13.0
Interim dividend for the year ended 31 March 2008 (2007)	9.9	5.7	9.5	5.5
Elective special dividend		–		102.9
	31.5	18.2	30.0	121.4
Proposed final dividend for the year ended 31 March 2008 (2007)	22.6	13.0	21.6	12.5

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 29 July 2008, will be payable on 14 August 2008 to holders of shares on the register on 27 June 2008. The ex-dividend date will be 25 June 2008.

For the purposes of section 842 of the Income and Corporation Taxes Act 1988, the dividends payable for the year ended 31 March 2008 are the interim dividend paid and the final dividend payable for that period, amounting to £18.7m (2007 – £120.9m, including the elective special dividend of £102.9m).

8. Earnings and net asset values per share

Basic earnings per share

The calculation of basic earnings per share of the company and of the group at 31 March 2008 was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year ended 31 March 2008, calculated as follows:

Profit attributable to ordinary shareholders (basic)

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Profit/(loss) for the year	(43.9)	136.1	(38.1)	106.1

Weighted average number of ordinary shares (basic)

	Company 2008 000's	Company 2007 000's	Group 2008 000's	Group 2007 000's
Issued ordinary shares at period start	58,795	64,206	58,795	64,206
Effect of shares held in treasury	(296)	(103)	(296)	(103)
Effect of shares held by the employee share trust	(701)	(697)	(701)	(697)
Effect of shares cancelled in July 2006	–	(3,869)	–	(3,869)
Shares held by a subsidiary	–	–	(3)	(17)
Weighted average number of ordinary shares during the period	57,798	59,537	57,795	59,520

Diluted earnings per share

The calculation of diluted earnings per share of the company and of the group at 31 March 2008 was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year ended 31 March 2008, calculated as follows:

Profit attributable to ordinary shareholders (diluted)

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Profit/(loss) attributable to ordinary shareholders (basic and diluted)	(43.9)	136.1	(38.1)	106.1

Weighted average number of ordinary shares (diluted)

	Company 2008 000's	Company 2007 000's	Group 2008 000's	Group 2007 000's
Weighted average number of ordinary shares during the period	57,798	59,537	57,795	59,520
Effect of share options and deferred bonus awards	–	455	–	455
Weighted average number of ordinary shares (diluted) during the period	57,798	59,992	57,795	59,975

Net asset values per share

The company's undiluted 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 accounted as held in treasury. The company's diluted net asset value per ordinary share assumes the re-issue of shares accounted as held in treasury at the closing mid-market price on the balance sheet date, the exercise of all outstanding in-the-money share options and the calling of all deferred bonus awards.

	Net asset value per share 2008 p	Net asset value per share 2007 p	Net assets attributable 2008 £m	Net assets attributable 2007 £m	Number of shares 2008 000's	Number of shares 2007 000's
Undiluted	2180	2283	1,251.9	1,323.2	57,434	57,952
Effect of treasury, share options and deferred bonus awards issues	(25)	(25)	25.8	12.9	1,867	1,217
Diluted	2155	2258	1,277.7	1,336.1	59,301	59,169

9. Investments

Company

	2008 £m	2007 £m
Non-current investments		
Investments held at fair value through profit or loss	1,247.3	1,228.1
Investments in subsidiaries held at cost	0.8	0.8
	1,248.1	1,228.9

The movements in non-current investments were as follows:

	UK quoted £m	Non-UK quoted £m	Unquoted £m	Sub-sidiaries £m	Total £m
Balance 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
Balance at 31 March 2007	692.0	73.4	358.4	105.1	1,228.9
Purchases at cost	83.5	11.9	92.7	15.7	203.8
Disposal proceeds	(10.3)	(1.0)	(96.1)	(7.0)	(114.4)
Reclassifications	0.9	8.7	(9.6)	–	–
Gains/(losses) on investments	(184.2)	22.8	80.7	10.5	(70.2)
Rolled-up interest	–	–	1.4	(1.4)	–
Balance at 31 March 2008	581.9	115.8	427.5	122.9	1,248.1

Rolled-up interest is the movement in the fair value of loan instruments attributable to investment income.

Notes to the financial statements

Group

	2008 £m	2007 £m
Non-current investments		
Investments held at fair value through profit or loss		
UK quoted securities	581.9	692.0
Non-UK quoted securities	115.8	73.4
Unquoted securities	430.0	360.5
	1,127.7	1,125.9
Available for sale investments		
Unquoted securities	0.5	0.5
	1,128.2	1,126.4
Current investments		
Money market funds	–	0.3

10. Intangible assets

Group

	Goodwill £m	Customer relationships £m	Other £m	Total £m
Cost				
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
Other acquisitions	0.5	–	0.4	0.9
Disposal of operations	–	–	(0.2)	(0.2)
Effect of movements in foreign exchange	0.2	–	–	0.2
Balance at 31 March 2008	35.0	11.8	1.1	47.9
Amortisation and impairment				
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
Amortisation	–	1.2	0.3	1.5
Impairment	0.3	0.3	–	0.6
Balance at 31 March 2008	6.2	1.5	0.7	8.4
Carrying amounts				
At 31 March 2006	3.4	–	0.6	4.0
At 31 March 2007	28.4	11.8	0.5	40.7
At 31 March 2008	28.8	10.3	0.4	39.5

Customer relationships related to identifiable customer related intangible assets acquired on the purchase of the Ermitage group in 2007. During the year, the useful economic life of client relationships was revised from indefinite to ten years. The revised useful life expectancy has given rise to an amortisation charge for the year of £1.2m (2007 – £nil).

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

Impairment charge

The impairment charge for the year of £0.6m (2007 – £0.6m) 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.

11. Property, plant and equipment

Group

	Property £m	Plant £m	Equipment £m	Total £m
Cost				
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
Acquisitions	7.9	1.1	0.9	9.9
Disposals	(0.4)	(0.3)	(0.5)	(1.2)
Effect of movements in foreign exchange	5.2	1.1	0.4	6.7
Balance at 31 March 2008	92.7	5.0	10.6	108.3
Depreciation and impairment				
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
Depreciation charge for the year	2.8	1.1	0.9	4.8
Other disposals	–	(0.2)	(0.4)	(0.6)
Effect of movements in foreign exchange	0.7	0.5	0.3	1.5
Balance at 31 March 2008	15.1	2.3	2.6	20.0
Carrying amounts				
At 31 March 2006	59.5	4.9	4.7	69.1
At 31 March 2007	68.4	2.2	8.0	78.6
At 31 March 2008	77.6	2.7	8.0	88.3

Included in property are buildings under construction, with a carrying amount of £4.8m (2007 – £nil).

Security

At 31 March 2008, properties with a carrying amount of £32.6m (2007 – £22.7m) were subject to charges to secure bank loans (note 18).

12. Investment property
Group

	2008 £m	2007 £m
Balance at the period start	5.8	5.8
Fair value adjustments	4.4	–
Disposals	(4.8)	–
Balance at the period end	5.4	5.8

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

Investment property comprised a commercial property that was leased out for £0.3m per annum (2007 – £0.3m) over a five year period and vacant freehold land.

13. Interests in joint ventures
The group had the following interests in joint ventures:

	Country of domicile	Ownership 2008 %	Ownership 2007 %
Moredun LP	UK	33	33
Willmoreton Properties Ltd	UK	50	50
York Investors LLP	UK	25	25
GPG Premises LLP	UK	25	25

The group's share of post-acquisition total recognised profit or loss in the above joint ventures for the year ended 31 March 2008 was £0.4m (2007 – £6.1m).

Summarised financial information of joint ventures was as follows:

	Assets £m	Liabilities £m	Equity £m	Revenue £m	Profit/(loss) £m
2008					
Moredun LP	44.7	(31.1)	13.6	3.4	(2.2)
Willmoreton Properties Ltd	12.0	(8.6)	3.4	0.9	(0.4)
York Investors LLP	7.9	(3.6)	4.3	0.4	1.6
GPG Premises LLP	2.0	(0.3)	1.7	7.3	3.8
	66.6	(43.6)	23.0	12.0	2.8
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
GPG Premises LLP	4.9	(3.5)	1.4	17.1	10.9
	94.1	(61.9)	32.2	30.6	20.5

14. 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
2008			
Investments	(3.7)	–	(3.7)
Employee benefits	2.6	–	2.6
Provisions	2.8	–	2.8
	1.7	–	1.7
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

Movement in temporary differences during the year

	Balance at period start £m	Recognised in income £m	Recognised in equity £m	Balance at period end £m
2008				
Investments	(2.2)	(1.5)	–	(3.7)
Employee benefits	2.8	0.7	(0.9)	2.6
Provisions	2.8	–	–	2.8
Tax losses	0.2	(0.2)	–	–
	3.6	(1.0)	(0.9)	1.7
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

Group
Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities were attributable to the following:

	Assets £m	Liabilities £m	Net £m
2008			
Investments	(3.7)	–	(3.7)
Employee benefits	4.3	–	4.3
Provisions	2.8	–	2.8
Tax losses	0.7	–	0.7
Other items	0.6	(2.7)	(2.1)
	4.7	(2.7)	2.0
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

Notes to the financial statements

Unrecognised deferred tax assets

A deferred tax asset was not recognised in respect of the following item:

	2008 £m	2007 £m
Tax losses	4.4	5.4

A deferred tax asset was not recognised in respect of the tax losses because it was not probable that future taxable profit would be available against which the company could utilise the benefits.

Tax losses of £2.1m (2007 – £1.3m) expire within five years and the balance does not expire.

Movement in temporary differences during the year

	Balance at period start £m	Recognised in income £m	Recognised in equity Taxation £m	Recognised in equity Exchange movement £m	Balance at period end £m
2008					
Investments	(2.2)	(1.5)	–	–	(3.7)
Employee benefits	4.8	0.4	(0.9)	–	4.3
Provisions	2.8	–	–	–	2.8
Tax losses	0.2	0.5	–	–	0.7
Other items	(1.2)	(0.9)	–	–	(2.1)
	4.4	(1.5)	(0.9)	–	2.0
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

15. Inventories

	Group 2008 £m	Group 2007 £m
Raw materials and consumables	4.5	3.0
Work in progress	1.1	0.8
Finished goods	3.3	3.1
Properties held for sale	7.3	12.6
	16.2	19.5

Inventories included properties with a cost of £2.1m (2007 – £1.2m) that were not expected to be realised within one year.

16. Trade and other receivables

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Trade receivables and prepayments	4.2	6.5	30.0	28.8
Derivatives	–	–	19.6	0.2
	4.2	6.5	49.6	29.0

Group trade receivables included an amount of £0.8m (2007 – £nil) that was expected to be settled after more than one year.

17. Net cash and cash equivalents

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Bank balances	0.9	2.0	18.0	14.2
Short term deposits	22.6	106.6	24.7	109.0
Cash and cash equivalents	23.5	108.6	42.7	123.2
Bank overdrafts	–	–	–	(1.5)
	23.5	108.6	42.7	121.7

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

18. Interest-bearing loans and borrowings

	Group 2008 £m	Group 2007 £m
Non-current liabilities		
Secured bank loans	17.6	20.4
Unsecured loans	31.6	42.4
Finance leases	0.2	0.3
Cumulative preference shares	0.1	0.1
Unsecured bond issues	1.8	1.5
	51.3	64.7
Current liabilities		
Current portion of secured bank loans	–	1.2
Current portion of unsecured loans	16.4	–
Finance leases	0.1	0.1
	16.5	1.3

Bank loans of £17.5m (2007 – £10.2m) were secured by a charge over certain properties of the group and bank loans of £0.1m (2007 – £11.4m) were secured by a charge over other assets of the group.

19. Trade and other payables

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Trade payables	4.0	3.7	8.4	8.4
Non-trade payables and accrued expenses	5.7	1.1	24.0	18.7
Derivatives	–	–	0.3	–
	9.7	4.8	32.7	27.1

Group non-trade payables and accrued expenses included an amount of £3.3m (2007 – £5.0m) that was expected to be settled after more than one year.

20. Employee benefits

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Non-current assets				
Defined benefit pension asset	2.0	–	2.0	–
Current liabilities				
Short term compensated absences	–	–	(0.4)	(0.3)
Profit-sharing bonus	–	–	(3.5)	(2.8)
	–	–	(3.9)	(3.1)
Non-current liabilities				
Defined benefit pension obligations	–	–	(3.0)	(4.2)
National Insurance on share options and deferred bonus awards	(1.1)	(0.9)	(1.1)	(0.9)
Profit-sharing bonus	–	–	(0.6)	(0.1)
Liability for long term service leave	–	–	(0.5)	(0.2)
	(1.1)	(0.9)	(5.2)	(5.4)
	0.9	(0.9)	(7.1)	(8.5)

Defined benefit pension obligations

The company has a constructive obligation for a defined benefit pension plan and the group makes contributions to four (2007 – five) plans in the UK and US that provide pension benefits for employees upon retirement.

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Present value of funded obligations	20.6	23.0	57.0	60.7
Fair value of plan assets	(22.6)	(23.0)	(56.0)	(56.5)
Present value of net obligations	(2.0)	–	1.0	4.2

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

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Balance at period start	23.0	21.9	60.7	65.9
Disposal of operations	–	–	–	(9.6)
Service cost	0.4	0.7	0.9	4.9
Interest costs	1.2	1.1	3.1	2.7
Employee contributions	–	–	0.1	0.1
Actuarial gain	(3.4)	(0.3)	(6.1)	(0.2)
Actual benefit payments	(0.6)	(0.4)	(1.6)	(1.6)
Exchange rate	–	–	(0.1)	(1.5)
Balance at period end	20.6	23.0	57.0	60.7

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

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Balance at period start	23.0	21.5	56.5	59.2
Disposal of operations	–	–	–	(6.1)
Expected return on assets	1.8	1.6	4.3	3.7
Actuarial loss	(1.9)	(0.6)	(4.6)	–
Employer contributions	0.3	0.9	1.4	2.3
Employee contributions	–	–	0.1	0.1
Actual benefit payments	(0.6)	(0.4)	(1.6)	(1.6)
Exchange rate	–	–	(0.1)	(1.1)
Balance at period end	22.6	23.0	56.0	56.5

Amounts recognised in the income statement were as follows:

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Current service costs	0.4	0.7	0.9	4.9
Interest on obligations	1.2	1.1	3.1	2.7
Expected return on plan assets	(1.8)	(1.6)	(4.3)	(3.7)
	(0.2)	0.2	(0.3)	3.9

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

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Management expenses of investing activities	(0.2)	0.2	(0.2)	0.2
Operating expenses of trading activities	–	–	(0.1)	3.7
	(0.2)	0.2	(0.3)	3.9

Amounts recognised in equity were as follows:

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Actuarial gains/(losses)	1.5	(0.3)	1.5	0.2

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

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Plan assets				
Equities	19.5	22.6	50.1	55.3
Bonds	0.4	–	1.7	0.3
Other assets	2.7	0.4	4.2	0.9
	22.6	23.0	56.0	56.5
Expected returns				
Equities	8.1%	8.0%	7.9%	7.8%
Bonds	4.5%	4.7%	5.1%	4.6%
Other assets	5.6%	4.8%	5.5%	5.0%
	7.7%	7.9%	7.6%	7.7%

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

	Company 2008 %	Company 2007 %	Group 2008 %	Group 2007 %
Discount rate at period end	6.8	5.4	6.2	5.2
Future salary increases	5.5	5.1	4.7	4.5
Future pension increases	3.0	2.8	2.5	3.0
Price inflation	3.5	3.0	2.6	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.

Notes to the financial statements

Share-based payments

The company currently has two executive share option schemes, 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 Messrs Ingram and 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 testing criteria. Details of these options are set out in the directors' remuneration report on page 59.

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 2008 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	18,500	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	48,015	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	86,167	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	87,559	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	144,568	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	137,288	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%
31.05.07	Option grant to senior staff	172,930	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%
		1,235,326	
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%
31.05.07	Compulsory award to senior staff	23,828	Three years of service
31.05.07	Voluntary award to senior staff	16,733	Three years of service or earlier termination of employment
31.05.07	Matching shares to senior staff	16,733	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%
		143,500	

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 2008 p	Number of options 2008 000's	Weighted average exercise price 2007 p	Number of options 2007 000's
Outstanding at the period start	1140	1,131	843	1,014
Granted during the period	2158	173	1187	173
Exercised during the period	905	(69)	789	(56)
Outstanding at the period end	1296	1,235	1140	1,131

The options outstanding at 31 March 2008 have an exercise price in the range of 722.5p to 2158p 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 2008	Senior employees 2007
Fair value at measurement date	588p	496p
Share price	2158p	1878p
Exercise price	2158p	1878p
Expected volatility	21.4%	22.7%
Exercise multiple	2.0	2.0
Expected dividends	1.8%	1.9%
Risk-free interest rate (based on UK Government bonds)	5.2%	4.6%

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:

Years ended 31 March	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Share options granted up to 2004	–	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	0.2	0.2
Share options granted in 2008	0.2	–	0.2	–
Deferred bonus awards for 2006	0.4	0.7	0.4	0.7
Deferred bonus awards for 2007	0.2	0.4	0.2	0.4
Deferred bonus awards for 2008	0.4	–	0.4	–
	1.6	1.6	1.6	1.6

21. Provisions

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Balance at the period start	13.5	13.5	14.1	11.0
Provisions made during the year	–	–	–	3.1
Balance at the period end	13.5	13.5	14.1	14.1
Current	13.5	13.5	14.1	14.1

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.

22. Financial instruments

Financial instruments comprise securities and other investments, cash balances, borrowings and receivables and payables that arise from operations. The investment portfolio includes quoted and unquoted equity investments, debt instruments and investments in other funds that are intended to be held for the long term.

Risk analysis

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 strategy for managing market risk is driven by the investment objective, which is to outperform the FTSE All-Share Total Return index over five and ten years and to achieve a positive total return over rolling five year periods. Investments are made in a range of instruments, including quoted and unquoted equities, debt and non-equity investment funds, in a range of sectors and regions.

The board monitors the investment exposure against guidelines set from time to time by the board, specifying the maximum proportion of total assets that may be invested in sectors, regions and currencies. The board also reviews the position, prospects and exit strategy for all substantial investments at least once a year.

Details of the investment portfolio at the balance sheet date are shown in the table of the twenty largest investments set out on pages 65 to 67.

Currency risk

Investments in financial instruments and other transactions may be denominated in currencies other than the functional currency. Consequently, there is exposure to the risk that the exchange rate of the 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 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. At 31 March 2008 and 2007, the company and group had no currency hedging positions.

The company and group are mainly exposed to debt investments denominated in euros (2007 – euros). The fair values of the monetary items that have foreign currency exposure were as follows:

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Investments in debt instruments	30.1	17.1	30.1	17.1
Cash and cash equivalents	0.8	0.6	1.3	0.5
Trade and other receivables	–	–	4.0	5.3
Trade and other payables	–	–	(0.2)	(1.0)

Notes to the financial statements

The following table details the sensitivity to a 10% variation in exchange rates. This level of change is considered to be reasonable, based on observation of market conditions and historic trends. The sensitivity analysis includes all foreign currency denominated debt investments.

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Sterling depreciates	2.4	1.4	2.7	1.7
Sterling appreciates	(2.0)	(1.1)	(2.2)	(1.4)

The exposure to foreign currency has increased during the year due to increased investment in euro denominated debt instruments.

Interest rate risk

Interest rate movements may affect the fair value of investments in fixed interest securities and the level of income receivable from floating income securities and cash at bank and on deposit.

The company and group hold fixed rate, interest-bearing financial assets, with maturity of up to five years, cash at bank and on term deposits, with the term to maturity of up to three months, and floating rate, interest-bearing financial assets. The group also has floating rate, interest-bearing borrowings.

Interest rate risk is managed through the use of interest rate caps, collars or floors from time to time. At 31 March 2008 and 2007, the group had collars limiting interest rates to between 4.5% and 6.5% on £20.5m of borrowings.

The exposure to interest rate risk on financial assets and liabilities was as follows:

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Fixed rate				
Investments in debt instruments	59.2	58.0	48.6	38.9
Interest-bearing loans and borrowings	–	–	(2.2)	(2.0)
Floating rate				
Investments in debt instruments	70.3	34.8	48.3	24.1
Money market funds	–	–	–	0.3
Cash and cash equivalents	23.5	108.6	42.7	123.2
Interest bearing loans and borrowings	–	–	(65.6)	(64.0)

The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date for a 50 basis point change taking place at the beginning of the financial year and held constant throughout the period. This level of change is considered to be reasonable, based on observation of market conditions and historic trends.

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Decrease in interest rates	1.2	0.9	1.0	0.6
Increase in interest rates	(1.2)	(0.9)	(1.0)	(0.6)

The sensitivity to interest rates has increased in the year due to increased investment in fixed interest debt instruments, partially offset by a reduction in cash and cash equivalents.

Price risk

Price risk may affect the value of quoted and unquoted investments as a result of changes in market prices (other than arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market.

As the majority of financial instruments are carried at fair value, with fair value changes recognised in the income statement, all changes in market conditions will directly affect reported portfolio returns.

Price risk is mitigated by constructing a diversified portfolio of instruments traded on various markets and through direct involvement with the management of the investment portfolio. During the year, FTSE 250 put options were acquired, at a cost of £12.0m, to protect the gains on equity investments against potential market falls.

The exposures of quoted and unquoted equity investments, funds and options on indices to price risk were as follows:

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Investments held at fair value through profit or loss	1,117.3	1,120.5	1,033.1	1,045.7

The following table details the sensitivity to a 10% variation in equity prices. The sensitivity analysis includes all equity and fund investments held at fair value through profit or loss and adjusts their valuation at the period end for a 10% change in value. The valuation movement is aggregated with the expected movement in the valuation of the FTSE 250 put options to provide a net increase or decrease in profit or loss.

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Increase in prices	104.9	107.5	96.5	100.0
Decrease in prices	(103.6)	(107.5)	(95.2)	(100.0)

The sensitivity to equity and fund investments has decreased during the year due to the investment in FTSE 250 put options.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent price risk as the year end exposure does not reflect the exposure throughout the year as a whole.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment. A credit policy is in place and exposure to credit risk is regularly monitored.

At 31 March 2008, the financial assets exposed to credit risk were as follows:

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Investments in debt instruments	129.5	92.8	96.9	63.0
Trade and other receivables	4.2	6.5	30.0	28.8
Money market funds	–	–	–	0.3
Cash and cash equivalents	23.5	108.6	42.7	123.2
	157.2	207.9	169.6	215.3

Prior to making investments in debt instruments, management has in place a process of review that includes an evaluation of 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 investee companies as part of the due diligence process.

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 'AA-' or better as determined by the ratings agencies, Moody's and Fitch. The company receives a monthly rating update, and relevant credit risks are reviewed accordingly.

All transactions in quoted securities are settled on contract terms 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 its obligations.

There were no significant concentrations of credit risk to counterparties at 31 March 2008.

Fair value

Most of the financial instruments are carried 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 64.

Liquidity risk

Liquidity risk arises as a result of the possibility that liabilities may be required to be paid earlier than expected.

The corporate treasury function provides services to the company and group, coordinating access to domestic financial markets for both borrowing and depositing. Group companies access local financial markets when this is more favourable in liaison with the corporate treasury function. Executive management monitors the group's liquidity on a weekly basis.

The following table shows the group's exposure to gross liquidity risks, based on the undiscounted contractual maturities of the financial liabilities:

	Up to 1 year £m	1 to 5 years £m	Over 5 years £m	Discount £m	Net total £m
2008					
Secured bank loans	1.1	21.8	–	(5.3)	17.6
Unsecured loans	17.3	38.9	–	(8.2)	48.0
Finance leases	0.1	0.4	–	(0.2)	0.3
Cumulative preference shares	–	–	0.1	–	0.1
Unsecured bond issues	–	2.6	–	(0.8)	1.8
	18.5	63.7	0.1	(14.5)	67.8
2007					
Secured bank loans	2.6	14.9	10.6	(6.5)	21.6
Unsecured loans	9.7	40.9	–	(8.2)	42.4
Finance leases	0.1	0.4	–	(0.1)	0.4
Cumulative preference shares	–	–	0.1	–	0.1
Unsecured bond issues	–	2.7	–	(1.2)	1.5
	12.4	58.9	10.7	(16.0)	66.0

Capital management policies and procedures

The company's capital management objectives are:

- to ensure that it will be able to continue as a going concern
- to maximise the income and capital return to its equity shareholders through an appropriate balance of equity capital and debt. The company's policy is to limit debt to 25% of net assets.

The company's total capital at 31 March 2008 was £1,251.9m (2007 – £1,323.2m) comprising equity share capital and reserves. The company was ungeared at the year end (2007 – ungeared).

The board monitors and reviews the broad structure of the company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account planned investment activity
- the possible buy back of equity shares for holding in treasury or cancellation, which takes account of the discount of the share price to net asset value per share
- the annual dividend policy.

The company's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

The company is subject to the following externally imposed capital requirements:

- as a public company, the company is required to have a minimum issued share capital of £50,000
- to maintain its approval as an investment trust company, the company is required to comply with the regulations of section 842 of the Income and Corporation Taxes Act 1988.

The company has complied with these requirements, which are unchanged since the previous year end.

23. Capital and reserves

Share capital and share premium

	Ordinary shares £m	Deferred ordinary shares £m	Share premium £m	Total £m
Balance at 31 March 2006	3.2	0.4	1.3	4.9
Cancellation of shares	(0.3)	–	–	(0.3)
Balance at 31 March 2007 and 2008	2.9	0.4	1.3	4.6

The number of fully paid shares issued was as follows:

	Ordinary shares 2008 000's	Ordinary shares 2007 000's	Deferred ordinary shares 2008 000's	Deferred ordinary shares 2007 000's
Balance at the period start	58,795	64,206	8,000	8,000
Cancelled	–	(5,411)	–	–
Balance at the period end	58,795	58,795	8,000	8,000

The company has also issued share options and made deferred bonus awards (note 20).

As at 31 March 2008, the authorised share capital of the company comprised 107,181,309 ordinary shares (2007 – 107,181,309) and 8,000,000 deferred ordinary shares (2007 – 8,000,000). 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.

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

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 2008, the capital redemption reserve was £1.2m (2007 and 2006 – £1.2m). There was no movement in the capital redemption reserve in the current or prior years.

Reserves

Company

	Capital reserve		Retained earnings	
	2008 £m	2007 £m	2008 £m	2007 £m
Gains and losses on investments	(70.2)	96.5	–	–
Gains and losses on derivatives	0.3	5.6	–	–
Investment income	–	–	39.5	40.1
Investment income impairment	–	–	(9.3)	–
Management expenses	–	–	(11.2)	(11.0)
Transaction and other expenses	(0.3)	(0.5)	(1.4)	(0.6)
Gains on money market funds	–	1.0	–	–
Treasury interest receivable	–	–	4.1	3.5
Exchange movements	–	–	(0.2)	(0.7)
Finance costs	–	–	–	(0.3)
Taxation	4.8	0.2	–	2.3
Actuarial gains/(losses) on pension schemes	–	–	1.5	(0.3)
Tax on items taken directly to equity	–	–	(0.9)	1.9
Total recognised income and expense	(65.4)	102.8	22.1	34.9
Cancellation of shares	–	–	–	0.3
Share-based payments	–	–	1.6	1.6
Dividends to shareholders	–	–	(18.2)	(121.4)
	(65.4)	102.8	5.5	(84.6)
Balance at the period start	1,063.5	960.7	268.8	353.4
Balance at the period end	998.1	1,063.5	274.3	268.8

Group

	Translation reserve £m	Retained earnings £m	Minority interest £m
Balance at 31 March 2006	0.5	1,331.4	0.9
Total recognised income and expense	(1.2)	108.0	1.8
Subsidiaries acquired	–	–	1.6
Cancellation of shares	–	0.3	–
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)	1,320.8	4.9
Total recognised income and expense	2.4	(37.5)	(0.7)
Purchase from minorities	–	–	(0.7)
Share-based payments	–	1.6	–
Dividends to shareholders	–	(18.2)	(0.1)
Balance at 31 March 2008	1.7	1,266.7	3.4

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.

Own shares

	Company		Group	
	2008 £m	2007 £m	2008 £m	2007 £m
Balance at the period start	14.9	13.2	14.9	13.5
Addition	12.0	2.1	12.0	2.1
Disposals	(0.6)	(0.4)	(0.6)	(0.4)
Cancellation	–	–	–	(0.3)
Balance at the period end	26.3	14.9	26.3	14.9

Company

The company own shares reserve represents the cost of shares in Caledonia purchased in the market and held in treasury, accrued shares accounted as being held in treasury, pursuant to an irrevocable instruction to JPMorgan Cazenove, and the net cost to the employee share trust of acquiring shares to satisfy employee share options and deferred bonus awards.

Group

The group own shares reserve includes transactions in Caledonia's shares undertaken by a subsidiary company.

24. Acquisition of subsidiaries

During the year, the group paid £0.7m of deferred consideration in respect of the acquisition of Ermitage Ltd in 2007.

In the previous year, the group acquired 60% of the issued share capital of Ermitage Ltd for a 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 values of net assets acquired equate to fair values.

Net assets acquired were as follows:

	2008 £m	2007 £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

25. Disposal of subsidiaries

The aggregate net assets of subsidiaries sold were as follows:

	2008 £m	2007 £m
Intangible assets	–	0.5
Property, plant and equipment	–	1.1
Inventories	–	3.5
Trade and other receivables	–	1.3
Cash and cash equivalents	1.5	(1.1)
Non-current employee liabilities	–	(3.5)
Trade and other payables	–	(4.2)
Current tax liability	(1.4)	(0.1)
	0.1	(2.5)
Gain/(loss) on disposal	(0.1)	4.4
Total consideration	–	1.9
Satisfied by		
Cash	–	1.9
Net cash inflow arising on disposal		
Cash consideration received	–	1.9
Cash and cash equivalents sold	(1.5)	1.1
	(1.5)	3.0

26. Operating leases

Leases as lessee

Non-cancellable operating lease rentals were payable as follows:

	Group 2008 £m	Group 2007 £m
Less than one year	1.9	1.2
Between one and five years	3.4	5.0
More than five years	11.8	10.1
	17.1	16.3

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 2008, £1.0m (2007 – £1.3m) 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 12). The future minimum lease receipts under non-cancellable leases are as follows:

	Group 2008 £m	Group 2007 £m
Less than one year	0.5	0.7
Between one and five years	0.7	0.4
More than five years	–	0.3
	1.2	1.4

During the year ended 31 March 2008, £0.8m (2007 – £1.1m) was recognised as income in the income statement in respect of operating leases.

Notes to the financial statements

27. Finance leases
Leases as lessee

Non-cancellable finance lease rentals were payable as follows:

	Group 2008 £m	Group 2007 £m
Less than one year	0.1	0.1
Between one and five years	0.2	0.2
More than five years	0.2	0.2
	0.5	0.5
Future finance charges	(0.2)	(0.1)
Present value of lease obligations	0.3	0.4
Current	0.1	0.1
Non-current	0.2	0.3
	0.3	0.4

The carrying amount of buildings and plant and machinery held under finance leases was £0.3m and £0.1m respectively (2007 – £0.3m and £0.1m).

For the year ended 31 March 2008, the average effective borrowing rate was 6.6% (2007 – 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.

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

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Investments				
Loan and other commitments contracted but not called	106.2	73.9	106.2	73.9
Property, plant and equipment				
Contracted but not delivered	–	–	1.5	–
	106.2	73.9	107.7	73.9

29. Contingencies
There were no known contingencies at the year end.

30. Related parties
Identity of related parties

The company and group has a related party relationship with its subsidiaries (note 32), associates (note 33), joint ventures (note 13) 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 33.5% of the voting shares of the company as at 31 March 2008 (2007 – 33.4%).

In addition to their salaries, the group provides non-cash and post employment benefits to directors and executive officers. Details of directors' pension benefits are set out on page 57 in the directors' remuneration report.

The key management personnel compensation was as follows:

	Company 2008 £m	Company 2007 £m	Group 2008 £m	Group 2007 £m
Short term employee benefits	2.9	2.7	2.9	2.7
Post employment benefits	0.2	0.2	0.2	0.2
Equity compensation benefits	1.4	0.6	1.4	0.6
	4.5	3.5	4.5	3.5

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

During the year, the group invoiced and received £0.1m (2007 – £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 2008 £m	Balance at period end 2008 £m	Amount of transactions 2007 £m	Balance at period end 2007 £m
Income statement items				
Guarantee fees	0.2	0.1	0.2	0.2
Dividends receivable on equity shares	0.3	–	12.2	–
Capital distributions	5.0	–	29.6	–
Interest receivable on loan securities	3.5	0.1	3.4	1.8
Management fees payable	(11.8)	(3.7)	(11.3)	(3.3)
Taxation	1.4	0.1	0.4	–
Balance sheet items				
Liquidations	(0.4)	–	(3.6)	–
Loans advanced	10.1	39.9	5.4	29.8
Guarantees	22.3	92.4	35.9	70.1

Associates and joint ventures

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

	Amount of transactions 2008 £m	Balance at period end 2008 £m	Amount of transactions 2007 £m	Balance at period end 2007 £m
Company				
Deal fees	–	–	0.4	–
Dividends receivable on equity shares	3.2	–	3.3	–
Interest receivable on loan securities	3.4	4.3	5.5	3.1
Share subscriptions	3.7	–	13.5	–
Loans advanced	13.8	63.0	27.6	49.2
Other group companies				
Dividends receivable on equity shares	–	–	0.1	–
Directors' fees receivable	0.2	–	0.2	–
Management fees payable	–	–	(0.1)	–

31. 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 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: the management of funds 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, Continental 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 £m	Industrial/ consumer £m	Property £m	Total £m
2008					
Gross portfolio return	(38.2)	–	–	–	(38.2)
Trading revenue	–	15.2	96.9	9.2	121.3
Inter-segment sales	(4.0)	–	–	(0.8)	(4.8)
	(42.2)	15.2	96.9	8.4	78.3
Segment result	(55.2)	1.4	10.6	6.3	(36.9)
Net finance expense					(0.7)
Share of results of joint ventures					0.4
Taxation					(1.7)
Loss for the year					(38.9)
Segment assets	1,167.8	46.6	115.4	42.1	1,371.9
Interests in joint ventures					7.7
Unallocated assets					5.0
Total assets					1,384.6
Segment liabilities	(18.0)	(20.6)	(83.0)	(2.1)	(123.7)
Unallocated liabilities					(9.6)
Total liabilities					(133.3)
Capital expenditure	–	0.7	9.2	0.9	10.8
Depreciation	0.1	0.4	4.2	0.1	4.8
Amortisation	–	1.4	0.1	–	1.5
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
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
Interests 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

Notes to the financial statements

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
2008				
Revenue from external customers	0.9	51.8	25.6	78.3
Total assets	1,185.2	115.5	83.9	1,384.6
Capital expenditure	10.3	0.4	0.1	10.8
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

32. Group entities

Significant subsidiaries were as follows:

Name	Country of domicile	Ownership 2008 %	Ownership 2007 %
Amber Chemical Co Ltd	UK	100	100
Buckingham Gate Ltd	UK	100	100
Caledonia GP Distribution Ltd	UK	100	100
Caledonia Group Services Ltd	UK	100	100
Caledonia Treasury Ltd	UK	100	100
Easybox Sarl	Luxembourg	100	100
Edinmore Holdings Ltd	UK	100	100
Ermitage Ltd	Jersey	60	60
Sloane Club Holdings Ltd	UK	100	100
Sterling Industries PLC	UK	100	100
Union-Castle Mail Steamship Co Ltd	UK	100	100

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

33. Interest in associates

The company is an investment trust company 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 2008 %	Ownership 2007 %
Avanti Communications plc	UK	24	25
Celerant Consulting Acquisitions Ltd	UK	47	49
Celona Technologies Ltd	UK	50	
Empresaria Group plc	UK	22	
Eredene Capital plc	UK	22	20
General Practice Investments Ltd	UK	25	25
India Capital Growth Fund Ltd	Guernsey	24	26
Omniport Holdings Ltd	UK	39	39
Oval Ltd	UK	24	32
Satellite Information Services Ltd	UK	23	23
Seven Squared Ltd	UK	29	24
TCL Holdings Ltd	UK	49	49
TGE Marine AG	Germany	50	50

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

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

	2008 £m	2007 £m
Assets	646.8	616.1
Liabilities	(365.5)	(381.6)
Equity	281.3	234.5
Revenues	443.3	305.1
Profit	90.9	6.3

34. 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 Davies (chairman), Mr Allen-Jones and Mr Loudon.

The Committee, whose written terms of reference are published on the company's website, 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 2008. In addition, the Remuneration Committee received advice from Freshfields Bruckhaus Deringer LLP in relation to the company's executive share option schemes and deferred bonus plan. Towers Perrin only advised in relation to the remuneration of executive directors and senior management and Freshfields Bruckhaus Deringer LLP are the company's main legal advisers. The Remuneration Committee also consulted with the Chairman, Mr Buckley, and the Chief Executive, Mr 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 order further to align the interests of the executive directors with those of shareholders, the Remuneration Committee has adopted guidelines for minimum shareholdings which executive directors will be expected to attain over a reasonable period of time. For these purposes, shareholdings include the value to executive directors, net of associated income tax and National Insurance, of options granted under the company's executive share option schemes, for which the performance targets have been met, and bonuses deferred into shares, both compulsorily and voluntarily, under the company's deferred bonus plan. For the Chief Executive, the minimum guideline shareholding has been set at 200% of basic salary and for all other executive directors 150% of basic salary. The current shareholdings of all of the executive directors meet these guidelines.

In determining executive directors' remuneration, consideration is given to matters specific to the company, such as the performance of its undiluted net asset value ('NAV') per share, 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, to comparable external market remuneration data and to 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 2009 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 2009 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 2009 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 undiluted 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, increasing incrementally to 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.

Directors' remuneration report

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 an 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.

For bonuses payable in respect of the year ended 31 March 2008 and subsequent years, the Remuneration Committee proposes that shares derived from the compulsory deferral of bonus should also be eligible for matching. Again, matching would be on a one for one basis, and vesting would be subject to the satisfaction of performance conditions over a period of three years. The implementation of this proposal is subject to shareholder approval of an amendment to the rules of the deferred bonus plan, which will be considered at the annual general meeting to be held on 29 July 2008. If the resolution to amend the deferred bonus plan is duly passed, the Remuneration Committee intends to make a grant of matching shares after the annual general meeting over a number of shares equal to that awarded in respect of the compulsory deferral of bonus for the year ended 31 March 2008.

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. Messrs Buckley and 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 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 Ingram, May or Wyatt participate in a company pension scheme but instead a fixed percentage of basic salary is paid into personal pension arrangements or, in the case of Messrs Ingram and May, may be paid 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 2008 was 25% for Mr Ingram and 12.5% for Messrs May and Wyatt. Mr Cayzer-Colvin participates in the Caledonia Group Personal Pension Plan ('GPPP'), a defined contribution scheme into which employer contributions of 12.5% 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' emoluments below.

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

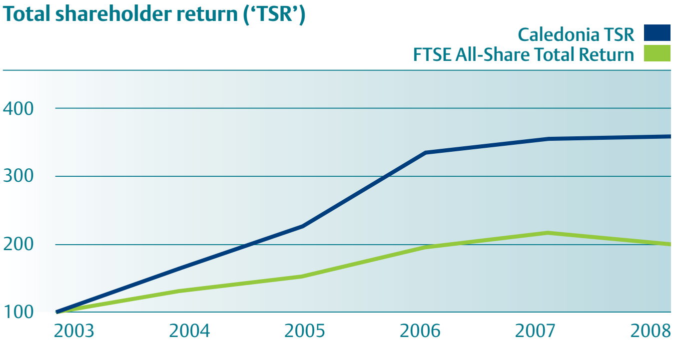
It is the company's policy that non-executive directors should be appointed for fixed periods of no more than three years (from the next general meeting following their initial appointment in the case of new non-executive directors) and that re-appointment at the end of such periods should not be automatic. Non-executive directors are paid an annual fee determined by the board 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 2008, the basic fee for non-executive directors was £31,000 (2007 – £29,000). Additionally, fees of £3,500 (2007 – £3,000) were paid to the chairmen of the Audit and Remuneration Committees and £1,500 and £1,000 respectively (2007 – £nil) to the other members of those Committees. A further £3,500 (2007 – £3,000) was paid to Mr 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 2008 and has been prepared in accordance with the Regulations. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. The FTSE All-Share Total Return index has been chosen as it is the benchmark by which the company measures its delivery of shareholder value over the longer term.

Total shareholder return ('TSR')



Source: Caledonia and FTSE/Datastream

Statement on directors' remuneration (audited)

Total emoluments of the directors were as follows:

	2008 £'000	2007 £'000
Emoluments	3,983	3,472
Gains on exercise of share options	116	377
	4,099	3,849

Statement on directors' emoluments (audited)

The emoluments of individual directors were as follows:

	Fees and salaries £'000	Benefits[1] £'000	Cash bonus £'000	Deferred bonus[2] £'000	Total 2008 £'000	Total 2007 £'000
Executive						
P N Buckley	250	19	62	163	494	511
T C W Ingram	480	20	120	324	944	754
J H Cartwright	275	19	69	137	500	458
The Hon C W Cayzer	230	18	115	46	409	395
J M B Cayzer-Colvin	220	18	110	49	397	323
J M May	320	19	80	208	627	546
W P Wyatt	220	17	94	110	441	331
Non-executive						
J R H Loudon	33	–	–	–	33	29
C M Allen-Jones	39	–	–	–	39	35
M E T Davies	35	–	–	–	35	32
R Goblet d'Alviella	31	–	–	–	31	29
D G F Thompson	33	–	–	–	33	29
	2,166	130	650	1,037	3,983	3,472

1. Benefits mainly comprised cash alternatives in lieu of company cars and private medical insurance.
2. Deferred bonus comprised the amounts compulsorily and voluntarily deferred under the company's deferred bonus plan and will be satisfied by conditional share awards shortly after the announcement of the company's preliminary results for the year, as described below.

Notwithstanding that the company's NAV per share outperformed the FTSE All-Share index by more than 6% over the year, thereby triggering the maximum entitlement of 50% of basic salary for the bonus year under the company performance related element of the annual bonus scheme, the Remuneration Committee decided to exercise its discretion to reduce the amount of this payment – to 45% of basic salary – in view of the fact that NAV per share declined over the year.

In addition to the amounts shown in the table above, Messrs Ingram and May respectively were paid amounts of £106,383 and £35,460 before tax (2007 – £nil and £25,931 respectively) in lieu of contributions to their personal money purchase pension arrangements as described in the statement on directors' pensions below.

Certain executive directors held external non-executive directorships during the year unrelated to the company's business, where it had been agreed that they may retain the fees arising therefrom. Mr Ingram was a non-executive director of Sage Group, for which he received fees of £60,742 (2007 – £48,000). Mr Ingram was appointed to the board of Sage Group before he joined Caledonia. Until his resignation as a director on 31 March 2008, Mr May received a fee from Catapult Venture Managers amounting to £18,309 (2007 – £18,125). This fee was paid to a private company owned by Mr May and his wife and the directorship was 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.

If the resolution to amend the deferred bonus plan is duly passed at the 2008 annual general meeting, the Remuneration Committee will be authorised to make grants of matching shares in respect of compulsory deferrals of bonus for the year ended 31 March 2008 and future years, over a number of shares equal to that awarded in respect of the compulsory deferral of bonus for the relevant year.

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.

Directors' remuneration report

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.

Deferred share awards held by directors as at 31 March 2008 are shown in the following table. There have been no changes in directors' deferred share awards up to the date of this report.

Name	Type	Award date	Opening balance	Number of shares Awarded	Called	Closing balance	Market price at award	Market 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
	Compulsory	31.05.07	–	3,259	–	3,259	2158.0p	–	01.04.10
	Voluntary	31.05.07	–	3,259	–	3,259	2158.0p	–	01.04.10
	Matching	31.05.07	–	3,259	–	3,259	2158.0p	–	01.04.10
			15,973	9,777	–	25,750			
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
	Compulsory	31.05.07	–	4,865	–	4,865	2158.0p	–	01.04.10
	Voluntary	31.05.07	–	4,865	–	4,865	2158.0p	–	01.04.10
	Matching	31.05.07	–	4,865	–	4,865	2158.0p	–	01.04.10
			20,233	14,595	–	34,828			
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
	Compulsory	31.05.07	–	2,395	–	2,395	2158.0p	–	01.04.10
	Voluntary	31.05.07	–	2,994	–	2,994	2158.0p	–	01.04.10
	Matching	31.05.07	–	2,994	–	2,994	2158.0p	–	01.04.10
			11,956	8,383	–	20,339			
The Hon C W Cayzer	Compulsory	01.06.06	4,552	–	–	4,552	1878.0p	–	01.04.09
	Compulsory	31.05.07	–	2,919	–	2,919	2158.0p	–	01.04.10
			4,552	2,919	–	7,471			
J M B Cayzer-Colvin	Compulsory	01.06.06	3,354	–	–	3,354	1878.0p	–	01.04.09
	Compulsory	31.05.07	–	2,363	–	2,363	2158.0p	–	01.04.10
			3,354	2,363	–	5,717			
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
	Compulsory	31.05.07	–	4,066	–	4,066	2158.0p	–	01.04.10
	Voluntary	31.05.07	–	3,388	–	3,388	2158.0p	–	01.04.10
	Matching	31.05.07	–	3,388	–	3,388	2158.0p	–	01.04.10
			15,041	10,842	–	25,883			
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
	Compulsory	31.05.07	–	2,757	–	2,757	2158.0p	–	01.04.10
			7,453	2,757	–	10,210			
			78,562	51,636	–	130,198			

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 2008	a	323,176	126,000	113,905
Increase in accrued pension during the year	b	34,075	11,732	13,905
Increase in accrued pension during the year, net of inflation	c	23,089	7,390	10,105
Transfer value of increase in accrued pension over the year, net of director contributions	d	389,055	68,542	107,996
Transfer value of accrued pension at 31 March 2008	e	5,727,143	1,452,488	1,279,059
Transfer value of accrued pension at 31 March 2007	f	5,217,271	1,525,559	1,363,858
Change in transfer value over the year, net of director contributions	g	509,872	(84,071)	(84,799)

1. Except for Mr 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 2008. 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 2008.
2. The increase in accrued pension, net of inflation, in row (c) is calculated by subtracting the pension accrued to 31 March 2007 multiplied by the increase in the Retail Prices Index for the year to 31 March 2008, from the accrued pension to 31 March 2008. 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 contributions.
4. In previous years, parts of Mr Buckley's bonus awards have been paid by the company as a contribution into the scheme in order to enhance his cash lump sum benefit on retirement. The total value of such contributions, with interest, was £281,550 at 31 March 2008 and £265,670 at 31 March 2007. 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 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, as described above and in accordance with their service contracts, Messrs Ingram and May elected to receive their pension entitlements by way of cash payments in lieu of pension contributions of £106,383 and £35,460 before tax respectively (2007 – Mr Ingram: pension contributions of £105,000 and Mr May: cash payment in lieu of pension of £25,931). Mr Cayzer-Colvin is a member of the GPPP, a defined contribution scheme into which employer contributions of £27,504 (2007 – £17,000) were paid during the year on his behalf. Mr Wyatt has established his own money purchase pension arrangements, into which the company made employer contributions of £27,504 (2007 – £17,000).

Statement on directors' share options (audited)

Options to acquire ordinary shares in the company held by the directors during the year ended 31 March 2008 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 2008 £'000	Gains on exercise 2007 £'000	Exercisable from date	Expiry date
P N Buckley	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
			130,000	–	–	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	23,600	–	–	23,600	945.0p				20.11.06	20.11.13
	Executive	26.05.04	32,700	–	(10,900)	21,800	1055.0p	2119.0p	116		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
	Executive	31.05.07	–	33,364	–	33,364	2158.0p				31.05.10	31.05.17
			236,589	33,364	(10,900)	259,053			116	144		
J H Cartwright	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
	Executive	31.05.07	–	19,114	–	19,114	2158.0p				31.05.10	31.05.17
			110,266	19,114	–	129,380			–	91		

Directors' remuneration report

Name	Option scheme	Grant date	Opening balance	Number of options Granted	Exercised	Closing balance	Exercise price	Market price at exercise	Gains on exercise 2008 £'000	2007 £'000	Exercisable from date	Expiry date
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
	Executive	31.05.07	–	15,987	–	15,987	2158.0p				31.05.10	31.05.17
			90,908	15,987	–	106,895			–	–		
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
	Executive	31.05.07	–	15,291	–	15,291	2158.0p				31.05.10	31.05.17
			86,868	15,291	–	102,159			–	–		
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
	Executive	31.05.07	–	22,242	–	22,242	2158.0p				31.05.10	31.05.17
			132,077	22,242	–	154,319			–	–		
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
	Executive	31.05.07	–	15,291	–	15,291	2158.0p				31.05.10	31.05.17
			82,716	15,291	–	98,007			–	–		
			869,424	121,289	(10,900)	979,813			116	377		

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

The company currently has two executive share option schemes – a 1998 scheme under which option grants were made from September 1998 to May 2004, and a 2005 scheme under which option grants commenced in August 2005.

Under the terms of both 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 performance targets are met.

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 Caledonia's 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 targets are not met over this three year period, the options will lapse.

The performance targets have been met for all options granted up to 2005. 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 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 was to be first applied five years after grant, with two re-test opportunities six and seven years after grant. The performance target for the two-thirds tranche was tested on 5 July 2007 and met in full. If Mr Ingram remains in service until his retirement age of 62, the options will remain exercisable until ten years from grant. 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 2008, the market price of the company's shares was 2050p (2007 – 2066p) and the range during the year was 1893p to 2189p.

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 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 29 May 2008 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 June 2006 (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'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 Reporting Council at http://www.frc.org.uk/corporate/combinedcode.cfm

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 24 and 25.

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 Allen-Jones, Davies, Goblet d'Alviella and 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 24 and 25.

The board is led by the Chairman, Mr 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 Ingram, heads the executive management team and is primarily responsible for the implementation of the board's policies and strategy 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 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 Cayzer-Colvin and Wyatt) who are involved in the affairs of Cayzer Trust, Caledonia's largest shareholder; and three other executive directors (Messrs Ingram, Cartwright and May). Mr Loudon does not fall into any of these categories as his thirteen 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 may 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 shareholders.

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. The current membership of these committees is noted on page 69.

Nomination Committee

The Nomination Committee, chaired by Mr 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 2007 annual board performance evaluation and to consider the contribution and commitment of the non-executive directors retiring at the 2007 annual general meeting, prior to giving recommendations for their re-elections.

Remuneration Committee

The Remuneration Committee, chaired by Mr 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 three 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 2007.
- The grant of options and deferred bonus awards under the company's executive share option scheme and deferred bonus plan.
- The determination of basic salaries for executive directors and review of salaries for other senior executives for the year commencing 1 April 2008.
- A review of the design of the company's deferred bonus plan in the context of the company's policies on executive remuneration and current market practice, and the consequent proposal to seek shareholder approval for an amendment to the plan rules to provide for conditional matching share awards for compulsory bonus deferral.

Further information on the company's executive remuneration policy and the work of the Remuneration Committee is included in the directors' remuneration report set out on pages 53 to 59.

Audit Committee

The Audit Committee, chaired by Mr 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 control and risk management procedures 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 company, 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 controls. The valuations of the company's unquoted investments are subject to formal six monthly reviews by an internal Challenge Committee, independent of the relevant 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 controls and risk management procedures is prepared annually for the board by the company's Risk Manager. It is the Audit Committee's current opinion that, in view of these control processes, the size of the entities controlled by Caledonia and the relatively straightforward control considerations in relation to other investments, a separate internal audit function is not necessary.

Corporate governance report

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 auditors 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 Loudon, who was formerly group finance director of Blue Circle Industries, has such financial experience. In addition, the chairman of the Audit Committee, Mr Allen-Jones, is a member of the Financial Reporting Review Panel.

The Audit Committee met three times during the year, and each meeting included a discussion with the auditors 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, Deloitte & Touche LLP, and the level of fees charged for its services.
- Consideration of the scope of the 2008 annual audit and agreement with the external auditors of the key areas of focus.
- A review of the company's internal valuation guidelines and scrutiny of valuations of unquoted investments selected by the Committee in accordance with its adopted criteria.
- Consideration of the reports from the external auditors concerning their audit of the 2007 annual financial statements of the company and their review of the 2007 half-year report.
- Consideration of the financial disclosures contained in the 2007 annual and half-year reports.
- The review of reports from the company's Risk Manager on the effectiveness of the group's internal controls and risk management procedures for the year ended 31 March 2008 and on the company's head office internal controls.
- 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 for the year ended 31 March 2007.
- Assurance of the company's compliance with the requirements for approval as an investment trust company.

Governance Committee
The Governance Committee, chaired by Mr 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, principally to review and approve the corporate governance report for the year ended 31 March 2007.

Attendance at meetings
The following table identifies the number of board and committee meetings held in the year to 31 March 2008 and the attendance record of individual directors.

	Board	Nomination Committee	Remuneration Committee	Audit Committee	Governance Committee
Number of meetings in the year	11[1]	1	3	3	1
Attendances by					
P N Buckley	10	1	–	–	–
T C W Ingram	11	–	–	–	–
J H Cartwright	11	–	–	–	–
The Hon C W Cayzer	9	–	–	–	–
J M B Cayzer-Colvin	9	–	–	–	–
J M May	11	–	–	–	–
W P Wyatt	11	–	–	–	–
C M Allen-Jones	11	1	3	3	1
M E T Davies	10	1	3	–	1
R Goblet d'Alviella	10	–	–	–	–
J R H Loudon	11	1	3	3	–
D G F Thompson	11	1	–	3	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 2008, 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 2008 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 systems of risk management and internal control, although the review of risk management procedures and internal 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 Turnbull guidance 2005 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 and key investments are identified and assessed by local management and procedures are agreed to address these as appropriate. The boards of these companies review business risk and controls regularly to ensure the system of risk management operates effectively. Caledonia's investment executives then confirm, through Caledonia's Risk Manager, to the Audit Committee that the system of risk management is operating effectively for these group companies and key investments.

Key risks identified are regularly monitored at company 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 company'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 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/Risk Manager 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 per share 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 relevant 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 concluded 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 half-year 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

Investments are measured at the directors' estimate of fair value at the reporting date, in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

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

Unquoted investments are valued by applying an appropriate valuation technique, which makes maximum use of market-based information, is consistent with models generally used by market participants and is applied consistently from period to period, except where a change would result in a better estimation of fair value. Unquoted investments are grouped into direct and fund investments.

Unquoted direct investments

Unquoted direct investments have characteristics similar to private equity investments, in that the value is generally crystallised through the sale or flotation of the entire business, rather than the sale of an individual instrument. Valuations of such investments are based upon the 'International Private Equity and Venture Capital Valuation Guidelines', using the following model:

- Determine the enterprise value using an appropriate valuation methodology and adjust for surplus assets, excess or unrecorded liabilities and other relevant factors.
- Deduct any financial instruments ranking ahead of the highest ranking instrument held by the company.
- Apply a marketability discount where appropriate to give the net attributable enterprise value. Such a marketability discount relates to the investment rather than the underlying business and reflects the compensation that willing buyers will demand for the risk arising from the lack of marketability. 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. It is a rebuttable presumption that a 30% discount is to be applicable to all unquoted direct investments. This presumption may be rebutted if the available evidence and consideration of the foregoing factors indicate that a different marketability discount would be appropriate or that no marketability discount should be applied. Where a discount is applied, it will normally fall in the range of 10% to 30%.
- Apportion the net attributable enterprise value between the relevant financial instruments according to their rankings and allocate to the company's holding in each of these financial instruments.

Given the uncertainties inherent in estimating the fair value of unquoted direct investments, a degree of caution is applied in exercising judgments and making the necessary estimates.

Enterprise value is normally determined using one of the following 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 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 period will depend on the specific circumstances of each investment, but one year is usually applied.

Earnings multiple

This methodology involves the application of an earnings multiple to the maintainable earnings of the business being valued. This methodology 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.

Maintainable earnings are taxed at the standard tax rate. Generally, the latest historical accounts are used unless reliable forecast results for the current year are available. The earnings multiple used is determined by reference to market-based multiples appropriate for the business and correlate to the period and calculation of earnings of the company being valued. In determining an appropriate earnings multiple, reference may be made to a single comparator company, or a number of companies, or the earnings multiple of a quoted stock market sector or sub-sector where there are similar business activities, markets served, size, geography and applicable tax rate.

Net assets

The net assets methodology involves deriving the value of a business by reference to the fair value of its net assets. This 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. It 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. Third party valuations may be used to give the fair value of a certain asset or group of assets.

Unquoted fund investments

Unquoted funds investments refer to participations in collective investment vehicles.

Where the valuation reported by the fund's manager represents the amount at which the interest in the fund could be exchanged in an arm's length transaction at the reporting date, this value is used in estimating the fair value of the investment. If the valuation reported by the fund's manager is not available at the reporting date, the latest valuation is used and may be adjusted to reflect changes or events subsequent to the publication date.

If the fund's manager does not report a value at which an arms length transaction could occur, then the value of the investment in the fund is determined by applying valuation techniques to the fund's underlying investments.

Twenty largest investments

British Empire Securities
British Empire Securities is a UK quoted investment trust company. Managed by Asset Value Investors, its investment objective is to achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

Sector	Funds	Residual cost	£16.6m	Year end	30 Sep 07
Geography	UK	Equity held	18.5%	Revenue	£133.3m
Investment	Jan 1991	Valuation	£140.0m	Earnings	£122.8m
Valuation basis	Market price	Income	£1.6m	Net assets	£815.1m

Close Brothers
Close Brothers is an independent UK merchant bank with a long and successful track record. It provides investment funds, wealth management, corporate finance advice, securities trading, lending services and deposits and treasury services. Close Brothers is quoted in the UK.

Sector	Financial	Residual cost	£41.0m	Year end	31 Jul 07
Geography	UK	Equity held	12.9%	Revenue	£536.3m
Investment	Jan 1987	Valuation	£118.7m	Earnings	£108.6m
Valuation basis	Market price	Income	£11.5m	Net assets	£752.7m

Oval
Oval is one of the fastest-growing providers of insurance broking and financial services in the UK. It has created a national group of some of the UK's best regional companies, with excellent reputations in their areas, strong relationships with providers, and sector-leading specialists on their teams.

Sector	Financial	Residual cost	£30.3m	Year end	31 May 07
Geography	UK	Equity held	24.1%	Revenue	£60.0m
Investment	Nov 2003	Valuation	£65.9m	Earnings	£1.4m
Valuation basis	Transaction value	Income	£1.1m	Net assets	£38.8m

Quintain Estates
Quintain Estates is a leading, UK quoted property investment and development company. It develops urban regeneration sites, invests for income and gains and manages property assets in sectors with high barriers to entry, such as healthcare and research and development.

Sector	Property	Residual cost	£41.8m	Year end	31 Mar 07
Geography	UK	Equity held	10.0%	Revenue	£43.4m
Investment	Mar 1994	Valuation	£58.6m	Earnings	£44.8m
Valuation basis	Market price	Income	£1.3m	Net assets	£846.1m

Bristow Group
Bristow Group is one of the world's largest providers of helicopter services, providing helicopter transportation, maintenance, search and rescue and aviation support worldwide, principally to all major offshore and onshore oil and gas producing regions. Bristow Group is quoted on the NYSE.

Sector	Oil and gas	Residual cost	£29.3m	Year end	31 Mar 08
Geography	US/UK	Equity held	6.8%	Revenue	$1,012.8m
Investment	Nov 1991	Valuation	£55.0m	Earnings	$91.3m
Valuation basis	Market price	Income	£0.4m	Net assets	$967.4m

Cobepa
Cobepa is a private, Belgian-based investment company. Its success has been built on its ability to invest in companies with long term growth perspectives and to accompany these investments in a spirit of partnership with their shareholders and efficient co-operation with their management.

Sector	Funds	Residual cost	£24.5m	Year end	31 Dec 07
Geography	Belgium	Equity held	9.9%	Revenue	€0.8m
Investment	Apr 2004	Valuation	£48.0m	Earnings	€115.0m
Valuation basis	Net assets	Income	£0.8m	Net assets	€596.0m

Rathbone Brothers
Rathbone Brothers is a leading, independent provider of investment and wealth management services for private investors and trustees, including discretionary asset management, tax planning, trust and company management, pensions advisory and banking services. Rathbone Brothers is quoted in the UK.

Sector	Financial	Residual cost	£15.0m	Year end	31 Dec 07
Geography	UK	Equity held	10.7%	Revenue	£154.5m
Investment	Mar 1995	Valuation	£47.8m	Earnings	£37.4m
Valuation basis	Market price	Income	£1.7m	Net assets	£184.8m

Twenty largest investments

Eddington Capital funds

The Eddington Capital funds comprise a range of funds of hedge funds managed by Eddington Capital. The Eddington Triple Alpha Fund is a diversified multi-strategy fund and the Eddington Macro Opportunities Fund, a fund of macro-based or macro-related hedge funds with a variety of styles and strategies.

Sector	Funds	Residual cost	£25.6m	Year end	N/A
Geography	Cayman	Equity held	–	Revenue	N/A
Investment	Aug 2003	Valuation	£39.7m	Earnings	N/A
Valuation basis	Manager's NAV	Income	–	Net assets	N/A

TGE Marine

Based in Germany, TGE Marine is a market leader in the design and construction of cargo handling systems for ships and offshore units carrying liquefied cryogenic gases, primarily LNG, LPG, and ethylene to customers in Asia, Europe and South America. TGE Marine was admitted to the UK's AIM market on 15 May 2008.

Sector	Industrial	Residual cost	£19.2m	Year end	30 Jun 07
Geography	Germany	Equity held	49.9%	Revenue	€82.3m
Investment	Apr 2006	Valuation	£38.0m	Earnings	–€11.8m
Valuation basis	Earnings multiple	Income	£2.7m	Net assets	–€3.7m

Melrose Resources

Melrose Resources is a UK quoted oil and gas exploration and production company with interests in Egypt, Bulgaria, United States, France and Turkey. Melrose Resources has a balanced portfolio of producing assets, development projects and exploration interests.

Sector	Oil and gas	Residual cost	£25.5m	Year end	31 Dec 07
Geography	UK	Equity held	9.7%	Revenue	$158.2m
Investment	Aug 2003	Valuation	£35.0m	Earnings	–$63.2m
Valuation basis	Market price	Income	£0.2m	Net assets	$280.7m

Polar Capital funds

The Polar Capital funds comprise a range of hedge and long-only funds managed by Polar Capital. The funds predominantly invest in equities in global emerging markets, Latin America, world utility companies and world healthcare companies and assets based on global economy fundamentals.

Sector	Funds	Residual cost	£30.4m	Year end	N/A
Geography	Ireland/Cayman	Equity held	–	Revenue	N/A
Investment	Oct 2001	Valuation	£34.1m	Earnings	N/A
Valuation basis	Manager's NAV	Income	–	Net assets	N/A

Satellite Information Services

Satellite Information Services is a long established media business focusing on TV production, broadcasting and the provision of live pictures and data via satellite. It is the foremost supplier of television programming and data services to the UK and Ireland betting industries.

Sector	Consumer	Residual cost	£16.7m	Year end	31 Mar 07
Geography	UK	Equity held	22.5%	Revenue	£138.5m
Investment	May 2005	Valuation	£24.6m	Earnings	£16.8m
Valuation basis	Earnings multiple	Income	£2.3m	Net assets	£30.2m

Sterling Industries

Sterling Industries is an engineering business, specialising in the global supply of combustion and heat transfer technology and services. It designs and manufactures custom engineered burners and ancillary equipment, bespoke specialised combustion systems, and heat exchangers and flare services to process industries worldwide.

Sector	Industrial	Residual cost	£5.3m	Year end	31 Mar 08
Geography	UK	Equity held	100.0%	Revenue	£47.4m
Investment	Feb 1987	Valuation	£23.2m	Earnings	£6.1m
Valuation basis	Earnings multiple	Income	–	Net assets	£18.3m

Avanti Communications

Avanti Communications supplies satellite communications services for business, institutional and residential customers across Europe directly or via a comprehensive network of resellers and maintainers. Avanti will be launching its first satellite into orbit in 2009. Avanti is quoted on the AIM market in the UK.

Sector	Consumer	Residual cost	£22.6m	Year end	30 Jun 07
Geography	UK	Equity held	24.4%	Revenue	£2.6m
Investment	Nov 2005	Valuation	£22.6m	Earnings	£21.1m
Valuation basis	Market price	Income	£0.8m	Net assets	£28.7m

AG Barr
Founded in 1875, AG Barr is now the largest manufacturer of soft drinks in the UK. Based in Scotland, the company is particularly notable for the manufacture of Irn-Bru, but also produces a variety of other soft drinks and holds the manufacturing franchise for the Orangina soft drink range. AG Barr is quoted in the UK.

Sector	Consumer	Residual cost	£1.3m	Year end	31 Jan 08
Geography	UK	Equity held	9.4%	Revenue	£148.4m
Investment	Apr 1987	Valuation	£20.5m	Earnings	£16.8m
Valuation basis	Market price	Income	£0.7m	Net assets	£84.8m

Alok Industries
Alok Industries is a quoted Indian company providing integrated textile solutions. Alok possesses vertically integrated, state-of-the-art production facilities for home textiles, woven and knitted apparel fabrics, garments and polyester yarns, making it one of India's leading textile groups.

Sector	Consumer	Residual cost	£21.7m	Year end	31 Mar 08
Geography	India	Equity held	14.9%	Revenue	Rs21.6bn
Investment	Jul 2004	Valuation	£19.9m	Earnings	Rs2.0bn
Valuation basis	Market price	Income	£0.4m	Net assets	Rs14.6bn

London & Stamford Property
The company is a Guernsey registered property investment company quoted in the UK. It intends to invest in commercial property, including office, retail and distribution real estate assets, principally in the UK.

Sector	Property	Residual cost	£19.5m	Year end	N/A
Geography	Guernsey	Equity held	6.8%	Revenue	N/A
Investment	Nov 2007	Valuation	£19.5m	Earnings	N/A
Valuation basis	Market price	Income	–	Net assets	N/A

Serica Energy
Serica Energy is an international oil and gas exploration and production company, with activities in the UK North Sea, Norway, Ireland, Spain, Indonesia and Vietnam. It has built a portfolio of exploration, appraisal and development projects. Serica is quoted in the UK and Toronto.

Sector	Oil and gas	Residual cost	£23.1m	Year end	31 Dec 07
Geography	UK	Equity held	13.2%	Revenue	$nil
Investment	Jul 2006	Valuation	£18.6m	Earnings	–$13.6m
Valuation basis	Market price	Income	–	Net assets	$115.9m

Novae Group
The Novae Group is a UK quoted provider of insurance and reinsurance underwriting services to the international and UK provincial markets. It operates a Lloyd's business to handle large, international and specialist risks and an FSA-regulated insurance company to transact UK and European commercial lines business.

Sector	Financial	Residual cost	£19.5m	Year end	31 Dec 07
Geography	UK	Equity held	7.2%	Revenue	£22.1m
Investment	Mar 2003	Valuation	£18.4m	Earnings	£32.7m
Valuation basis	Market price	Income	£0.2m	Net assets	£269.9m

Union-Castle
Union-Castle is a hedging subsidiary of Caledonia. It holds FTSE 250 put options as part of a strategy of hedging Caledonia's portfolio against potential falls in the equity markets.

Sector	Financial	Residual cost	£12.2m	Year end	31 Mar 08
Geography	UK	Equity held	100.0%	Revenue	£7.2m
Investment	Jun 2007	Valuation	£17.3m	Earnings	£5.0m
Valuation basis	Net assets	Income	£0.4m	Net assets	£5.1m

1. Income in the year represents dividends received (inclusive of any overseas withholding tax) and gross interest receivable in the year to 31 March 2008.
2. Earnings and net assets figures are taken from the most recent audited financial statements of the investee businesses. 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 ISIN code for Caledonia's ordinary shares is GB0001639920.

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.

Change of address
Communications with shareholders are mailed to the addresses held on the share registers. 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 value
The company publishes a net asset value announcement and a monthly fact sheet shortly after the month end, which includes its diluted net asset value 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	29 May 2008
Annual report published	18 June 2008
Annual general meeting	29 July 2008
Final dividend paid	14 August 2008
Half-year results announced	25 November 2008
Half-year report published	8 December 2008
Interim dividend paid	8 January 2009

Caledonia Investments ISA
The Caledonia Investments Individual Savings Account ('ISA') is a tax efficient savings account that allows participants to invest up to £7,200 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 Nominees Ltd, 2 The Boulevard, City West One Office Park, Gelderd Road, Leeds LS12 6NT. 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 0871 664 0335 (calls cost 10p per minute including VAT, plus network extras).

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

Caledonia Investments Share Savings Scheme
The Caledonia Investments Share Savings Scheme is a 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 Scheme.

The Share Savings Scheme is provided by Capita IRG Trustees Ltd, which can be contacted at Regulated Business, 34 Beckenham Road, Beckenham, Kent BR3 4TU or telephoned on 0871 664 0335 (calls cost 10p per minute including VAT, plus network extras).

Documentation for the Share Savings Scheme 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)
The Hon Charles W Cayzer
James M B Cayzer-Colvin
John M May
William P Wyatt

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

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

Associate directors
Graeme P Denison
Jonathan R Hale
Anthony E G Hambro
Mathew S D Masters
Sheena D McNeill
Paul M Whiteley

Secretary
Graeme P Denison

Registered office
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Registered number
Registered in England no 235481

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Stonecutter Court
1 Stonecutter Lane
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Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Tel: 0871 664 0300 (calls cost 10p per minute including VAT, plus network extras)
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The Association of Investment Companies

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