CALEDONIA
INVESTMENTS

Performance driven

Annual report 2009

Year ended 31 March 2009

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

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

We are performance driven.

Financial highlights

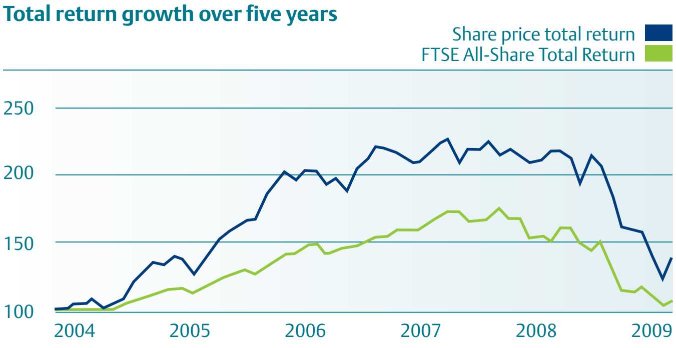
Results summary

	31 March 2009	31 March 2008	Change %
Total equity	£906m	£1,252m	-27.6
Diluted NAV per share	1559p	2155p	-27.7
Annual dividend per share	33.8p	32.5p	4.0
Share price	1289p	2050p	-37.1
Discount	17.3%	4.9%	
FTSE All-Share index	1984	2927	-32.2

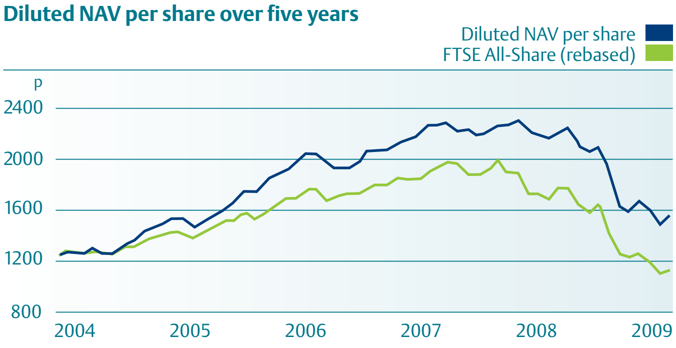
Total return performance

	5 year %	10 year %
Share price	39.0	146.4
FTSE All-Share index	7.2	-6.4
Outperformance	31.8	152.8

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 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 ten years

153%

Increase in the annual dividend – proposed final dividend of 23.5p per share

4.0%

Results

During an extremely difficult year for markets, which saw the FTSE All-Share index fall by no less than 32%, Caledonia's net asset value ('NAV') per share suffered a significant but slightly lower reduction of 28%. This was nonetheless a most disappointing outcome and the factors that contributed to the decline in our short term performance are detailed by Tim Ingram, Caledonia's Chief Executive, in his report. But as he also describes, in terms of Caledonia's longer term performance, our share price total return has continued significantly to outperform the FTSE All-Share Total Return index over the last five and ten years.

Dividend

Notwithstanding the extent of the recent turmoil in markets, the directors have proposed a further increase in the dividend in view of our continued confidence about Caledonia's long term future performance.

The board has recommended a 4.0% increase of 0.9p in the final dividend to 23.5p per share, which will be payable on 13 August 2009. The total dividend for the year will thus amount to 33.8p, an increase of 4.0% over the previous year, and represents the 42nd successive year of annual dividend increases.

Peter Buckley

Included with Caledonia's half-year report was my tribute to our former Chairman, Peter Buckley, who sadly died on 2 December 2008. In that tribute, I described Peter's outstanding contribution to the company over 32 years as a director, during which he was Chief Executive from 1987 to 2002 and Chairman from 1994.

His leadership, business acumen and personal qualities will always be remembered and appreciated by his colleagues at Caledonia. The many letters and messages we have received from shareholders, investee companies and those who knew him outside the company bear testimony to the high regard in which he was held throughout his most successful business career.

We miss Peter enormously and shall continue to do so. However, one of his greatest attributes was his ability to build a strong team around him, and that team remains in place to take Caledonia forward.

Investment approach

Caledonia's distinctive long term, supportive investment approach was nurtured by Peter and has been successfully developed and refined by Tim Ingram and his management team. A key feature of Caledonia's strategy is to invest in significant, focused stakes and work actively and closely with the managers of investee companies, having taken great care to appraise their capabilities and commitment before investing. Good judgement of management teams is one of Caledonia's particular strengths and that has certainly been evident to me as a result of spending time with the managements of many of our investee companies since I became Chairman.

By applying this approach we shall seek to maintain the success which Caledonia has achieved over many years and to continue to create long term value for the company's shareholders. The support of The Cayzer Trust Company, Caledonia's largest shareholder, remains fundamental to Caledonia's business model.

Economic background

Since the onset of the US sub-prime mortgage crisis in the summer of 2007, followed about a year later by the collapse of Lehman Brothers, the continuing major shocks to the global financial system and the resultant lack of available credit for the business sector have caused widespread and severe recession in advanced economies and large reductions in equity market values.

As far as comments on the UK are concerned, I will not attempt to match the pungency of my predecessor's remarks in his reports! Suffice it to say that the failure of the banking sector, the level of indebtedness throughout the economy, but especially in the financial sector, and inflated property prices have been particular factors behind the UK's plunge into recession.

“We have continued confidence in Caledonia’s long term performance, notwithstanding an extremely difficult year for markets.”

Portfolio
Elsewhere in this report are set out the details of the changes to Caledonia’s investment portfolio during the past year. In the light of the economic situation, we have mainly focused on supporting existing portfolio investments and have, in particular, been in close liaison with key investee companies about their management of business and financial risk. In some cases, we have added to our holdings when we have perceived the current share price levels to represent good value, given our confidence in their managements.

Staff
It has been a particularly demanding year for those at Caledonia. However, we are fortunate to have on board a talented Chief Executive and management team supported by professional and hard working staff. I would like to thank them all very much for their dedication and diligence.

Outlook
Recessions are rarely short lived and, with many industries still contracting to a major extent, this one is not only global in dimension but is likely to be particularly deep and prolonged in the US, UK and Continental Europe.

In the UK, renewal of the availability of credit to the ‘real’ economy is vitally important to the eventual recovery from recession. Given the rapid rise in public debt, it is also critical that Government should in advance be seen to have the resolve to implement, once recovery has started, credible measures to curb the level of public borrowing and thus maintain relatively low long term interest costs.

India, where we believe our investments will deliver good long term value, has certainly not been immune from the global downturn but continues to enjoy relatively strong domestic demand.

Overall, given that there may still be false dawns in trying to anticipate recovery in equity markets, our emphasis in the short term is likely to remain on supporting and sometimes building on our existing holdings. However, we shall certainly consider closely any opportunities that we identify for new investments in businesses which have good management and offer the prospect of long term added value.

James Loudon
Chairman

Chief Executive's report

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

4.5%

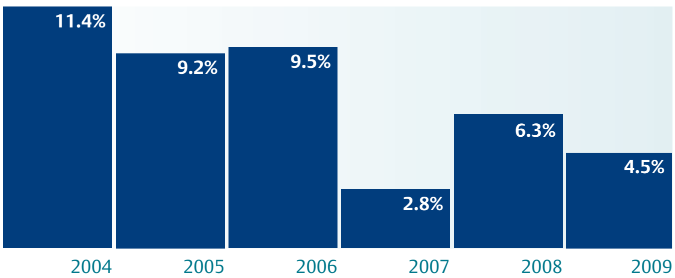
It is very disappointing – but in view of how markets have performed, perhaps not surprising – to have to report for a second year a fall in our diluted net asset value ('NAV') per share. Over the 12 months ended 31 March 2009, our NAV per share fell by 27.7% to 1559p per share. This does, nonetheless, represent outperformance of 4.5% against our benchmark, the FTSE All-Share index, which fell by 32.2% over the same period.

We are a long term investor and our aim continues to be to ensure that, over rolling five year periods, our total shareholder return ('TSR') consistently outperforms the FTSE All-Share Total Return index, as well as producing positive absolute returns. Our share price of 1289p on 31 March 2009 showed a 26.7% increase over the price of 1017p five years earlier on 31 March 2004 – the FTSE All-Share index declined by 9.7% over the same five year period. Similarly, our TSR (which takes into account reinvestment of dividends) outperformed the FTSE All-Share Total Return index by 31.8% over this same five year period.

As reported in the Chairman's statement, we are also meeting our progressive dividend policy through proposing an increase in annual dividend for the 42nd consecutive year.

Since we converted to investment trust status in April 2003 – and have been measuring NAV on a consistent basis – our NAV per share has over the period significantly outperformed the FTSE All-Share index. In particular, in each of the six years since conversion, Caledonia's NAV per share has increased by more than the FTSE All-Share index in growth years and declined by less in the two years when markets have fallen. This relative outperformance, in both bull and bear markets, is shown in the chart below.

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



However, despite meeting all of our longer term financial objectives and outperforming the market over the year in relative terms, it is undeniable and regrettable that shareholders have seen a significant decline in the value of their investment. We have therefore taken the decision this year to pay no bonuses at all to any director or member of staff, and only to review salaries for junior employees.

Business philosophy

As mentioned at the half year, 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, and as a consequence of our market fears, over the last two financial years we have provided some downside protection to the value of our portfolio in a falling market through investing, both directly and through a subsidiary, in a number of FTSE 100 and 250 put options. We regard this strategy as a defensive form of insurance policy to protect part of our portfolio, rather than a deliberate 'play' on the market. A second way of reducing the effect of market falls on our NAV is through maintaining an unleveraged position with cash on our balance sheet. At the beginning of the financial year, we had £24m of liquidity, which increased to £56m at 31 March 2009.

Also core to our philosophy is normally to have one of our own senior executives as a non-executive director of the company in which we invest, whether it is listed or private. This style of constructive involvement through careful hands-on monitoring of the business of our investments, while time-consuming, is still very important to our strategy and, we believe, a major contributor to our long term performance. There are very few financial investors who exercise such involved long term behaviour with listed companies and I do believe that at least some of the disasters that have so blighted our economy could perhaps have been avoided if other significant financial investors were also prepared to be responsibly involved in this way.

Significant changes in value

The table below shows the major falls in value (defined as individually representing a fall of 1% or more of total net assets at the beginning of the year – being over £12m of absolute value decline). These are measured on a total return basis for the year to 31 March 2009.

Investment	Fall in value £m	Fall in value %
Quintain Estates	56.7	97.8
British Empire Securities	33.9	24.7
Oval	31.6	46.2
Bristow Group	25.1	42.8
Alok Industries	15.7	77.8
Retif	14.8	100.0
Incisive Media	14.4	100.0

"Our policy of hands-on involvement and long term investment is a major contributor to our long term performance."

Quintain Estates, in which we have a 10.6% stake, was for us the major disappointment of the year, with a huge drop in share price, as was also experienced by many leveraged property development companies with substantial land banks. At 31 March 2009, its share price was just 8.4p, while its net asset value per share was estimated at over 400p. Clearly there are significant risks at Quintain Estates of further falls in asset values and pressure on bank covenants, however, we have full confidence in the management team and expect there to be a strong recovery in the share price – in fact, by 26 May, it had increased more than six times to 51.8p.

British Empire Securities, where we have a 17.8% stake, continues to be one of our main holdings. The fall in value of this investment trust reflected market declines, but in fact was a 4.6% outperformance compared with the FTSE All-Share Total Return index for the same 12 month period.

Oval is an unquoted insurance broker, in which, on a fully diluted basis, we are a 41% shareholder. Although its business and profits remained satisfactory, our conservative valuation methodology for unquoted investments, which took into account falls in market multiples and the bank borrowings of Oval, led to a significant fall in its valuation.

Bristow Group, the US quoted global helicopter operating business which mainly serves the offshore oil and gas industry and in which we have a 6.6% shareholding, saw a sharp fall in its share price, reflecting in part the decline in oil prices and anticipated consequential effects on future demand for its services.

Alok Industries, the Indian quoted textiles producer in which we have a 14.4% shareholding, saw a sharp share price fall, mainly reflecting the decline in Indian share prices – the BSE Small Cap index fell by 58.6% over the 12 month period.

Retif, an unquoted France based shop fittings and supplies business, and Incisive Media, an unquoted UK based media business, were both highly leveraged management buy-out co-investments with private equity. Although both businesses continue to trade, in view of the high level of debt and breaches of loan covenants, we have valued them at £nil.

Notwithstanding the large falls in equity markets, a number of our investments have shown an absolute gain in value during the year (again measured on a total return basis), including the following:

Investment	Gain in value £m	%
FTSE put options	24.8	221.7
Celerant Consulting	13.1	133.7
Capital Today China	5.2	110.5
London & Stamford Property	2.8	14.9
AG Barr	2.6	13.1
Wedbush Capital	1.1	37.1

As previously mentioned, our FTSE put options saw significant gains in value, offsetting to some extent the much greater falls elsewhere in our portfolio. In addition, our cash holdings have provided some protection in the bear market.

Celerant Consulting is a UK based unquoted company providing consultancy assistance in business efficiency, in which we have a 47.3% stake. The turnover and profitability of the business have grown considerably, and notwithstanding the falls in market multiples, this led to the gain in value.

Capital Today China is a Shanghai based private equity fund in which we have a 7.1% interest. The underlying investments in the fund are in aggregate showing good growth. It has also benefited from currency gains.

London & Stamford Property is a UK AIM quoted property company specifically set up to take advantage of the present property malaise, in which we are a 6.8% shareholder. Its share price rose during the year reflecting the confidence in the opportunistic property investments the company is making.

AG Barr is a UK quoted soft drinks company in which we have a 9.4% shareholding. It had another year of solid growth.

Wedbush Capital is a California based private equity fund in which we have a 16.7% interest. Its portfolio is performing satisfactorily and the revaluation of the dollar against sterling has also aided the valuation.

We should also mention the commendable position of our largest investment, Close Brothers. This well-managed and conservatively run bank has avoided the ghastly woes of the banking community and continued to make a good return on shareholders' equity. Although its share price declined by 12.8% over the year, this was much less than the FTSE All-Share index decline of 32.2% and very much less than the bank sector decline of 65.1%.

Chief Executive's report

Investment activity

In view of the sharply deteriorating economic conditions, although we examined around 80 new investment proposals, none were actually made. We have however during the year invested £63m in follow-on investments, where we have been adding to companies and situations that we know well. This was considerably lower than the £204m invested in the previous year.

During the year, we realised a total of £99m – slightly lower than the £114m realised in the previous year. Details are set out in the financial review on page 19.

Bank facilities

As anticipated in last year's annual report, at the end of July 2008 we put in place committed term bank facilities totalling £100m through two bilateral agreements for five year revolving credit facilities each of £50m with Royal Bank of Scotland and ING. Drawings under these facilities incur interest costs of between 0.80% and 0.85% over LIBOR. During the turmoil in the banking markets in October, we tested these facilities through making drawings and keeping all the proceeds in cash and Treasury Stock. These drawings were subsequently repaid and at 31 March 2009 the facilities remained undrawn but fully available.

These facilities are available until July 2013 and should enable us to take advantage of outstanding opportunities to make investments in good businesses with strong management teams and at most attractive prices.

Costs

Our philosophy of keeping a tight rein on costs continues. As previously mentioned, there have been no bonuses paid to any director or member of staff in relation to the 2009 financial year and further measures have also been taken to reduce other costs. As a result, although our net assets have declined over the year, these measures have enabled us to keep our pre-tax total expenses ratio ('TER') just below the 1% level (a similar percentage to the previous year). These also kept the ratio significantly below the average for the investment trust industry as a whole, which was 1.4%. For the 2010 financial year, there will be no increases to basic salaries other than very modest adjustments for junior staff.

Peter Buckley

The Chairman pays tribute to our former Chairman, Peter Buckley, who sadly died in December. It is his business model which has proved so beneficial to Caledonia and its shareholders.

It is only really possible to demonstrate genuine investment management prowess when measured over the long term. Peter was a director of this company and intensively involved in implementing, directing and presiding over its investment strategy for 32 years. By our estimation, over this period the total return from Caledonia's shares was 12,388%, which represents no less than a 7,911% outperformance against the FTSE All-Share index. Put another way, £1,000 invested in Caledonia shares on 28 January 1976, when Peter first became a director, with all dividends subsequently reinvested in shares, would have been worth £124,880 when he died on 2 December 2008. Very few have presided over a true long term level of performance of this magnitude.

His investment strategy lives on and all executives at Caledonia remain fully committed to what we fervently believe continues to be a value creating model.

Outlook

A year ago we reported that the economic outlook was not encouraging and that continues to be our stance. There has been huge damage inflicted on western economies – and most particularly on the United Kingdom – through, in recent years, a complete failure in banking regulation, loose control on Government expenditure and a concentration (and sometimes obsession) on the short term. Most of the apparent economic growth that our Government was so proud of had been driven by completely unsustainable increases in borrowing, which has led to the inevitable severe recession we are now experiencing. There will need to be a considerable period of de-leveraging (perhaps eventually aided by inflation) before we can get back to real sustainable growth.

However, this lamentable state of affairs does provide great opportunities for long term investors like ourselves and we are starting to see a number of potentially good value-creating opportunities. We would therefore expect to invest our liquidity during the year ahead and may well start utilising part of our bank facilities.

Tim Ingram
Chief Executive

Objectives and strategy

Objectives

Caledonia aims to achieve a long term total shareholder return in excess of the FTSE All-Share Total Return index, 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 occasionally 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.

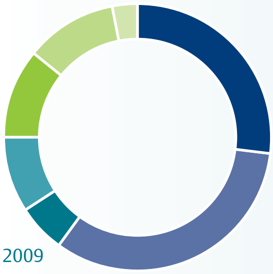
Portfolio information

Investment portfolio holdings of over 1% of net assets at 31 March 2009:

Name	Equity holding %	Country of domicile	Business sector	Business	Total £m	Proportion of net assets %
Close Brothers[1,2]	13.7	UK	Financial	Merchant banking	105.5	11.6
British Empire Securities[1,2]	17.8	UK	Funds	Investment trust	100.8	11.1
Cobepa[2]	10.0	Belgium	Funds	Investment company	43.6	4.8
Oval[2]	22.9	UK	Financial	Insurance broking	38.6	4.3
Bristow Group[1,2]	6.6	US	Oil and gas	Helicopter services	36.2	4.0
Eddington Capital funds[2,3]		Cayman	Funds	Funds of hedge funds	35.6	3.9
Rathbone Brothers[1,2]	10.6	UK	Financial	Fund management	34.6	3.8
Polar Capital funds[2,3]		Ireland/Cayman	Funds	Hedge and long-only funds	24.9	2.7
Melrose Resources[1,2]	10.1	UK	Oil and gas	Oil and gas exploration and production	24.7	2.7
FTSE put options[2]		UK	FTSE options	Portfolio hedging	24.2	2.7
Celerant[2]	47.3	UK	Industrial	Management consulting	22.9	2.5
AG Barr[1]	9.4	UK	Consumer	Soft drinks	22.4	2.5
London & Stamford Property[1]	6.8	Guernsey	Property	Property investment	21.6	2.4
Avanti Communications[1,2]	21.9	UK	Consumer	Satellite communications services	20.7	2.3
Satellite Information Services[2]	22.5	UK	Consumer	Betting information distribution	20.4	2.3
Novae Group[1,2]	7.2	UK	Financial	Insurance services	18.1	2.0
Nova Springboard[3]		Guernsey	Funds	Investment fund	15.0	1.7
Sterling Industries[2]	100	UK	Industrial	Engineering	14.2	1.6
Pragma		France	Funds	Investment funds	12.8	1.4
The Sloane Club[2]	100	UK	Consumer	Residential club owner and operator	11.8	1.3
Ermitage[2]	60.0	Jersey	Financial	Funds of hedge funds manager	11.6	1.3
Capital Today China		Cayman	Funds	Investment fund	11.3	1.2
Begbies Traynor[1,2]	10.8	UK	Industrial	Corporate recovery	11.3	1.2
Serica Energy[1,2]	14.4	UK	Oil and gas	Oil and gas exploration and production	11.0	1.2
Tribal[1]	11.4	UK	Industrial	Support services	10.1	1.1
Varun Shipping[1,2]	11.2	India	Industrial	Shipping services	9.7	1.1
Other investments[4]					142.7	15.8
Investment portfolio					856.3	94.5
Cash and other net assets					49.9	5.5
Net assets					906.2	100.0

1. Equity securities quoted on UK or overseas stock exchanges.
2. Board representation.
3. Caledonia is a shareholder in, and has board representation on, the fund management company.
4. Comprised investments of less than 1% of net assets each.

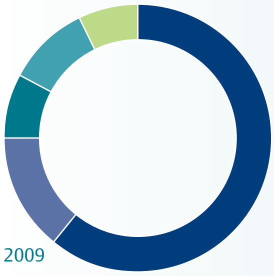
Portfolio value by business sector



2009

	2009 %	2008 %
Financial	27	24
Funds	33	28
Property	6	13
Oil and gas	9	9
Industrial	11	13
Consumer	11	12
FTSE options	3	1

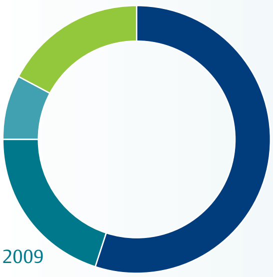
Portfolio value by geography



2009

	2009 %	2008 %
United Kingdom	61	60
Continental Europe	14	16
North America	8	7
Asia and Far East	10	11
Other countries	–	1
Unallocated	7	5

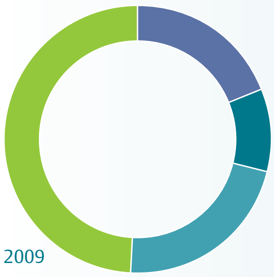
Portfolio value by security type



2009

	2009 %	2008 %
Equities quoted	55	55
Equities unquoted	20	20
Loans and fixed income	8	12
Hedge funds and other	17	13

Portfolio value by age

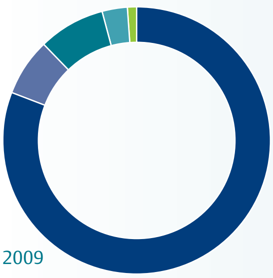


2009

	2009 %	2008 %
Under 1 year	–	5
1 to 3 years	19	20
3 to 5 years	10	23
5 to 7 years	22	5
Over 7 years	49	47

As at 31 March 2009, the weighted average age of the investment portfolio, measured from the date of initial investment, was 10.7 years (2008 – 9.5 years).

Portfolio value by currency



2009

	2009 %	2008 %
Pounds sterling	81	77
Euro	7	10
US dollar	8	7
Indian rupee	3	5
Other	1	1

Twenty largest investments

Close Brothers

Close Brothers is the UK's leading independent merchant bank with a long and successful track record. It provides investment funds, wealth management, securities trading, lending services and deposits and treasury services. Close Brothers is quoted on the London Stock Exchange.

Sector	Financial
Geography	UK
Initial investment	Jan 1987
Valuation basis	Market price
Residual cost	£43.1m
Equity held	13.7%
Valuation	£105.5m
Income	£7.7m
Year end	31 Jul 08
Revenue	£509.2m
Earnings	£90.0m
Net assets	£720.4m

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
Geography	Global
Initial investment	Jan 1991
Valuation basis	Market price
Residual cost	£16.2m
Equity held	17.8%
Valuation	£100.8m
Income	£2.1m
Year end	30 Sep 08
Revenue	£23.4m
Earnings	-£171.9m
Net assets	£633.9m

Cobepa

Cobepa is a Belgian investment company, with an illustrious history stretching back to 1957. It seeks to invest in companies with long term growth prospects throughout Europe and its shareholder base of longer term investors and families gives it the flexibility to take the medium term approach. Cobepa will invest in both minority and majority owned situations with a minimum investment of €20m.

Sector	Funds
Geography	Europe
Initial investment	Apr 2004
Valuation basis	Net assets
Residual cost	£27.5m
Equity held	10.0%
Valuation	£43.6m
Income	£1.4m
Year end	31 Dec 08
Revenue	€14.2m
Earnings	-€10.9m
Net assets	€409.0m

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
Geography	UK
Initial investment	Nov 2003
Valuation basis	Earnings
Residual cost	£36.3m
Equity held	22.9%
Valuation	£38.6m
Income	£1.7m
Year end	31 May 08
Revenue	£82.6m
Earnings	£1.3m
Net assets	£50.7m

1. Income in the year represents dividends received (inclusive of any overseas withholding tax) and gross interest receivable in the year to 31 March 2009.
2. Revenue, 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, it could be misleading to attribute a certain proportion of earnings and net assets to the proportion of equity capital held.
3. For investment funds, equity held, revenue, earnings and net assets are not applicable.

Caledonia's reputation and successful long term record has been built on two principles that we believe set us apart: a long term investment horizon and close involvement with investee managements.

Bristow Group

Bristow Group is one of the world's largest providers of helicopter services, providing helicopter transportation, maintenance 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
Geography	US
Initial investment	Nov 1991
Valuation basis	Market price
Residual cost	£36.1m
Equity held	6.6%
Valuation	£36.2m
Income	£0.5m
Year end	31 Mar 09
Revenue	$1,433.8m
Earnings	$124.3m
Net assets	$1,211.6m

Eddington Capital funds

The Eddington Capital funds comprise a range of funds of hedge funds managed by Eddington Capital, in which Caledonia has a 50% stake. The Eddington Triple Alpha Fund is a diversified multi-strategy fund and the Eddington Macro Opportunities Fund is a fund of macro-based or macro-related hedge funds with a variety of styles and strategies.

Sector	Funds
Geography	Global
Initial investment	Aug 2003
Valuation basis	Manager's NAV
Residual cost	£25.6m
Equity held	N/A
Valuation	£35.6m
Income	–
Year end	N/A
Revenue	N/A
Earnings	N/A
Net assets	N/A

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
Geography	UK
Initial investment	Mar 1995
Valuation basis	Market price
Residual cost	£15.0m
Equity held	10.6%
Valuation	£34.6m
Income	£1.9m
Year end	31 Dec 08
Revenue	£131.8m
Earnings	£19.0m
Net assets	£184.6m

Polar Capital funds

The Polar Capital funds comprise a range of hedge and long-only funds managed by Polar Capital, in which Caledonia has a 14.7% stake. The funds predominantly invest in equities and assets based on global economy fundamentals.

Sector	Funds
Geography	Global
Initial investment	Oct 2001
Valuation basis	Manager's NAV
Residual cost	£20.3m
Equity held	N/A
Valuation	£24.9m
Income	–
Year end	N/A
Revenue	N/A
Earnings	N/A
Net assets	N/A

Twenty largest investments

Caledonia has 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.

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 has a balanced portfolio of producing assets, development projects and exploration interests.

Sector	Oil and gas
Geography	UK
Initial investment	Aug 2003
Valuation basis	Market price
Residual cost	£26.6m
Equity held	10.1%
Valuation	£24.7m
Income	£0.4m
Year end	31 Dec 08
Revenue	$373.3m
Earnings	$68.3m
Net assets	$339.0m

FTSE put options

Caledonia has invested in FTSE 100 and 250 index put options and FTSE 250 index put spreads, both directly and through Union-Castle, a wholly owned subsidiary, to provide a portfolio value hedge against potential falls in the UK equity markets.

Sector	FTSE options
Geography	UK
Initial investment	Jun 2007
Valuation basis	Net assets
Residual cost	£8.0m
Equity held	N/A
Valuation	£24.2m
Income	£0.4m
Year end	N/A
Revenue	N/A
Earnings	N/A
Net assets	N/A

Celerant Consulting

Celerant Consulting provides change management services to a global client base in a range of industries including chemicals, energy, manufacturing, telecoms, government and private equity.

Sector	Industrial
Geography	UK
Initial investment	May 2006
Valuation basis	Earnings
Residual cost	£10.3m
Equity held	47.3%
Valuation	£22.9m
Income	–
Year end	31 Dec 08
Revenue	€105.6m
Earnings	-€1.6m
Net assets	-€5.1m

AG Barr

Founded in 1875, AG Barr is the 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
Geography	UK
Initial investment	Apr 1987
Valuation basis	Market price
Residual cost	£1.3m
Equity held	9.4%
Valuation	£22.4m
Income	£0.7m
Year end	31 Jan 09
Revenue	£169.7m
Earnings	£17.1m
Net assets	£92.7m

1. Income in the year represents dividends received (inclusive of any overseas withholding tax) and gross interest receivable in the year to 31 March 2009.
2. Revenue, 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, it could be misleading to attribute a certain proportion of earnings and net assets to the proportion of equity capital held.
3. For investment funds, equity held, revenue, earnings and net assets are not applicable.

Caledonia seeks close involvement with investee managements 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.

London & Stamford Property

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

Sector	Property
Geography	UK
Initial investment	Nov 2007
Valuation basis	Market price
Residual cost	£19.5m
Equity held	6.8%
Valuation	£21.6m
Income	£0.7m
Year end	31 Mar 08
Revenue	£1.3m
Earnings	£0.4m
Net assets	£277.9m

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 in the UK on AIM.

Sector	Consumer
Geography	UK
Initial investment	Nov 2005
Valuation basis	Market price
Residual cost	£22.6m
Equity held	21.9%
Valuation	£20.7m
Income	£1.3m
Year end	30 Jun 08
Revenue	£5.9m
Earnings	-£1.0m
Net assets	£32.7m

Satellite Information Services

Satellite Information Services is a long-established media business focussing 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 Irish betting industries.

Sector	Consumer
Geography	UK
Initial investment	May 2005
Valuation basis	Earnings
Residual cost	£16.7m
Equity held	22.5%
Valuation	£20.4m
Income	£3.4m
Year end	31 Mar 08
Revenue	£159.0m
Earnings	£17.9m
Net assets	£38.1m

Novae Group

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
Geography	UK
Initial investment	Mar 2003
Valuation basis	Market price
Residual cost	£19.5m
Equity held	7.2%
Valuation	£18.1m
Income	£0.5m
Year end	31 Dec 08
Revenue	£310.2m
Earnings	£37.1m
Net assets	£300.5m

Twenty largest investments

Nova Springboard

Nova Springboard is a fund managed by Nova Capital Management, in which Caledonia has a 32% stake. Springboard plc was an AIM quoted investment company in relation to which Caledonia funded a public to private transaction in 2006.

Sector	Funds
Geography	UK
Initial investment	Feb 2006
Valuation basis	Manager's NAV
Residual cost	£13.2m
Equity held	N/A
Valuation	£15.0m
Income	–
Year end	N/A
Revenue	N/A
Earnings	N/A
Net assets	N/A

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
Geography	UK
Initial investment	Feb 1987
Valuation basis	Earnings
Residual cost	£5.3m
Equity held	100.0%
Valuation	£14.2m
Income	£1.8m
Year end	31 Mar 09
Revenue	£59.5m
Earnings	£4.2m
Net assets	£21.5m

Pragma

The Pragma investment consists of two French private equity funds, dedicated to leveraged buyout transactions, managed by Pragma Capital. The Pragma funds have a total value, including outstanding commitments, of some €580m. Alongside management teams, Pragma invests in mid-sized companies with an enterprise value of between €50m and €250m and a typical investment range of €10m to €35m.

Sector	Funds
Geography	Europe
Initial investment	Feb 2003
Valuation basis	Manager's NAV
Residual cost	£11.8m
Equity held	N/A
Valuation	£12.8m
Income	–
Year end	N/A
Revenue	N/A
Earnings	N/A
Net assets	N/A

The Sloane Club

The Sloane Club is a residential club situated in central London. With 138 bedrooms and 20 serviced apartments known as The Club Suites, The Sloane Club offers its members some of the finest value rooms in London.

Sector	Consumer
Geography	UK
Initial investment	Aug 1991
Valuation basis	Net assets
Residual cost	–
Equity held	100.0%
Valuation	£11.8m
Income	–
Year end	31 Mar 09
Revenue	£7.2m
Earnings	£0.9m
Net assets	£1.3m

1. Income in the year represents dividends received (inclusive of any overseas withholding tax) and gross interest receivable in the year to 31 March 2009.
2. Revenue, 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, it could be misleading to attribute a certain proportion of earnings and net assets to the proportion of equity capital held.
3. For investment funds, equity held, revenue, earnings and net assets are not applicable.

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 on 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.

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 performance against the FTSE All-Share index over one year
- share price total return performance against the FTSE All-Share Total Return 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 1559p at 31 March 2009, compared with 2155p at the same date in 2008 and 2258p in 2007. The decrease over the year of 596p (-27.7%) resulted principally from the movement in portfolio value (-28.3%) and annual dividends paid (-1.5%).

Diluted NAV per share
at 31 March

The table below shows the components of the movement in diluted NAV per share over the year.

	Net assets £m	Number of shares 000's	Dilution adjustment[1] 000's	Diluted NAV/ share p
At 31 March 2008	1,251.9	57,434	671	2155
Total return	(329.7)	–	–	(572)
Annual dividends[2]	(19.0)	–	–	(33)
Treasury shares	1.8	(6)	84	3
Employee share options	(0.1)	151	(206)	4
Share-based payments	1.3	–	–	2
At 31 March 2009	906.2	57,579	549	1559

1. The dilution adjustment is the number of free shares equivalent to achieve the same dilution effect as issuing treasury shares at market price and the exercise of share options and calling of deferred bonus shares.
2. NAV per share movement is taken as the dividend per share.

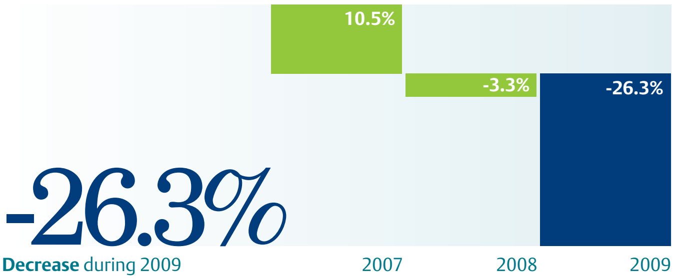
The company's NAV at 31 March 2009 of £906.2m (2008 – £1,251.9m) differs from the group's consolidated NAV of £929.3m (2008 – £1,247.9m), due to the inclusion of investments in subsidiaries at fair value in the company balance sheet, and at underlying share of net assets in the consolidated balance sheet.

Total return

Caledonia incurred a negative total return for the year ended 31 March 2009 of £329.7m, which equates to -26.3% on opening equity, compared with -3.3% in 2008. 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, comprised the company's total return, summarised in the table below.

	2009 £m	2008 £m
Gains and losses on investments and derivatives	(351.7)	(69.9)
Provisions	10.0	–
Investment and other income	34.6	39.5
Investment income impairment	(2.5)	(9.3)
Gross portfolio return	(309.6)	(39.7)
Management expenses	(9.6)	(11.2)
Other expenses	(0.5)	(1.7)
Net portfolio return	(319.7)	(52.6)
Treasury income and expenses	0.3	3.9
Taxation	(6.1)	4.8
Loss for the year	(325.5)	(43.9)
Net income/(expense) recognised in equity	(4.2)	0.6
Total recognised income and expense ('total return')	(329.7)	(43.3)

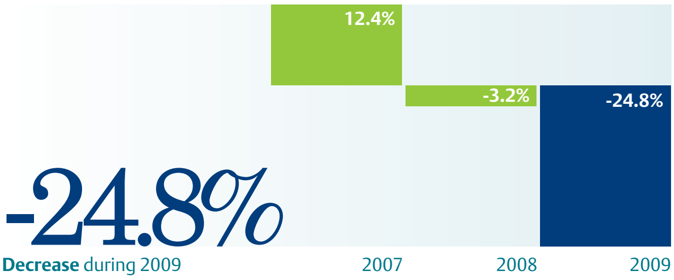
Total return
years ended 31 March



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 2009, compared with 2008, reflected the downturn in equity markets. The FTSE All-Share index fell by 32.2% in 2009, compared with a decrease of 10.9% in 2008.

Gross portfolio return
years ended 31 March



Net gains and losses on investments and derivatives for the year amounted to a loss of £351.7m, compared with a loss of £69.9m for the previous year. The provisions release in 2009 of £10.0m related to an investment disposal in 2007.

Investment and other income of £34.6m was 12.4% lower than the £39.5m booked in 2008. This decrease resulted principally from the receipt in 2008 of a special dividend of £4.5m from Close Brothers, which was not repeated in 2009. The investment income impairment in 2009 and 2008 comprised impairments of interest accrued from high-yielding loan notes.

The principal contributors to the gross portfolio return are discussed in the Chief Executive's report.

Expenses

Management expenses comprised the costs incurred in managing the operations of the company and totalled £9.6m for the year, compared with £11.2m in 2008.

Other expenses of £0.5m (2008 – £1.7m) comprised transaction costs of potential and completed investments, performance fees to third party managers and other costs.

Treasury income and expenses

Treasury income and expenses, totalling £0.3m (2008 – £3.9m), reflected the net returns on treasury assets during the year. The company held net liquidity in term deposits, averaging £33.7m over the year. Also included were exchange losses of £0.8m (2008 – £0.2m), which arose from holding foreign currency balances.

Dividends

During the year, we paid dividends of 32.9p per share (2008 – 31.5p), amounting to £19.0m (2008 – £18.2m), representing the final dividend in respect of the year ended 31 March 2008 of 22.6p per share and the interim dividend in respect of the year ended 31 March 2009 of 10.3p per share. Caledonia maintains a progressive dividend policy and has an unbroken record of annual dividend increases over the last 42 consecutive years.

Treasury and employee trust shares

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

At 31 March 2009, 667,388 shares were accounted as held in treasury, of which 95,000 shares were bought during the year at a cost of £1.2m and 155,159 shares were subject to a buy-back arrangement whereby, for the duration of the close period from 1 April to 27 May 2009, being the day before our results announcement, we had given an irrevocable undertaking to our broker, J.P.Morgan Cazenove, to purchase the company's shares on our behalf, within certain parameters. This instruction was subject to a maximum of £2.0m or 250,000 shares. At 31 March 2009, £2.0m represented the equivalent value of 155,159 shares at the closing 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 2009, 547,910 shares were held by the trust, decreased from 700,079 shares held at the end of the previous year. During the year, the trust transferred 271,166 shares to staff on exercise of share options and bought 118,997 shares. These transactions resulted in a net payment by the trust of £0.1m.

Financial review

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 2009, re-issuing the 667,388 shares (2008 – 661,131 shares) accounted as held in treasury at the closing mid-market price would have yielded proceeds of £8.6m (2008 – £13.6m). In addition, the exercise of the 691,275 (2008 – 1,205,896) in-the-money executive share options and calling of deferred bonus shares would have yielded proceeds of £4.1m (2008 – £12.3m).

The NAV dilution adjustment of 549,000 (2008 – 671,000) represents the equivalent number of shares for £nil consideration to achieve the same dilution effect.

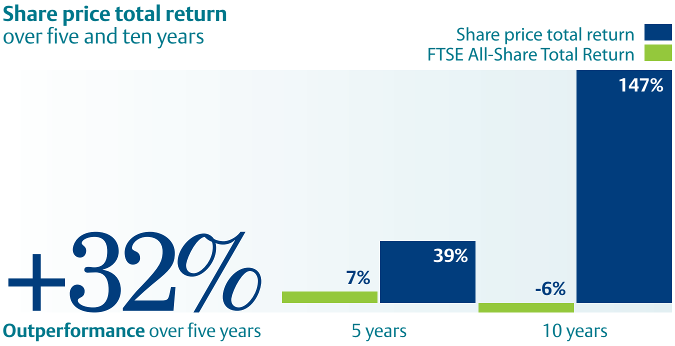
Share price total return

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 mid-market 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.

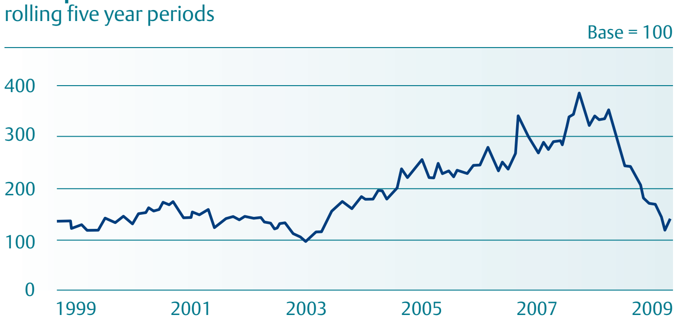
The chart below shows that shares in Caledonia have produced a total return to investors of 39% over five years and 147% over ten years, compared with total returns of 7% and -6% respectively from the FTSE All-Share – outperformance of 32% and 153%.

Share price total return
over five and ten years



As well as seeking to outperform the FTSE All-Share Total Return index over five and ten year periods, the company also aims to deliver 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



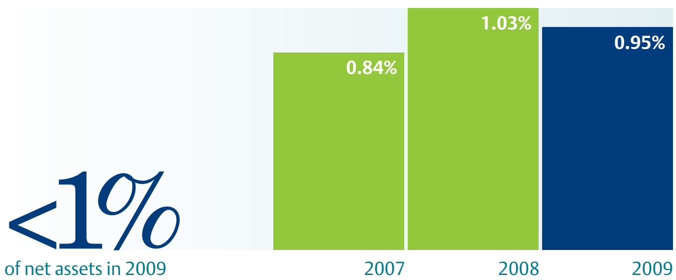
Over the last ten years, we have made a positive total return over rolling five year periods, except for a short period in late March and early April 2003.

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 reduce reported management expenses by £1.0m to £8.6m in 2009 and increase them by £1.7m to £12.9m and by £0.1m to £11.1m in 2008 and 2007 respectively.

Total expenses 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 around 80 new investment opportunities, compared with 104 in 2008.

Cash flows

The key cash flows during the year comprised an aggregate inflow of £110.3m (2008 – £115.0m) from the realisation of investments and outflow of £63.6m (2008 – £199.7m) for the purchase of investments. In addition, Caledonia acquired two FTSE 100 put options for £7.9m.

At the year end, we held cash equivalents totalling £55.5m (2008 – £23.5m).

Gearing

Caledonia had no debt at 31 March 2009 (2008 – £nil). During 2009, borrowings rose to £50.0m for a short period to finance the purchase of UK Treasury Stock. Those borrowings were repaid three weeks later from the proceeds of sale of the Treasury Stock.

Subsidiary companies of Caledonia had borrowings totalling £81.4m at 31 March 2009 (2008 – £67.8m) to finance operations. Caledonia provided bank guarantees and letters of comfort in respect of £76.7m of these borrowings (2008 – £63.7m).

Investment portfolio

The value of the investment portfolio, including derivatives, at 31 March 2009 was £856.3m, compared with £1,248.1m at 31 March 2008.

Movement

The table below illustrates the movement in the value of the investment portfolio, including derivatives, over the year.

	2009 £m	2008 £m
Opening investment portfolio[1]	1,248.1	1,228.9
Investment[2]	63.3	203.8
Realisation proceeds[2]	(99.0)	(114.4)
Gains and losses on investments	(351.7)	(70.2)
Rolled-up interest	(4.4)	–
Closing investment portfolio[1]	856.3	1,248.1

1. Includes FTSE put options.
2. Certain connected investments and realisations, which do not have an impact on the investment holding, have been offset.

Investment

Caledonia invested a total of £63.3m in the year, compared with £203.8m in 2008. A summary of the principal investments is given in the table below.

Name	Resulting equity holding %	Category	Country of domicile	Business	Cost £m
Follow-on investments					
Bristow Group	6.6	Equity	US	Helicopter services	6.7
Oval	22.9	Loans	UK	Insurance broking	6.0
Novera Energy	5.7	Equity	UK	Renewable energy	4.9
Pragma		Shares	France	Investment fund	4.8
Easybox	99.9	Equity	Lux	Secure self-storage	3.2
Cobepa	10.0	Equity	Belgium	Investment company	3.0
Other investments					34.7
					63.3

'Other investments' comprised a number of follow-on investments of less than £3.0m each.

Realisations

Caledonia made full and partial realisations of holdings during the year with total proceeds of £99.0m (2008 – £114.4m), a summary of which is given in the table below.

Name	Nature of realisation	Proceeds £m	Realised gain/(loss) £m
TGE Marine	Part sale of equity/ repayment of loans	27.7	11.0
FTSE put options	Close-out of options	17.2	13.1
Polar Capital funds	Redemptions	9.4	(0.8)
Edinmore	Repayment of loan	9.0	–
Garlandheath	Buy-back of own shares	5.2	3.5
Strategic Partners Fund	Liquidation distribution	4.8	–
The Sloane Club	Buy-back of own shares	4.0	4.0
British Empire Securities	Part sale of equity	3.2	2.7
Other realisations		18.5	19.0
		99.0	52.5

The realisation of TGE Marine, the Germany based gas engineering company, comprised the sale of part of our stake for £8.7m, realising a gain over cost of £8.3m, and the repayment of loans amounting to £19.0m, including exchange gains of £2.7m.

The buy-back of own shares by Garlandheath, a wholly owned subsidiary, was funded from the sale of a property.

'Other realisations' comprised a number of realisations with proceeds or realised gains or losses of less than £3.0m each.

Historic performance

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

				Cumulative performance based on 1999			
Years ended 31 March	Share price p/share	Annual dividend p/share	Special dividend[1] p/share	Share price total return	FTSE All-Share Total Return	Annual dividend	Retail Prices Index
1999	732.5	22.0	–	100	100	100	100
2000	771.5	23.0	70.0	109	110	105	103
2001	797.5	24.0	–	127	98	109	105
2002	847.5	25.0	–	139	95	114	106
2003	642.5	26.0	–	109	67	118	110
2004	1017.0	27.0	–	177	87	123	113
2005	1367.0	28.2	–	244	101	128	116
2006	1980.0	29.6	–	360	129	135	119
2007	2066.0	31.1	–	381	144	141	125
2008	2050.0	32.5	–	384	132	148	129
2009	1289.0	33.8	–	246	94	154	129
Compound annual returns							
5 year				6.8	1.4	4.6	2.7
10 year				9.4	-0.7	4.4	2.6

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 ('NAV') per share and discount for each month of the year ended 31 March 2009:

					Cumulative performance based on March 2008		
Month	Diluted NAV p/share	Share price p/share	FTSE All-Share	Discount share price to NAV %	NAV/share	Share price	FTSE All-Share
Mar 2008	2155	2050	2927	4.9	100	100	100
Apr 2008	2208	2055	3100	6.9	102	100	106
May 2008	2246	2004	3082	10.8	104	98	105
Jun 2008	2109	1812	2856	14.1	98	88	98
Jul 2008	2060	2006	2749	2.6	96	98	94
Aug 2008	2101	1941	2869	7.6	97	95	98
Sep 2008	1919	1740	2484	9.3	89	85	85
Oct 2008	1627	1508	2184	7.3	75	74	75
Nov 2008	1588	1494	2134	5.9	74	73	73
Dec 2008	1673	1465	2209	12.4	78	71	75
Jan 2009	1598	1319	2079	17.5	74	64	71
Feb 2009	1489	1143	1930	23.2	69	56	66
Mar 2009	1559	1289	1984	17.3	72	63	68

1. NAV includes deductions for dividends on the ex-dividend date.

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. The principal risks and uncertainties are set out below.

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 ensure 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 Investment Management Committee, which comprises executive directors and other senior managers and meets weekly. Any individual investment of £20m or more requires board approval.

Having made the investment decision, a process is put in place for managing the relationship with the investee company for the period through to realisation. This will usually include board representation by Caledonia investment executives. The executives will make regular reports to the Investment Management Committee on issues relevant to the investments for which they are 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.

Investment values may fall as a result of market factors, including equity prices, interest rates and currency exchange rates. In seeking to achieve its investment objectives, the company, from time to time, may seek to reduce its exposure to price risk by taking positions in index futures and options. These instruments are used for the purpose of hedging some or all of the existing exposure within the investment portfolio.

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 other treasury instruments. 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 exposures agreed by the board.

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

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

Inadequate or failed processes could result in the misappropriation of assets, loss of income and recovery of receivables 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.

Board of directors

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01 James Loudon
Chairman

Having served as a non-executive director of Caledonia since 1995 and Non-Executive Deputy Chairman since 2001, he was appointed Chairman in December 2008. He is also Chairman of the Nomination Committee. He was Group Finance Director of Blue Circle Industries from 1987 to 2001, a non-executive director of Lafarge Malayan Cement from 1989 to 2004 and a non-executive director of James Hardie Industries NV from 2002 to 2008. He is also Deputy Chairman of the Governors of the University of Greenwich and of Canterbury Cathedral Trust and a trustee of Kent Air Ambulance. Age 66.

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 61.

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 55.

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 52.


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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 a non-executive director of Celerant, Close Brothers, Eddington Capital Management, Ermitage, India Capital Growth Fund and Polar Capital Holdings. Age 44.

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 Chairman of Amber Chemicals and a non-executive director of Begbies Traynor, British Empire Securities, Oval, Rathbone Brothers and Satellite Information Services. Age 54.

07 Will Wyatt
Executive Director
He joined the Caledonia group in 1997 from Close Brothers Corporate Finance, working at 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, Bristow Group, Cobepa, Melrose Resources, Terrace Hill, TGE Marine and Chairman of Sterling Industries. Age 41.

08 Charles Allen-Jones
Senior Independent Non-Executive Director
Appointed a non-executive director of Caledonia in 2001, he is Chairman of the Audit and Governance Committees and a member of the Nomination and Remuneration Committees. He was a partner of the international law firm, Linklaters, for 33 years, including five years as Senior Partner until his retirement in 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 69.

09 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 Chief Executive of Fleming Family & Partners and Chairman of FF&P Asset Management and Thornhill Holdings. Age 61.

10 Richard Goblet d'Alviella
Non-Executive Director
A Belgian national, he was appointed a non-executive director of Caledonia in 2005 and is a member of the Audit Committee. 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 60.

11 David Thompson
Non-Executive Director
Appointed a non-executive director of Caledonia in 2003, he is a member of the Audit, Governance, Nomination and Remuneration Committees. He is Chairman of Marston's, having served as its Managing Director from 1986 to 2001, and is also a non-executive director of Persimmon and Tribal Group. Age 54.

Directors' report

The directors present their report and accounts for the year ended 31 March 2009. This report should be read in conjunction with the directors' remuneration report and the corporate governance report.

Principal activities and results

Caledonia is an investment trust company. A review of the activities of the company, together with the results for the year, is given in the business review, which should be regarded as part of this report. There have been no significant changes in the activities of the operating subsidiaries.

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. Applications for approval for the years ended 31 March 2007 and 2008 have been made to HMRC and an application for approval for the year ended 31 March 2009 will be made subsequent to the approval of these accounts by shareholders of the company.

Annual general meeting

The eightieth annual general meeting of the company will be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN on Thursday, 23 July 2009 at 11.30 am. The notice of the annual general meeting and details of all of the resolutions to be put to shareholders are set out in a separate circular which accompanies this annual report.

Directors and their interests

The directors of the company, all of whom served throughout the year, are shown on pages 22 and 23. Mr P N Buckley also served as a director of the company until his death on 2 December 2008.

The interests of the directors and their families in the ordinary share capital of the company as at 31 March 2009 were as follows:

	Beneficial		Non-beneficial	
	2009 No	2008 No	2009 No	2008 No
J R H Loudon	13,564	9,764	9,930	9,930
T C W Ingram	108,510	88,120	–	–
J H Cartwright	12,810	12,810	–	–
The Hon C W Cayzer[1]	50,555	54,755	28,505	27,881
J M B Cayzer-Colvin	385,771	385,771	7,053	19,422
J M May	16,793	6,250	–	–
W P Wyatt[2]	99,724	99,100	17,093	17,093
C M Allen-Jones	7,500	7,500	–	–
M E T Davies	2,500	2,500	–	–
R Goblet d'Alviella	–	–	–	–
D G F Thompson	3,000	3,000	3,000	1,500

1. The Hon C W Cayzer's beneficial interests included 17,093 shares in which Mr Wyatt had a non-beneficial interest (2008 – 17,093 shares).
2. Mr Wyatt's beneficial interests included 28,505 shares in which The Hon C W Cayzer had a non-beneficial interest (2008 – 27,881 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 2009 are set out in the directors' remuneration report on pages 52 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 any liability incurred by him for negligence, default, breach of duty or breach of trust in relation to the affairs of the company.

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 2009, 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 2009, 512,229 shares were held in treasury and 3,000 shares held by a group company. 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 27 May 2009, being the latest practicable date prior to the date of this 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	19,651,095	33.7%
Sofina sa	2,746,777	4.7%

The total number of voting rights held by The Cayzer Trust Company Ltd ('Cayzer Trust') comprised 19,593,072 direct voting rights (33.6%) 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 2009, the trust held 547,910 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 to 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 three-quarters 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 29 July 2008, shareholders granted to the directors authority to allot ordinary shares up to a nominal amount of £972,959, representing approximately 33.33% of the ordinary share capital then in issue, excluding ordinary shares held in treasury. The directors were further authorised to issue ordinary shares up to a nominal amount of £145,943 other than pro rata to existing ordinary shareholders. These authorities last until the next annual general meeting.

At the annual general meeting held on 29 July 2008, shareholders also granted authority for the company to make market purchases of up to 5,837,750 of its own ordinary shares, being approximately 10% of the ordinary share capital then in issue, excluding ordinary 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 2010 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 1 January 2010 or, if earlier, the conclusion at the next annual general meeting.

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.

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.

Corporate responsibility
Caledonia considers the impact of its business in the following areas:

Workplace
Caledonia has in place a set of polices intended to protect employees from unlawful discrimination, offer them a working environment where they have a right to be treated fairly, with consideration and respect, and support high standards of conduct and performance. These policies assist in ensuring that the company meets applicable health and safety standards and treats disabled employees in accordance with its statutory obligations. These policies are communicated to employees by way of a staff handbook provided at the time of joining and periodically thereafter.

In addition to a grievance procedure, which allows employees to raise concerns either formally or informally, there are formal whistleblowing arrangements in place, which enable members of staff to raise any issue of concern regarding possible impropriety in the conduct of the company's business confidentially and independently of line management.

Directors' report

A formal performance appraisal process, through which employees may be set objectives on an annual basis and their achievement against those objectives assessed at the end of the period, is intended to ensure that employees have a clear view of their performance and the ability to develop their potential within the company through additional training where necessary. Together with team meetings and company wide briefings, this provides the employees with the opportunity to be closely involved in the success of the business.

Community
Caledonia encourages employees to support local voluntary organisations and charitable causes and provides matched sponsorship to their fundraising activities. This and other charitable donations in the year amounted to £38,000.

The company also supports the work of the Royal Horticultural Society and contributions to the RHS's campaigns to promote gardening through sponsorship of the RHS Chelsea Flower Show Charity Gala Preview, amounted to £64,400 in the year.

Political donations totalling £70,000 were made to the Conservative Party during the year.

Environment
Caledonia's environmental impact is limited. However, any measures taken to reduce this impact demonstrate the company's commitment to improve the environment and can have direct benefits through reductions in costs for energy and consumables. A number of measures have been and will be taken in this area:

- encouragement of the use of electronic communications to save paper, printing consumables and energy.
- usage of video-conferencing and telephone conference calls rather than travelling to meetings.
- recycling of office waste, used paper and other consumables.

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 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 company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's report on pages 4 to 6. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 16 to 19. In addition, note 22 to the financial statements includes the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to currency risk, interest rate risk, price risk, credit risk and liquidity risk.

Although the current economic environment has led to a significant drop in net asset value and the continuing volatile equity markets may lead to further declines in valuation, the company has considerable cash resources and committed bank facilities available to meet existing and new investment commitments. As a consequence, the directors believe that the company is well placed to manage its business risks successfully, despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Auditors
Resolutions will be proposed at the annual general meeting to re-appoint Deloitte 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 61 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

Graeme Denison
Secretary
28 May 2009

Responsibility statement of the directors

We confirm that, to the best of our knowledge:

1. the financial statements, prepared in accordance with IFRS as adopted by the European Union, 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 by:

Tim Ingram
Chief Executive
28 May 2009

Jonathan Cartwright
Finance Director
28 May 2009

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 2009 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 part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the 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 outside the annual report.

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 2009 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 LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
28 May 2009

Income statement
for the year ended 31 March 2009

	Note	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Gains and losses on investments held at fair value through profit or loss	9	(350.4)	(70.2)	(350.8)	(80.7)
Gains and losses on derivatives used to hedge the fair value of investments		(1.3)	0.3	26.1	7.9
Provisions	21	10.0	–	10.0	–
Investment and other income	1	34.6	39.5	38.9	35.7
Investment income impairment	2	(2.5)	(9.3)	(2.5)	(5.1)
Gross portfolio return		(309.6)	(39.7)	(278.3)	(42.2)
Management expenses	3	(9.6)	(11.2)	(9.6)	(11.2)
Other expenses	3	(0.5)	(1.7)	(0.5)	(1.7)
Net portfolio return		(319.7)	(52.6)	(288.4)	(55.1)
Revenue from sales of goods and services		–	–	131.0	120.5
Operating expenses	3	–	–	(135.5)	(106.6)
Loss on disposal of operations	25	–	–	(0.3)	(0.1)
Gain on investment property		–	–	0.3	4.4
Share of results of joint ventures	13	–	–	0.8	0.4
Loss before finance costs		(319.7)	(52.6)	(292.1)	(36.5)
Treasury interest receivable	4	1.6	4.1	1.7	4.5
Exchange movements		(0.8)	(0.2)	1.2	(1.0)
Finance costs	5	(0.5)	–	(4.7)	(4.2)
Loss before tax		(319.4)	(48.7)	(293.9)	(37.2)
Taxation	6	(6.1)	4.8	(6.9)	(1.7)
Loss for the year		(325.5)	(43.9)	(300.8)	(38.9)
Attributable to					
Equity holders of the parent		(325.5)	(43.9)	(300.6)	(38.1)
Minority interest		–	–	(0.2)	(0.8)
		(325.5)	(43.9)	(300.8)	(38.9)
Basic earnings per share	8	-564.1p	-76.0p	-521.0p	-65.9p
Diluted earnings per share	8	-564.1p	-76.0p	-521.0p	-65.9p

Statement of recognised income and expense
for the year ended 31 March 2009

	Note	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Exchange differences on translation of foreign operations		–	–	6.9	2.5
Transferred to income statement on disposal of foreign operation	25	–	–	(0.4)	–
Actuarial gains and losses on defined benefit pension schemes	20	(3.5)	1.5	(8.6)	1.5
Tax on items recognised directly in equity	6	(0.7)	(0.9)	0.6	(0.9)
Net income/(expense) recognised directly in equity		(4.2)	0.6	(1.5)	3.1
Loss for the year		(325.5)	(43.9)	(300.8)	(38.9)
Total recognised income and expense		(329.7)	(43.3)	(302.3)	(35.8)
Attributable to					
Equity holders of the parent		(329.7)	(43.3)	(302.6)	(35.1)
Minority interest		–	–	0.3	(0.7)
		(329.7)	(43.3)	(302.3)	(35.8)

The accounting policies and notes to the financial statements on pages 32 to 51 are an integral part of these financial statements.

Balance sheet
at 31 March 2009

	Note	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Non-current assets					
Investments held at fair value through profit or loss	9	**848.9**	**1,247.3**	773.2	1,127.7
Investments in subsidiaries held at cost	9	**0.8**	**0.8**	–	–
Available for sale investments	9	**–**	**–**	0.8	0.5
Intangible assets	10	**–**	**–**	28.8	39.5
Property, plant and equipment	11	**–**	**–**	90.4	88.3
Investment property	12	**–**	**–**	0.5	5.4
Interests in joint ventures	13	**–**	**–**	8.1	7.7
Deferred tax assets	14	**2.0**	**1.7**	7.9	4.7
Employee benefits	20	**–**	**2.0**	–	2.0
Non-current assets		**851.7**	**1,251.8**	909.7	1,275.8
Current assets					
Inventories	15	**–**	**–**	17.3	16.2
Derivatives		**6.6**	**–**	29.2	19.6
Trade and other receivables	16	**4.0**	**4.2**	38.5	30.0
Current tax assets	6	**–**	**–**	0.4	0.3
Money market funds held at fair value through profit or loss	9	**–**	**–**	1.0	–
Cash and cash equivalents	17	**55.5**	**23.5**	74.2	42.7
Current assets		**66.1**	**27.7**	160.6	108.8
Total assets		**917.8**	**1,279.5**	1,070.3	1,384.6
Current liabilities					
Bank overdrafts	17	**–**	**–**	(0.3)	–
Interest-bearing loans and borrowings	18	**–**	**–**	(1.6)	(16.5)
Trade and other payables	19	**(2.4)**	**(9.7)**	(32.8)	(32.7)
Employee benefits	20	**–**	**–**	(3.5)	(3.9)
Current tax liabilities		**(4.0)**	**(3.3)**	(3.8)	(6.9)
Provisions	21	**(3.5)**	**(13.5)**	(4.2)	(14.1)
Current liabilities		**(9.9)**	**(26.5)**	(46.2)	(74.1)
Non-current liabilities					
Interest-bearing loans and borrowings	18	**–**	**–**	(79.5)	(51.3)
Employee benefits	20	**(1.5)**	**(1.1)**	(11.1)	(5.2)
Deferred tax liabilities	14	**(0.2)**	**–**	(1.5)	(2.7)
Non-current liabilities		**(1.7)**	**(1.1)**	(92.1)	(59.2)
Total liabilities		**(11.6)**	**(27.6)**	(138.3)	(133.3)
Net assets		**906.2**	**1,251.9**	932.0	1,251.3
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	**643.5**	**998.1**	–	–
Retained earnings	23	**281.5**	**274.3**	940.4	1,266.7
Foreign exchange translation reserve	23	**–**	**–**	7.7	1.7
Own shares	23	**(24.6)**	**(26.3)**	(24.6)	(26.3)
Equity attributable to owners of the parent		**906.2**	**1,251.9**	929.3	1,247.9
Minority interest	23	**–**	**–**	2.7	3.4
Total equity		**906.2**	**1,251.9**	932.0	1,251.3

Undiluted net asset value per share	8	**1574p**	**2180p**
Diluted net asset value per share	8	**1559p**	**2155p**

The financial statements on pages 29 to 51 were approved by the board on 28 May 2009 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 32 to 51 are an integral part of these financial statements.

Cash flow statement
for the year ended 31 March 2009

	Note	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Operating activities					
Dividends received		27.3	25.6	25.3	25.3
Interest received		9.2	7.5	8.6	7.3
Cash received from customers		–	–	134.1	127.6
Cash paid to suppliers and employees		(16.3)	(13.5)	(130.3)	(116.5)
Taxes received/(paid)		(6.7)	2.9	(13.7)	1.7
Group relief received		0.7	1.4	–	–
Net cash flow from operating activities		14.2	23.9	24.0	45.4
Investing activities					
Purchases of non-current investments held at fair value through profit or loss		(63.6)	(199.7)	(55.0)	(188.3)
Proceeds on disposal of non-current investments held at fair value through profit or loss		110.3	115.0	62.7	108.1
Purchases of money market funds held at fair value through profit or loss		–	–	(1.0)	–
Proceeds on disposal of money market funds held at fair value through profit or loss		–	–	–	0.3
Net receipts/(payments) from derivatives		(7.9)	0.3	17.7	(11.3)
Purchases of property, plant and equipment		–	–	(6.2)	(9.5)
Proceeds on disposal of property, plant and equipment		–	–	2.4	1.1
Proceeds on disposal of joint ventures		–	–	0.4	4.0
Proceeds on disposal of investment property		–	–	6.3	4.8
Acquisition of subsidiaries net of cash acquired	24	–	–	(4.3)	(0.7)
Proceeds on disposal of subsidiaries net of cash disposed	25	–	–	(0.2)	(1.5)
Net cash flow from/(used in) investing activities		38.8	(84.4)	22.8	(93.0)
Financing activities					
Interest paid		(0.7)	–	(4.5)	(3.9)
Distributions paid to holders of equity shares		(19.0)	(18.2)	(19.0)	(18.2)
Dividends paid to minority interests		–	–	(1.0)	(0.1)
Proceeds from new borrowings		50.0	–	60.0	6.0
Repayment of borrowings		(50.0)	–	(52.9)	(9.5)
Purchase of treasury stock held at fair value through profit or loss		(50.4)	–	(50.4)	–
Proceeds on disposal of treasury stock held at fair value through profit or loss		50.4	–	50.4	–
Net purchase of own shares		(1.3)	(6.4)	(1.3)	(6.4)
Net cash flow used in financing activities		(21.0)	(24.6)	(18.7)	(32.1)
Net increase/(decrease) in cash and cash equivalents		32.0	(85.1)	28.1	(79.7)
Cash and cash equivalents at year start		23.5	108.6	42.7	121.7
Exchange gains on cash and cash equivalents		–	–	3.1	0.7
Cash and cash equivalents at year end	17	55.5	23.5	73.9	42.7

The accounting policies and notes to the financial statements on pages 32 to 51 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 in 1928, 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 were authorised for issue by the directors on 28 May 2009.

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

In the current year, the group has adopted IFRIC 14 'The limit of a defined benefit asset, minimum funding requirements and their interaction', which is effective for annual reporting periods beginning on or after 1 January 2008. The adoption of IFRIC 14 had no material impact on these financial statements. At the date of authorisation of these financial statements, the following Standard and Interpretation, which have not been applied in these financial statements, were in issue but not yet effective:

- IFRS 8 'Operating Segments'
- IFRIC 13 'Customer Loyalty Programmes'.

The directors anticipate that the adoption of the Standard and Interpretation 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 for reporting periods beginning on or after 1 January 2009.

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.

Under the Combined Code and applicable regulations, the directors are required to satisfy themselves that it is reasonable to presume that the company is a going concern. After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future, as discussed in the directors' report on page 26. Accordingly, they continue to adopt the going concern basis of preparing the financial statements.

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 15.

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.

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.

Accounting policies

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 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.

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 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Investment income				
Dividends from equity shares				
Quoted UK	16.9	18.6	16.9	18.6
Quoted non-UK	2.8	2.4	2.8	2.4
Unquoted	6.1	5.3	6.1	5.3
Subsidiaries	1.8	0.3	–	–
Interest on loan investments				
Quoted UK	–	0.2	–	0.2
Unquoted	5.9	8.7	12.8	8.7
Subsidiaries	0.8	3.5	–	–
Distributions from limited partnerships	–	0.3	–	0.3
	34.3	39.3	38.6	35.5
Other income				
Underwriting commission	0.2	–	0.2	–
Deal fees	0.1	0.2	0.1	0.2
	34.6	39.5	38.9	35.7

2. Investment income impairment

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Loan investments				
Unquoted	2.5	5.1	2.5	5.1
Subsidiaries	–	4.2	–	–
	2.5	9.3	2.5	5.1

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

3. Expenses

Investing operations

Management expenses

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Personnel expenses	6.3	8.2	6.3	8.2
Depreciation	0.1	0.1	0.1	0.1
Auditors' remuneration	0.1	0.5	0.1	0.5
Other administrative expenses	3.1	2.4	3.1	2.4
	9.6	11.2	9.6	11.2

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 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Transaction costs	0.2	0.3	0.2	0.3
Performance fees	–	0.6	–	0.6
Other expenses	0.3	0.8	0.3	0.8
	0.5	1.7	0.5	1.7

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 2009 £m	Group 2008 £m
Cost of sales	74.8	66.7
Distribution expenses	13.7	11.5
Administrative expenses	47.0	28.4
	135.5	106.6

Operating expenses included the following items:

	Group 2009 £m	Group 2008 £m
Depreciation	4.6	4.7
Amortisation	1.6	1.5
Impairment loss on property plant and equipment	5.4	–
Impairment loss on goodwill	11.1	0.3
Direct operating expenses of investment property that generated rental income	0.1	0.1
Auditors' remuneration	0.2	0.2

Further information

Auditors' remuneration

Fees payable to Deloitte LLP (2008 – Deloitte & Touche LLP) were as follows:

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Audit services				
Company audit	0.1	0.1	0.1	0.1
Consolidation audit	–	–	0.1	0.1
Annual report	0.1	0.1	0.2	0.2
Subsidiaries' audit	–	–	0.1	0.1
	0.1	0.1	0.3	0.3
Other services				
Taxation advice	0.3	0.4	0.3	0.4
	0.4	0.5	0.6	0.7

Personnel expenses

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Wages and salaries	4.4	5.6	37.0	32.8
Compulsory social security contributions	0.6	0.7	4.6	4.2
Contributions to defined contribution plans	0.3	0.2	1.1	0.9
Defined benefit pension plans expense[1]	–	(0.2)	0.2	(0.3)
Increase in liability for long service leave	–	–	0.1	–
Equity-settled share-based payments[1]	1.3	1.6	1.3	1.6
National Insurance on share awards	(0.3)	0.3	(0.3)	0.3
	6.3	8.2	44.0	39.5

1. See note 20 'Employee benefits'.

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

	Company 2009 No	Company 2008 No	Group 2009 No	Group 2008 No
Average number of employees	41	43	882	852

4. Treasury interest receivable

	Company 2009 No	Company 2008 No	Group 2009 No	Group 2008 No
Interest on bank deposits	1.1	3.5	1.6	4.1
Other interest receivable	0.1	0.4	0.1	0.4
Guarantee fees	0.4	0.2	–	–
	1.6	4.1	1.7	4.5

5. Finance costs

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Interest on bank loans and overdrafts	0.5	–	4.6	4.1
Other interest costs	–	–	0.1	0.1
	0.5	–	4.7	4.2

6. Taxation

Recognised in the income statement

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Current tax expense				
Current year	5.6	1.7	8.9	8.1
Adjustments for prior years	1.3	(7.5)	1.3	(7.9)
	6.9	(5.8)	10.2	0.2
Deferred tax expense				
Origination and reversal of timing differences	(0.8)	0.8	(3.5)	2.0
Benefit of tax losses recognised	–	0.2	0.2	(0.5)
	(0.8)	1.0	(3.3)	1.5
Total tax expense/(income)	6.1	(4.8)	6.9	1.7

Reconciliation of effective tax expense

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Loss before tax	(319.4)	(48.7)	(293.9)	(37.2)
Tax at the domestic rate of 28% (2008 – 30%)	(89.4)	(14.6)	(82.3)	(11.2)
Effect of tax rate in foreign jurisdictions	–	–	3.7	(0.3)
Non-deductible expenses	–	2.9	1.4	2.7
Utilisation of tax losses	–	(2.1)	(0.2)	(4.1)
Losses for the year unrelieved	–	–	0.7	1.7
Non-taxable losses on investments	101.2	26.3	91.3	29.9
Non-taxable UK dividend income	(6.7)	(6.7)	(6.2)	(6.7)
Tax exempt revenues	–	–	–	(1.2)
Other timing differences	(0.3)	(3.1)	(2.8)	(1.2)
Under/(over) provided in prior years	1.3	(7.5)	1.3	(7.9)
Tax expense/(income)	6.1	(4.8)	6.9	1.7

Recognised directly in equity

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Relating to actuarial gains/(losses) on defined benefit pension schemes	(1.0)	0.4	(2.3)	0.4
Relating to share options	1.7	0.5	1.7	0.5
	0.7	0.9	(0.6)	0.9

Current tax assets and liabilities

The group's current tax asset of £0.4m (2008 – £0.3m) represented the amount of income taxes recoverable in respect of current and prior years that exceeded payments.

7. Dividends

Amounts recognised as distributions to equity holders in the year were as follows:

	2009 p	2009 £m	2008 p	2008 £m
Final dividend for the year ended 31 March 2008 (2007)	22.6	13.0	21.6	12.5
Interim dividend for the year ended 31 March 2009 (2008)	10.3	6.0	9.9	5.7
	32.9	19.0	31.5	18.2
Proposed final dividend for the year ended 31 March 2009 (2008)	23.5	13.5	22.6	13.0

The proposed final dividend has not been included as a liability in these financial statements. This dividend, if approved by shareholders at the annual general meeting to be held on 23 July 2009, will be payable on 13 August 2009 to holders of shares on the register on 10 July 2009. The ex-dividend date will be 8 July 2009.

For the purposes of section 842 of the Income and Corporation Taxes Act 1988, the dividends payable for the year ended 31 March 2009 are the interim dividend paid and the final dividend payable for that year, amounting to £19.5m (2008 – £18.7m).

Notes to the financial statements

8. Earnings and net asset value per share

Basic and diluted earnings per share

The calculation of basic earnings per share of the company and of the group was based on the loss attributable to shareholders and the weighted average number of shares outstanding during the year.

The calculation of diluted earnings per share of the company and of the group was based on the loss attributable to shareholders and the weighted average number of shares outstanding during the year, after adjustment for the effects of dilutive potential shares. At 31 March 2009 and 2008, there were no adjustments in respect of dilutive potential shares.

The loss attributable to shareholders was as follows:

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Loss attributable to shareholders (basic and diluted)	(325.5)	(43.9)	(300.6)	(38.1)

The weighted average number of shares was as follows:

	Company 2009 000's	Company 2008 000's	Group 2009 000's	Group 2008 000's
Issued shares at year start	58,795	58,795	58,795	58,795
Effect of shares held in treasury	(487)	(296)	(487)	(296)
Effect of shares held by the employee share trust	(608)	(701)	(608)	(701)
Shares held by a subsidiary	–	–	(3)	(3)
Weighted average number of shares during the year (basic and diluted)	57,700	57,798	57,697	57,795

Net asset value per share

The company's undiluted net asset value per share is based on the net assets of the company at the year end and on the number of shares in issue at the year end less shares held by the Caledonia Investments plc Employee Share Trust, shares held by a subsidiary and accounted as held in treasury. The company's diluted net asset value per 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 deferred bonus awards.

	Net assets 2009 £m	Number of shares 2009 000's	NAV per share 2009 p	Net assets 2008 £m	Number of shares 2008 000's	NAV per share 2008 p
Undiluted	906.2	57,579	1574	1,251.9	57,434	2180
Effect of treasury shares, share options and deferred bonus awards	12.7	1,359	(15)	25.8	1,867	(25)
Diluted	918.9	58,938	1559	1,277.7	59,301	2155

9. Investments

Company

	2009 £m	2008 £m
Non-current investments		
Investments held at fair value through profit or loss	848.9	1,247.3
Investments in subsidiaries held at cost	0.8	0.8
	849.7	1,248.1

The movements in non-current investments were as follows:

	UK quoted £m	Non-UK quoted £m	Unquoted £m	Subsidiaries £m	Total £m
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
Purchases at cost	14.4	8.8	33.1	10.0	66.3
Disposal proceeds	(3.2)	(0.5)	(58.9)	(47.3)	(109.9)
Reclassifications	2.4	6.3	(8.7)	–	–
Gains/(losses) on investments	(188.4)	(61.7)	(100.7)	0.4	(350.4)
Rolled-up interest	–	–	(4.0)	(0.4)	(4.4)
Balance at 31 March 2009	407.1	68.7	288.3	85.6	849.7

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

Group

	2009 £m	2008 £m
Non-current investments		
Investments held at fair value through profit or loss		
UK quoted securities	407.1	581.9
Non-UK quoted securities	68.7	115.8
Unquoted securities	297.4	430.0
	773.2	1,127.7
Available for sale investments		
Unquoted securities	0.8	0.5
	774.0	1,128.2
Current investments		
Money market funds	1.0	–

10. Intangible assets

Group

	Goodwill £m	Customer relation-ships £m	Other £m	Total £m
Cost				
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)
Movements in foreign exchange	0.2	–	–	0.2
Balance at 31 March 2008	35.0	11.8	1.1	47.9
Acquisition of operations	–	1.8	–	1.8
Other acquisitions	–	–	0.1	0.1
Disposals	(0.5)	–	–	(0.5)
Movements in foreign exchange	1.5	–	–	1.5
Balance at 31 March 2009	36.0	13.6	1.2	50.8
Amortisation and impairment				
Balance at 31 March 2007	5.9	–	0.4	6.3
Amortisation charge for the year	–	1.2	0.3	1.5
Impairment charge for the year	0.3	0.3	–	0.6
Balance at 31 March 2008	6.2	1.5	0.7	8.4
Amortisation charge for the year	–	1.3	0.3	1.6
Impairment charge for the year	11.1	–	–	11.1
Movements in foreign exchange	0.9	–	–	0.9
Balance at 31 March 2009	18.2	2.8	1.0	22.0
Carrying amounts				
At 31 March 2007	28.4	11.8	0.5	40.7
At 31 March 2008	28.8	10.3	0.4	39.5
At 31 March 2009	17.8	10.8	0.2	28.8

Customer relationships relate to identifiable customer related intangible assets acquired on the purchase of the Ermitage group in May 2006. During 2008, the useful economic life of client relationships was revised from indefinite to ten years.

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

Impairment charge

The impairment charge for the year of £11.1m (2008 – £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	Equip-ment £m	Total £m
Cost				
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)
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
Acquisition of operations	–	0.2	–	0.2
Other acquisitions	2.2	2.4	2.0	6.6
Disposal of operations	–	(1.4)	(0.5)	(1.9)
Other disposals	(1.7)	(0.5)	(0.4)	(2.6)
Movements in foreign exchange	7.7	2.9	1.1	11.7
Balance at 31 March 2009	100.9	8.6	12.8	122.3
Depreciation and impairment				
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
Disposals	–	(0.2)	(0.4)	(0.6)
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
Impairment charge for the year	5.4	–	–	5.4
Depreciation charge for the year	2.0	1.5	1.2	4.7
Disposal of operations	–	(1.1)	(0.5)	(1.6)
Other disposals	–	(0.5)	(0.2)	(0.7)
Movements in foreign exchange	1.5	1.7	0.9	4.1
Balance at 31 March 2009	24.0	3.9	4.0	31.9
Carrying amounts				
At 31 March 2007	68.4	2.2	8.0	78.6
At 31 March 2008	77.6	2.7	8.0	88.3
At 31 March 2009	76.9	4.7	8.8	90.4

Included in property are buildings under construction, with a carrying amount of £nil (2008 – £4.8m).

Security

At 31 March 2009, properties with a carrying amount of £38.8m (2008 – £32.6m) were subject to charges to secure bank loans (note 18).

Notes to the financial statements

12. Investment property

Group

	2009 £m	2008 £m
Balance at the year start	5.4	5.8
Fair value adjustments	–	4.4
Disposals	(4.9)	(4.8)
Balance at the year end	0.5	5.4

During the year, an investment property was sold for £5.5m, which had been leased for £0.3m per annum (2008 – £0.3m) over a five year period.

The carrying amount of investment property was the fair value of vacant freehold land as determined by the directors of the company.

13. Interests in joint ventures

The group had the following interests in joint ventures:

	Country of domicile	Ownership 2009 %	2008 %
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 2009 was £0.8m (2008 – £0.4m).

Summarised financial information of joint ventures was as follows:

	Assets £m	Liabilities £m	Equity £m	Revenue £m	Profit/ (loss) £m
2009					
Moredun LP	39.3	(25.0)	14.3	3.2	0.7
Willmoreton Properties Ltd	11.9	(8.0)	3.9	0.9	0.5
York Investors LLP	7.5	(3.2)	4.3	0.4	–
GPG Premises LLP	1.6	(0.5)	1.1	2.8	1.4
	60.3	(36.7)	23.6	7.3	2.6
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

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
2009			
Investments	1.6	(0.2)	1.4
Employee benefits	0.4	–	0.4
	2.0	(0.2)	1.8
2008			
Investments	(3.7)	–	(3.7)
Employee benefits	2.6	–	2.6
Provisions	2.8	–	2.8
	1.7	–	1.7

Movement in temporary differences during the year

	Balance at year start £m	Recogn-ised in income £m	Recogn-ised in equity £m	Balance at year end £m
2009				
Investments	(3.7)	5.1	–	1.4
Employee benefits	2.6	(1.5)	(0.7)	0.4
Provisions	2.8	(2.8)	–	–
	1.7	0.8	(0.7)	1.8
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

Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities were attributable to the following:

	Assets £m	Liabilities £m	Net £m
2009			
Investments	1.6	(0.2)	1.4
Employee benefits	4.9	–	4.9
Tax losses	0.5	–	0.5
Other items	0.9	(1.3)	(0.4)
	7.9	(1.5)	6.4
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

Unrecognised deferred tax assets

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

	2009 £m	2008 £m
Tax losses	4.3	4.4

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 £2.6m (2008 – £2.1m) expire within five years and the balance does not expire.

Movement in temporary differences during the year

	Balance at year start £m	Recognised in income £m	Recognised in equity: Taxation £m	Recognised in equity: Exchange movement £m	Balance at year end £m
2009					
Investments	(3.7)	5.1	–	–	1.4
Employee benefits	4.3	(0.4)	0.6	0.4	4.9
Provisions	2.8	(2.8)	–	–	–
Tax losses	0.7	(0.2)	–	–	0.5
Other items	(2.1)	1.6	–	0.1	(0.4)
	2.0	3.3	0.6	0.5	6.4
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

15. Inventories

	Group 2009 £m	Group 2008 £m
Raw materials and consumables	4.9	4.5
Work in progress	1.6	1.1
Finished goods	3.2	3.3
Properties held for sale	7.6	7.3
	17.3	16.2

Inventories included properties with a cost of £0.9m (2008 – £2.1m) that were not expected to be realised within one year.

16. Trade and other receivables

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Trade receivables and prepayments	4.0	4.2	38.5	30.0

Group trade receivables included an amount of £0.9m (2008 – £0.8m) that was expected to be settled after more than one year.

17. Net cash and cash equivalents

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Bank balances	0.4	0.9	17.3	18.0
Short term deposits	55.1	22.6	56.9	24.7
Cash and cash equivalents	55.5	23.5	74.2	42.7
Bank overdrafts	–	–	(0.3)	–
	55.5	23.5	73.9	42.7

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

18. Interest-bearing loans and borrowings

	Group 2009 £m	Group 2008 £m
Non-current liabilities		
Secured bank loans	23.2	17.6
Unsecured loans	53.8	31.6
Finance leases	0.2	0.2
Cumulative preference shares	0.1	0.1
Unsecured bond issues	2.2	1.8
	79.5	51.3
Current liabilities		
Current portion of unsecured loans	1.5	16.4
Finance leases	0.1	0.1
	1.6	16.5

Bank loans of £23.2m (2008 – £17.5m) were secured by a charge over certain properties of the group and bank loans of £nil (2008 – £0.1m) were secured by a charge over other assets of the group.

19. Trade and other payables

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Trade payables	0.3	4.0	9.9	8.4
Non-trade payables and accrued expenses	2.1	5.7	21.6	24.0
Derivatives	–	–	1.3	0.3
	2.4	9.7	32.8	32.7

Group non-trade payables and accrued expenses included an amount of £nil (2008 – £3.3m) that was expected to be settled after more than one year.

Notes to the financial statements

20. Employee benefits

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Non-current assets				
Defined benefit pension asset	–	2.0	–	2.0
Current liabilities				
Short term compensated absences	–	–	(0.6)	(0.4)
Profit-sharing bonus	–	–	(2.9)	(3.5)
	–	–	(3.5)	(3.9)
Non-current liabilities				
Defined benefit pension obligations	(1.5)	–	(9.1)	(3.0)
National Insurance on share options and deferred bonus awards	–	(1.1)	(0.5)	(1.1)
Profit-sharing bonus	–	–	(0.8)	(0.6)
Liability for long term service leave	–	–	(0.7)	(0.5)
	(1.5)	(1.1)	(11.1)	(5.2)
Total employee benefits	(1.5)	0.9	(14.6)	(7.1)

Defined benefit pension obligations

The company has a constructive obligation for a defined benefit pension plan and the group makes contributions to four (2008 – four) plans in the UK and US that provide pension benefits for employees upon retirement.

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Present value of funded obligations	19.9	20.6	56.5	57.0
Fair value of plan assets	(18.4)	(22.6)	(47.4)	(56.0)
Present value of net obligations	1.5	(2.0)	9.1	1.0

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

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Balance at year start	20.6	23.0	57.0	60.7
Service cost	0.3	0.4	0.8	0.9
Interest cost	1.4	1.2	3.6	3.1
Employee contributions	–	–	0.1	0.1
Actuarial gain	(2.0)	(3.4)	(7.7)	(6.1)
Actual benefit payments	(0.4)	(0.6)	(2.1)	(1.6)
Exchange rate	–	–	4.8	(0.1)
Balance at year end	19.9	20.6	56.5	57.0

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

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Balance at year start	22.6	23.0	56.0	56.5
Expected return on assets	1.7	1.8	4.2	4.3
Actuarial loss	(5.5)	(1.9)	(16.3)	(4.6)
Employer contributions	–	0.3	1.6	1.4
Employee contributions	–	–	0.1	0.1
Actual benefit payments	(0.4)	(0.6)	(2.1)	(1.6)
Exchange rate	–	–	3.9	(0.1)
Balance at year end	18.4	22.6	47.4	56.0

Amounts recognised in the income statement were as follows:

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Current service cost	0.3	0.4	0.8	0.9
Interest on obligations	1.4	1.2	3.6	3.1
Expected return on plan assets	(1.7)	(1.8)	(4.2)	(4.3)
	–	(0.2)	0.2	(0.3)

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

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Management expenses of investing activities	–	(0.2)	–	(0.2)
Operating expenses of trading activities	–	–	0.2	(0.1)
	–	(0.2)	0.2	(0.3)

Amounts recognised in equity were as follows:

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Actuarial gains/(losses)	(3.5)	1.5	(8.6)	1.5

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

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Plan assets				
Equities	15.7	19.5	37.9	50.1
Bonds	1.1	0.4	4.1	1.7
Other assets	1.6	2.7	5.4	4.2
	18.4	22.6	47.4	56.0
Expected returns				
Equities	8.1%	8.1%	7.8%	7.9%
Bonds	4.9%	4.5%	5.4%	5.1%
Other assets	5.0%	5.6%	4.7%	5.5%
	7.6%	7.7%	7.2%	7.6%

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

	Company 2009 %	Company 2008 %	Group 2009 %	Group 2008 %
Discount rate at year end	6.6	6.8	6.5	6.2
Future salary increases	4.9	5.5	3.9	4.7
Future pension increases	2.7	3.0	3.3	2.5
Price inflation	2.9	3.5	2.9	2.6

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

Share-based payments

The company currently has 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 Mr May. The terms of grant 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 both compulsory (in respect of bonus for financial years ended 31 March 2008 and onwards) and voluntary deferral, subject to service and company performance criteria.

The terms and conditions of the grants outstanding as at 31 March 2009 were as follows, whereby all grants are settled by physical delivery of shares:

Grant date	Entitlement	Number of shares	Vesting conditions
Share options			
26.07.99	Option grant to senior staff	13,000	Three/six years of service and NAV outperforms RPI by 3% per annum or FTSE 250 and FTSE Inv Co average over three years
19.07.00	Option grant to senior staff	28,667	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	32,225	Three/six years of service and NAV outperforms RPI by 9% or FTSE All-Share
20.11.03	Option grant to senior staff	135,235	Three/six years of service and NAV outperforms RPI by 9% or FTSE All-Share
20.11.03	Option grant to J M May	18,667	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	128,655	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	175,924	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	86,348	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%
03.06.08	Option grant to senior staff	207,517	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%
		1,085,335	
Deferred bonus awards to senior staff			
01.06.06	Compulsory award	44,488	Three years of service
01.06.06	Voluntary award	20,859	Three years of service or earlier termination of employment
01.06.06	Matching shares	10,431	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	23,828	Three years of service
31.05.07	Voluntary award	16,733	Three years of service or earlier termination of employment
31.05.07	Matching shares	15,104	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%
03.06.08	Compulsory award	38,129	Three years of service
03.06.08	Voluntary award	22,531	Three years of service or earlier termination of employment
03.06.08	Matching shares	20,953	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%
29.07.08	Matching shares	35,604	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%
		248,660	

All share options have a life of ten years and all deferred bonus awards have a life of four years.

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

	Weighted average exercise price 2009 p	Number of options 2009 000's	Weighted average exercise price 2008 p	Number of options 2008 000's
Outstanding at the year start	1296	1,235	1140	1,131
Granted during the year	1980	207	2158	173
Exercised during the year	806	(271)	905	(69)
Lapsed during the year	1878	(86)	–	–
Outstanding at the year end	1503	1,085	1296	1,235

The options outstanding at 31 March 2009 have an exercise price in the range of 722.5p to 2158p and a weighted average contractual life of ten years.

Notes to the financial statements

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 staff 2009	Senior staff 2008
Fair value at measurement date	523p	588p
Share price	1980p	2158p
Exercise price	1980p	2158p
Expected volatility	22.4%	21.4%
Exercise multiple	2.0	2.0
Expected dividends	2.1%	1.8%
Risk-free interest rate (based on UK Government bonds)	5.0%	5.2%

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

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

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

Employee expenses were as follows:

	Company		Group	
Years ended 31 March	2009 £m	2008 £m	2009 £m	2008 £m
Share options granted in 2005	–	0.1	–	0.1
Share options granted in 2006	–	0.1	–	0.1
Share options granted in 2007	(0.1)	0.2	(0.1)	0.2
Share options granted in 2008	0.2	0.2	0.2	0.2
Share options granted in 2009	0.2	–	0.2	–
Deferred bonus awards for 2006	0.2	0.4	0.2	0.4
Deferred bonus awards for 2007	0.3	0.2	0.3	0.2
Deferred bonus awards for 2008	0.5	0.4	0.5	0.4
	1.3	1.6	1.3	1.6

21. Provisions

	Company		Group	
	2009 £m	2008 £m	2009 £m	2008 £m
Balance at the year start	13.5	13.5	14.1	14.1
Provisions released during the year	(10.0)	–	(10.0)	–
Increase in provisions	–	–	0.1	–
Balance at the year end	3.5	13.5	4.2	14.1
Current	3.5	13.5	4.2	14.1

During the year, a £10.0m provision relating to the disposal of an investment in 2007 was released. Other provisions relate to 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 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 price risk, currency risk and fair value interest rate 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 on pages 8 to 14.

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, the company continued to acquire FTSE 250 and 100 put options and FTSE 250 put spreads, to protect the gains on equity investments against potential market falls.

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

	Company		Group	
	2009 £m	2008 £m	2009 £m	2008 £m
Investments held at fair value through profit or loss	804.7	1,117.3	746.3	1,033.1

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 adjust their valuation at the year end for a 10% change in value. The valuation movement is aggregated with the expected movement in the valuation of the options on indices to provide a net increase or decrease in profit or loss.

	Company		Group	
	2009 £m	2008 £m	2009 £m	2008 £m
Increase in prices	71.1	104.9	65.3	96.5
Decrease in prices	(69.8)	(103.6)	(64.0)	(95.2)

The sensitivity to equity and fund investments has decreased during the year due to the market movement in the year.

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.

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 foreign 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 2009 and 2008, the company and group had no currency hedging positions.

In the previous year, the company and group were mainly exposed to debt investments denominated in euros. The fair values of the monetary items that have foreign currency exposure were as follows:

	Company		Group	
	2009 £m	2008 £m	2009 £m	2008 £m
Investments in debt instruments	–	30.1	–	30.1
Cash and cash equivalents	0.3	0.8	1.5	1.3
Trade and other receivables	–	–	4.0	4.0
Trade and other payables	–	–	(1.1)	(0.2)

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 denominated investments.

	Company		Group	
	2009 £m	2008 £m	2009 £m	2008 £m
Sterling depreciates (weakens)	–	2.4	0.4	2.7
Sterling appreciates (strengthens)	–	(2.0)	(0.3)	(2.2)

The exposure to foreign currency has reduced during the year due to the realisation of 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 fixed 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.

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

	Company		Group	
	2009 £m	2008 £m	2009 £m	2008 £m
Fixed rate				
Investments in debt instruments	19.3	59.2	17.8	48.6
Interest-bearing loans and borrowings	–	–	(2.6)	(2.2)
Floating rate				
Investments in debt instruments	37.2	70.3	38.4	48.3
Money market funds	–	–	1.0	–
Interest-bearing loans and borrowings	–	–	(78.5)	(65.6)
Cash and cash equivalents	55.5	23.5	74.2	42.7
Bank overdrafts	–	–	(0.3)	–

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 year. This level of change is considered to be reasonable, based on observation of market conditions and historic trends.

	Company		Group	
	2009 £m	2008 £m	2009 £m	2008 £m
Decrease in interest rates	0.9	1.2	0.7	1.0
Increase in interest rates	(0.9)	(1.2)	(0.7)	(1.0)

The sensitivity to interest rates has reduced in the year due to reduced exposure to fixed interest debt instruments.

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 2009, the financial assets exposed to credit risk were as follows:

	Company		Group	
	2009 £m	2008 £m	2009 £m	2008 £m
Investments in debt instruments	91.0	129.5	90.6	96.9
Operating and other receivables	4.0	4.2	38.5	30.0
OTC derivatives	1.8	–	24.4	19.6
Money market funds	–	–	1.0	–
Cash and cash equivalents	55.5	23.5	74.2	42.7
	152.3	157.2	228.7	189.2

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 their obligations. UK listed security trades are settled through CREST.

There were no significant concentrations of credit risk to counterparties at 31 March 2009.

Notes to the financial statements

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 15.

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
2009					
Secured bank loans	0.7	25.2	–	(2.7)	23.2
Unsecured loans	3.6	56.0	–	(4.3)	55.3
Finance leases	0.1	0.3	–	(0.1)	0.3
Cumulative preference shares	–	–	0.1	–	0.1
Unsecured bond issues	–	2.9	–	(0.7)	2.2
	4.4	84.4	0.1	(7.8)	81.1
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

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 2009 was £906.2m (2008 – £1,251.9m) comprising equity share capital and reserves. The company was ungeared at the year end (2008 – 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 year.

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 2007, 2008 and 2009	2.9	0.4	1.3	4.6

The number of fully paid shares issued was as follows:

	Ordinary shares		Deferred ordinary shares	
	2009 000's	2008 000's	2009 000's	2008 000's
Balance at the year start and 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 2009, the authorised share capital of the company comprised 107,181,309 ordinary shares (2008 – 107,181,309) and 8,000,000 deferred ordinary shares (2008 – 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 ordinary shares that are held by the group, all voting rights are suspended.

The deferred ordinary shares carry no voting rights and are not redeemable. They carry the right to a fixed cumulative preference dividend of 1% per annum (exclusive of any associated tax credit) of the nominal value of such deferred ordinary shares, being 0.05p per share, or £4,000 in aggregate, for all such shares currently in issue. The company is required to pay the dividend to the extent that it has distributable profits. On a winding-up or other return of capital, the deferred ordinary shares carry the right to the payment of the amount paid up on such shares only after holders of the ordinary shares have received the sum of £100,000 in respect of each such ordinary share. All of the deferred ordinary shares are held by Sterling Industries PLC, a wholly owned subsidiary of Caledonia.

These shares are considered compound financial instruments under IAS 32 and are required to be separated into a debt and an equity component. The debt component, a perpetual debt, represents the present value of the fixed cumulative dividend of 1% per annum calculated on the date the deferred 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 2009, the capital redemption reserve was £1.2m (2008 and 2007 – £1.2m). There was no movement in the capital redemption reserve in the current or prior years.

Reserves

Company

	Capital reserve 2009 £m	Capital reserve 2008 £m	Retained earnings 2009 £m	Retained earnings 2008 £m
Gains and losses on investments	(350.4)	(70.2)	–	–
Gains and losses on derivatives	(1.3)	0.3	–	–
Provisions	–	–	10.0	–
Investment and other income	–	–	34.6	39.5
Investment income impairment	–	–	(2.5)	(9.3)
Management expenses	–	–	(9.6)	(11.2)
Transaction and other expenses	(0.2)	(0.3)	(0.3)	(1.4)
Treasury interest receivable	–	–	1.6	4.1
Exchange movements	–	–	(0.8)	(0.2)
Finance costs	–	–	(0.5)	–
Taxation	(2.7)	4.8	(3.4)	–
Actuarial gains/(losses) on defined benefit pension schemes	–	–	(3.5)	1.5
Tax on items recognised directly in equity	–	–	(0.7)	(0.9)
Total recognised income and expense	(354.6)	(65.4)	24.9	22.1
Share-based payments	–	–	1.3	1.6
Dividends to shareholders	–	–	(19.0)	(18.2)
	(354.6)	(65.4)	7.2	5.5
Balance at the year start	998.1	1,063.5	274.3	268.8
Balance at the year end	643.5	998.1	281.5	274.3

Group

	Translation reserve £m	Retained earnings £m	Minority interest £m
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
Total recognised income and expense	6.0	(308.6)	0.3
Share-based payments	–	1.3	–
Dividends to shareholders	–	(19.0)	(1.0)
Balance at 31 March 2009	7.7	940.4	2.7

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 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Balance at the year start	26.3	14.9	26.3	14.9
Additions	3.5	7.0	3.5	7.0
Disposals	(2.2)	(0.6)	(2.2)	(0.6)
Movement in J.P.Morgan Cazenove instruction	(3.0)	5.0	(3.0)	5.0
Balance at the year end	24.6	26.3	24.6	26.3

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 J.P.Morgan 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 acquired subsidiaries for an aggregate consideration of £2.4m (2008 – £nil). In addition, the group paid £2.0m (2008 – £0.7m) of deferred consideration in respect of the acquisition of Ermitage Ltd in May 2006. These transactions have been accounted for by the purchase method of accounting.

The aggregate net assets of subsidiaries acquired were as follows:

	Carrying amount 2009 £m	Fair value adjust-ment 2009 £m	Fair values 2009 £m	2008 £m
Intangible assets	–	1.8	1.8	–
Property, plant and equipment	0.2	–	0.2	–
Inventories	0.5	–	0.5	–
Trade and other receivables	1.0	–	1.0	–
Cash and cash equivalents	0.1	–	0.1	–
Current interest bearing loans and borrowings	(0.1)	–	(0.1)	–
Trade and other payables	(1.0)	–	(1.0)	–
Current tax liability	(0.1)	–	(0.1)	–
Net assets acquired	0.6	1.8	2.4	–
Deferred consideration			2.0	0.7
Consideration			4.4	0.7
Satisfied by				
Cash			4.4	0.7
Net cash outflow arising on acquisition				
Cash consideration			4.4	0.7
Cash and cash equivalents acquired			(0.1)	–
			4.3	0.7

Subsidiaries acquired in the year contributed £2.7m to the group's revenue and £0.3m to the group's profit before tax for the period from the dates of acquisition to the balance sheet date.

Group revenues and profits attributable to equity holders would have been £3.2m and £0.3m higher respectively, had the acquisitions been completed on the first day of the financial year.

Notes to the financial statements

25. Disposal of subsidiaries

The aggregate net assets of subsidiaries sold were as follows:

	2009 £m	2008 £m
Property, plant and equipment	0.3	–
Inventories	0.9	–
Trade and other receivables	0.5	–
Cash and cash equivalents	0.2	1.5
Non-current employee liabilities	(0.3)	–
Trade and other payables	(0.9)	–
Current tax liability	–	(1.4)
	0.7	0.1
Foreign exchange gain on disposal	(0.4)	–
Loss on disposal	(0.3)	(0.1)
Total consideration	–	–
Net cash inflow arising on disposal		
Cash and cash equivalents sold	(0.2)	(1.5)

26. Operating leases

Leases as lessee

Non-cancellable operating lease rentals were payable as follows:

	Group	
	2009 £m	2008 £m
Less than one year	2.2	1.9
Between one and five years	3.7	3.4
More than five years	12.2	11.8
	18.1	17.1

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 2009, £1.0m (2008 – £1.0m) 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	
	2009 £m	2008 £m
Less than one year	0.6	0.5
Between one and five years	1.3	0.7
More than five years	0.1	–
	2.0	1.2

During the year ended 31 March 2009, £0.7m (2008 – £0.8m) was recognised as income in the income statement in respect of operating leases.

27. Finance leases

Leases as lessee

Non-cancellable finance lease rentals were payable as follows:

	Group	
	2009 £m	2008 £m
Less than one year	0.1	0.1
Between one and five years	0.1	0.2
More than five years	0.2	0.2
	0.4	0.5
Future finance charges	(0.1)	(0.2)
Present value of lease obligations	0.3	0.3
Current	0.1	0.1
Non-current	0.2	0.2
	0.3	0.3

The carrying amount of buildings and plant and machinery held under finance leases was £0.3m and £nil respectively (2008 – £0.3m and £0.1m).

For the year ended 31 March 2009, the average effective borrowing rate was 6.6% (2008 – 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		Group	
	2009 £m	2008 £m	2009 £m	2008 £m
Investments				
Contracted but not called	82.2	100.6	82.2	100.6
Conditionally contracted	13.8	5.6	13.8	5.6
Property, plant and equipment				
Contracted but not delivered	–	–	0.1	1.5
	96.0	106.2	96.1	107.7

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 33.6% of the voting shares of the company as at 31 March 2009 (2008 – 33.5%).

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 56 in the directors' remuneration report.

The key management personnel compensation was as follows:

	Company 2009 £m	Company 2008 £m	Group 2009 £m	Group 2008 £m
Short term employee benefits	2.5	2.9	2.5	2.9
Post employment benefits	0.3	0.2	0.3	0.2
Equity compensation benefits	1.2	1.4	1.2	1.4
	4.0	4.5	4.0	4.5

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

During the year, the group invoiced and received £0.1m (2008 – £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 2009 £m	Balance at year end 2009 £m	Amount of transactions 2008 £m	Balance at year end 2008 £m
Income statement items				
Guarantee fees	0.4	0.1	0.2	0.1
Dividends receivable on equity shares	1.8	–	0.3	–
Capital distributions	22.7	–	5.0	–
Interest receivable on loan securities	0.8	–	3.5	0.1
Management fees payable	(10.2)	(0.2)	(11.8)	(3.7)
Taxation	0.6	–	1.4	0.1
Balance sheet items				
Equity subscribed	3.2	–	–	–
Liquidations	–	–	(0.4)	–
Loans advanced/(repaid)	(19.1)	20.8	10.1	39.9
Guarantees	3.1	95.5	22.3	92.4

Associates and joint ventures

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

	Amount of transactions 2009 £m	Balance at year end 2009 £m	Amount of transactions 2008 £m	Balance at year end 2008 £m
Company				
Arrangement fees	0.1	–	–	–
Dividends receivable on equity shares	5.3	–	3.2	–
Interest receivable on loan securities	3.9	0.9	3.4	4.3
Share subscriptions	1.6	–	3.7	–
Loans advanced/(repaid)	(5.9)	57.1	13.8	63.0
Other group companies				
Directors' fees receivable	0.3	0.1	0.2	–

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 year to acquire segment assets that are expected to be used for more than one year.

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.

Notes to the financial statements

	Investing £m	Financial £m	Industrial/ consumer £m	Property £m	Total £m
2009					
Gross portfolio return	(285.3)	–	–	–	(285.3)
Trading revenue	–	15.5	114.2	2.2	131.9
Inter-segment sales	(3.0)	–	–	(0.9)	(3.9)
	(288.3)	15.5	114.2	1.3	(157.3)
Segment result	(277.4)	(9.9)	2.0	(7.6)	(292.9)
Net finance expense					(1.8)
Share of results of joint ventures					0.8
Taxation					(6.9)
Loss for the year					(300.8)
Segment assets	855.7	34.0	132.1	32.1	1,053.9
Interests in joint ventures					8.1
Unallocated assets					8.3
Total assets					1,070.3
Segment liabilities	(1.4)	(19.0)	(110.7)	(1.9)	(133.0)
Unallocated liabilities					(5.3)
Total liabilities					(138.3)
Capital expenditure	0.1	0.3	6.2	0.1	6.7
Depreciation	0.1	0.2	4.1	0.3	4.7
Amortisation	–	1.4	0.2	–	1.6
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

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
2009				
Revenue from external customers	(170.8)	27.1	(13.6)	(157.3)
Total assets	927.4	94.5	48.4	1,070.3
Capital expenditure	5.8	0.8	0.1	6.7
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

32. Group entities

Significant subsidiaries were as follows:

Name	Country of domicile	Ownership 2009 %	Ownership 2008 %
Amber Chemical Co Ltd	UK	100	100
Buckingham Gate Ltd	UK	100	100
Caledonia CCIL Distribution Ltd	UK	100	100
Caledonia EL Distribution 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 2009 %	Ownership 2008 %
Avanti Communications plc	UK	22	24
Celerant Consulting Acquisitions Ltd	UK	47	47
Empresaria Group plc	UK	23	22
Eredene Capital plc	UK	22	22
General Practice Investments Ltd	UK	25	25
India Capital Growth Fund Ltd	Guernsey	24	24
Omniport Holdings Ltd	UK	42	39
Oval Ltd	UK	24	24
Real Estate Investors PLC	UK	26	
Satellite Information Services Ltd	UK	23	23
Seven Squared Ltd	UK	29	29
TCL Holdings Ltd	UK	49	49
TGE Marine AG	Germany	35	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:

	2009 £m	2008 £m
Assets	948.2	646.8
Liabilities	(607.4)	(365.5)
Equity	340.8	281.3
Revenues	689.4	443.3
Profit/(loss)	(107.5)	90.9

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 current members are Mr Davies (Chairman), Mr Allen-Jones and Mr Thompson. Mr Loudon served on the Remuneration Committee until his appointment as Caledonia's Chairman on 17 December 2008, at which point he was replaced by Mr Thompson.

The Remuneration 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.

The Remuneration Committee also determines the fees of the Chairman.

During the year, the Remuneration Committee received advice from Towers Perrin, independent remuneration consultants appointed by the Remuneration 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 2009. In addition, the Remuneration Committee received advice from Freshfields Bruckhaus Deringer LLP in relation to amendments to the company's 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 former Chairman, Mr Buckley (up to the date of his death on 2 December 2008), the Chairman, Mr Loudon (subsequent to his resignation from the Remuneration Committee) and the Chief Executive, Mr Ingram, in relation to the remuneration of the executive directors. 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 to align further 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 bonus 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 a value of 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 2010 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 2010 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 2010 should be read in this light.

Policy on individual components of executive directors' remuneration
Basic salary
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. In view of the current economic conditions, the Remuneration Committee has determined that the basic salaries of executive directors should not be increased for the year commenced 1 April 2009.

Benefits
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. 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 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 and, in view of the reduction of the company's NAV per share over the period, the Remuneration Committee has determined that no bonuses should be paid to executive directors or any other member of staff in respect of the year ended 31 March 2009, notwithstanding that NAV per share outperformed the FTSE All-Share index by 4.4% and irrespective of the achievement of any individual performance targets.

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. Shares derived from the compulsory deferral of bonus are matched on a one for one basis, subject to the satisfaction of performance conditions over a period of three years.

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 awarded for voluntary bonus deferral are also eligible for matching, on a one for one basis, subject to the satisfaction of performance conditions over a period of three years. Awards under the deferred bonus plan are not pensionable.

As a consequence of the Remuneration Committee's decision not to award any bonuses to executive directors for the year ended 31 March 2009, referred to above, there will be no deferred bonus awards to executive directors in respect of that year.

Pensions

The company's policy on pensions 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 personal pension plans or other arrangements. Mr 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. The Hon C W Cayzer transferred into the scheme from The Union-Castle Line Superannuation Scheme which was non-contributory, and this status has been preserved. Mr Cartwright contributes 4% of basic salary into the scheme. 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 at their choice 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 2009 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' remuneration below.

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

It is the company's policy that the Chairman and the non-executive directors should be appointed for fixed periods of no more than three years (from the next general meeting following initial appointment in the case of new appointments) and that re-appointment at the end of such periods should not be automatic.

Following the death of Mr Buckley on 2 December 2008, the Remuneration Committee reassessed the role and responsibilities of the Chairmanship and the time commitment required from his successor, Mr Loudon, and determined that Mr Loudon should be paid a fee of £150,000 per annum, to be reviewed with effect from 1 April 2010. The Chairman does not receive any other emoluments. 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

Directors' remuneration report

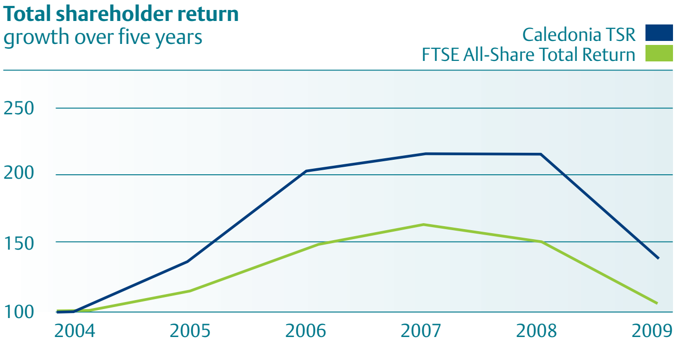
2009, the basic fee for non-executive directors was £32,500 (2008 – £31,000). Additionally, fees of £4,500 and £4,000 respectively (2008 – £3,500 respectively) were paid to the Chairmen of the Audit and Remuneration Committees and £1,800 and £1,250 respectively (2008 – £1,500 and £1,000 respectively) to the other members of those committees. A further £3,500 (2008 – £3,500) 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 non-executive directors' fees were not increased for the year commenced 1 April 2009.

The company is entitled to terminate the Chairman's or 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 years ending on 31 March 2009 and has been prepared in accordance with the Regulations. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. The FTSE All-Share Total Return index has been chosen as it is the benchmark by which the company measures its delivery of shareholder value over the longer term.

Total shareholder return
growth over five years



Source: Caledonia and FTSE/Datastream

Statement on directors' remuneration (audited)

Total emoluments of the directors were as follows:

	2009 £'000	2008 £'000
Emoluments	2,465	3,983
Gains on exercise of share options	3,071	116
	5,536	4,099

Statement on directors' emoluments (audited)

The emoluments of individual directors were as follows:

	Fees and salaries £'000	Benefits £'000	Cash bonus £'000	Deferred shares[1] £'000	Total 2009 £'000	Total 2008 £'000
J R H Loudon[2]	69	–	–	–	69	33
T C W Ingram	530	20	–	–	550	944
J H Cartwright	288	19	–	–	307	500
The Hon C W Cayzer	245	17	–	–	262	409
J M B Cayzer-Colvin	245	18	–	–	263	397
J M May	340	18	–	–	358	627
W P Wyatt	245	17	–	–	262	441
C M Allen-Jones	42	–	–	–	42	39
M E T Davies	36	–	–	–	36	35
R Goblet d'Alviella	33	–	–	–	33	31
D G F Thompson	35	–	–	–	35	33
P N Buckley[3]	235	13	–	–	248	494
	2,343	122	–	–	2,465	3,983

1 Deferred shares, forming part of the bonus, comprise the amounts compulsorily and voluntarily deferred under the company's deferred bonus plan which are satisfied in shares shortly after the announcement of the company's final results for the particular year, as described below.
2 Mr Loudon was appointed Chairman on 17 December 2008.
3 Mr Buckley died on 2 December 2008.

In addition to the amounts shown in the table above, Messrs Ingram and May respectively were paid amounts of £nil and £37,667 before tax (2008 – Mr Ingram: £106,383 and Mr May: £35,460) in lieu of contributions to their personal money purchase pension arrangements as described in the statement on directors' pensions below. Mr Ingram also held an external non-executive directorship, of Sage Group, during the year, which was unrelated to the company's business and where it had been agreed that he could retain the fees arising therefrom. Mr Ingram received fees from Sage Group of £68,966 (2008 – £60,742). Mr Ingram was appointed to the board of Sage Group before he joined Caledonia. In 2008, Mr May received a fee from a directorship of a company unrelated to Caledonia's business, Catapult Venture Managers, amounting to £18,309. 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 (if any) 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). Matching shares are awarded in respect of compulsory (for financial years ended 2008 and onwards) and voluntary deferral of bonus on a one for one basis.

Compulsorily 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.

Voluntarily 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%.
- 50% of the matching shares will only vest if NAV per share over the Prescribed Period outperforms the FTSE All-Share index by at least 3%.

There will be no retesting of either performance condition.

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

Deferred share awards held as at 31 March 2009 by directors who served during the year are shown in the following table. Other than in respect of Mr Buckley, the awards shown as lapsed are 50% of the matching awards granted on 1 June 2006 which failed to meet their performance target, being the outperformance of the Retail Prices Index by at least 9% over the Prescribed Period, tested as at 31 March 2009. The other 50% of the matching awards granted on 1 June 2006 achieved their performance target and have accordingly vested. In the case of Mr Buckley, the Remuneration Committee considered the extent to which his matching awards would have met their performance targets immediately prior to his death on 2 December 2008 and determined that all matching awards tested by reference to the FTSE All-Share index should vest, whereas all matching awards tested by reference to the Retail Prices Index should lapse. Under the rules of the deferred bonus plan, Mr Buckley's legal personal representatives may call for all of his vested awards within the 12 months following the vesting date (or such longer period as the Remuneration Committee may determine).

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	Number of shares Lapsed	Closing balance	Market price at award	Market price at call	Vesting date
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	–	(2,529)	2,529	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
	Compulsory	03.06.08	–	10,303	–	10,303	1980.0p	–	01.04.11
	Voluntary	03.06.08	–	6,060	–	6,060	1980.0p	–	01.04.11
	Matching	03.06.08	–	6,060	–	6,060	1980.0p	–	01.04.11
	Matching	29.07.08	–	10,303	–	10,303	1980.0p	–	01.04.11
			34,828	32,726	(2,529)	65,025			
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	–	(1,660)	1,661	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
	Compulsory	03.06.08	–	3,472	–	3,472	1980.0p	–	01.04.11
	Voluntary	03.06.08	–	3,472	–	3,472	1980.0p	–	01.04.11
	Matching	03.06.08	–	3,472	–	3,472	1980.0p	–	01.04.11
	Matching	29.07.08	–	3,472	–	3,472	1980.0p	–	01.04.11
			20,339	13,888	(1,660)	32,567			
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
	Compulsory	03.06.08	–	2,323	–	2,323	1980.0p	–	01.04.11
	Matching	29.07.08	–	2,323	–	2,323	1980.0p	–	01.04.11
			7,471	4,646	–	12,117			
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
	Compulsory	03.06.08	–	2,500	–	2,500	1980.0p	–	01.04.11
	Matching	29.07.08	–	2,500	–	2,500	1980.0p	–	01.04.11
			5,717	5,000	–	10,717			
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	–	(1,880)	1,880	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
	Compulsory	03.06.08	–	6,464	–	6,464	1980.0p	–	01.04.11
	Voluntary	03.06.08	–	4,040	–	4,040	1980.0p	–	01.04.11
	Matching	03.06.08	–	4,040	–	4,040	1980.0p	–	01.04.11
	Matching	29.07.08	–	6,464	–	6,464	1980.0p	–	01.04.11
			25,883	21,008	(1,880)	45,011			

Directors' remuneration report

Name	Type	Award date	Opening balance	Number of shares Awarded	Lapsed	Closing balance	Market price at award	Market price at call	Vesting date
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	–	(931)	932	1878.0p	–	01.04.09
	Compulsory	31.05.07	2,757	–	–	2,757	2158.0p	–	01.04.10
	Compulsory	03.06.08	–	4,722	–	4,722	1980.0p	–	01.04.11
	Voluntary	03.06.08	–	833	–	833	1980.0p	–	01.04.11
	Matching	03.06.08	–	833	–	833	1980.0p	–	01.04.11
	Matching	29.07.08	–	4,722	–	4,722	1980.0p	–	01.04.11
			10,210	11,110	(931)	20,389			
P N Buckley	Compulsory	01.06.06	7,987	–	–	7,987	1878.0p	–	02.12.08
	Voluntary	01.06.06	3,993	–	–	3,993	1878.0p	–	02.12.08
	Matching	01.06.06	3,993	–	(1,997)	1,996	1878.0p	–	02.12.08
	Compulsory	31.05.07	3,259	–	–	3,259	2158.0p	–	02.12.08
	Voluntary	31.05.07	3,259	–	–	3,259	2158.0p	–	02.12.08
	Matching	31.05.07	3,259	–	(1,629)	1,630	2158.0p	–	02.12.08
	Compulsory	03.06.08	–	5,050	–	5,050	1980.0p	–	02.12.08
	Voluntary	03.06.08	–	3,156	–	3,156	1980.0p	–	02.12.08
	Matching	03.06.08	–	3,156	(1,578)	1,578	1980.0p	–	02.12.08
	Matching	29.07.08	–	5,050	(2,525)	2,525	1980.0p	–	02.12.08
			25,750	16,412	(7,729)	34,433			
			130,198	104,790	(14,729)	220,259			

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	J H Cartwright £	The Hon C W Cayzer £	P N Buckley £
Accrued pension at 31 March 2009	a	139,063	126,000	349,434
Increase in accrued pension during the year	b	13,063	12,095	26,258
Increase in accrued pension during the year, net of inflation	c	13,063	12,095	25,039
Transfer value of increase in accrued pension over the year, net of inflation and director contributions	d	147,465	150,701	360,902
Transfer value of accrued pension at 31 March 2009	e	1,692,501	1,570,031	5,331,177
Transfer value of accrued pension at 31 March 2008	f	1,452,488	1,279,059	5,727,143
Change in transfer value over the year, net of director contributions	g	228,493	290,972	(395,966)

1. Except for Mr P N Buckley, the accrued pensions are the amounts which would be paid at normal retirement age, ignoring any revaluation, if the director had left service on 31 March 2009.
2. Mr Buckley died on 2 December 2008. The trustees of the Caledonia Pension Scheme have made benefit provision to his dependants in accordance with the scheme rules and notifications made to Mr Buckley during service. This comprises a lump sum death in service payment and ongoing payments in respect of spouse's pension. The disclosure in the table of directors' pension benefits for Mr Buckley is subject to the following further notes. The increase in accrued pension for Mr Buckley is that accrued between 1 April 2008 and Mr Buckley's date of death, as a result of increases due to the late payment of his pension (Mr Buckley reached normal retirement age on 23 September 2004 but continued in employment until his death). The accrued annual pension in row (a) is at Mr Buckley's date of death. The transfer value for Mr Buckley in row (e) is in respect of his accrued pension at 2 December 2008. This amount has been updated at 31 March 2009 to take account of market conditions at that time.
3. In previous years, parts of Mr Buckley's bonus awards were paid by the company as contributions into the scheme in order to enhance Mr Buckley's cash lump sum benefit on retirement. The total value of such contributions, with interest, was £294,575 at 31 March 2009 and £281,550 at 31 March 2008. 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.
4. The transfer value shown in row (d) represents the value of the increase in accrued pension (net of inflation) during the year, or earlier period in respect of Mr Buckley, as set out in row (c), minus director contributions.
5. The Retail Prices Index fell by 0.4% over the year to 31 March 2009. No allowance for the negative inflation has been made in the increase in accrued pension figures (net of inflation) for Mr Cartwright and The Hon C W Cayzer shown in row (c). The corresponding figure for Mr Buckley has been calculated with reference to the increase in the Retail Prices Index between 31 March 2008 and 2 December 2008.
6. 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.
7. The transfer value is the present value of the accrued deferred pension and associated benefits at the relevant date, calculated using the transfer basis then in force. Transfer values with effective dates before 1 October 2008 were calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer values with effective dates after 1 October 2008 are calculated using the transfer value basis as determined by the trustees of the scheme.

During the year, and in accordance with his service contract, the company paid £132,500 into Mr Ingram's personal pension plan (2008 – cash payment in lieu of pension contributions of £106,383). In accordance with his service contract, Mr May elected to receive his pension entitlement by way of cash payments in lieu of pension contributions of £36,677 (2008 – cash payments in lieu of pension of £35,460). Mr Cayzer-Colvin is a member of the GPPP, a defined contribution scheme into which employer contributions of £30,625 (2008 – £27,504) 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 £30,625 (2008 – £27,504).

Statement on directors' share options (audited)

Options to acquire ordinary shares in the company held by those directors who served during the year ended 31 March 2009 and gains on the exercise of share options were as shown in the following table. The options shown as lapsed are 50% of those granted on 1 June 2006 which failed to meet their performance target, being the outperformance of the Retail Prices Index by 9% over the measurement period, tested as at 31 March 2009.

Name	Option scheme	Grant date	Number of options: Opening balance	Granted	Exercised	Lapsed	Closing balance	Exercise price	Market price at exercise	Gains on exercise 2009 £'000	Gains on exercise 2008 £'000	Exercisable from date	Expiry date
T C W Ingram	Executive	05.07.02	55,334	–	(55,334)	–	–	782.5p	1975.0p	660			
	Special	05.07.02	55,334	–	(55,334)	–	–	782.5p	1975.0p	660			
	Executive	20.11.03	23,600	–	–	–	23,600	945.0p				20.11.06	20.11.13
	Executive	26.05.04	21,800	–	–	–	21,800	1055.0p				26.05.07	26.05.14
	Executive	19.08.05	36,075	–	–	–	36,075	1580.0p				19.08.08	19.08.15
	Executive	01.06.06	33,546	–	–	(16,773)	16,773	1878.0p				01.06.09	01.06.16
	Executive	31.05.07	33,364	–	–	–	33,364	2158.0p				31.05.10	31.05.17
	Executive	03.06.08	–	40,151	–	–	40,151	1980.0p				03.06.11	03.06.18
			259,053	40,151	(110,668)	(16,773)	171,763			1,320	116		
J H	Executive	24.07.01	16,000	–	–	–	16,000	810.0p				24.07.04	24.07.11
Cartwright	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	–	–	(10,323)	10,323	1878.0p				01.06.09	01.06.16
	Executive	31.05.07	19,114	–	–	–	19,114	2158.0p				31.05.10	31.05.17
	Executive	03.06.08	–	21,818	–	–	21,818	1980.0p				03.06.11	03.06.18
			129,380	21,818	–	(10,323)	140,875			–	–		
The Hon	Executive	26.07.99	5,500	–	(5,500)	–	–	757.5p	1795.0p	57			
C W Cayzer	Executive	19.07.00	6,000	–	(6,000)	–	–	722.5p	1795.0p	64			
	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	–	–	(8,386)	8,387	1878.0p				01.06.09	01.06.16
	Executive	31.05.07	15,987	–	–	–	15,987	2158.0p				31.05.10	31.05.17
	Executive	03.06.08	–	18,560	–	–	18,560	1980.0p				03.06.11	03.06.18
			106,895	18,560	(11,500)	(8,386)	105,569			121	–		
J M B	Executive	19.07.00	17,500	–	–	–	17,500	722.5p				19.07.03	19.07.10
Cayzer-	Executive	24.07.01	18,000	–	–	–	18,000	810.0p				24.07.04	24.07.11
Colvin	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	–	–	(6,789)	6,789	1878.0p				01.06.09	01.06.16
	Executive	31.05.07	15,291	–	–	–	15,291	2158.0p				31.05.10	31.05.17
	Executive	03.06.08	–	18,560	–	–	18,560	1980.0p				03.06.11	03.06.18
			102,159	18,560	–	(6,789)	113,930			–	–		
J M May	Executive	20.11.03	28,000	–	(9,333)	–	18,667	945.0p	1974.0p	96		20.11.06	20.11.13
	Special	20.11.03	28,000	–	(9,333)	–	18,667	945.0p	1974.0p	96		20.11.06	20.11.13
	Executive	26.05.04	25,900	–	(8,633)	–	17,267	1055.0p	1974.0p	79		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	–	–	(11,681)	11,681	1878.0p				01.06.09	01.06.16
	Executive	31.05.07	22,242	–	–	–	22,242	2158.0p				31.05.10	31.05.17
	Executive	03.06.08	–	25,757	–	–	25,757	1980.0p				03.06.11	03.06.18
			154,319	25,757	(27,299)	(11,681)	141,096			271	–		

Directors' remuneration report

Name	Option scheme	Grant date	Opening balance	Number of options Granted	Exercised	Lapsed	Closing balance	Exercise price	Market price at exercise	Gains on exercise 2009 £'000	2008 £'000	Exercisable from date	Expiry date
W P Wyatt	Executive	19.07.00	13,348	–	(13,348)	–	–	722.5p	1812.5p	146			
	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	–	–	(6,789)	6,789	1878.0p				01.06.09	01.06.16
	Executive	31.05.07	15,291	–	–	–	15,291	2158.0p				31.05.10	31.05.17
	Executive	03.06.08	–	18,560	–	–	18,560	1980.0p				03.06.11	03.06.18
			98,007	18,560	(13,348)	(6,789)	96,430			146	–		
P N Buckley[1]	Executive	02.09.98	100,000	–	(100,000)	–	–	740.0p	1953.0p	1,213			
	Executive	26.07.99	9,000	–	–	–	9,000	757.5p				26.07.02	02.12.09
	Executive	19.07.00	8,500	–	–	–	8,500	722.5p				19.07.03	02.12.09
	Executive	24.07.01	12,500	–	–	–	12,500	810.0p				24.07.04	02.12.09
			130,000	–	(100,000)	–	30,000			1,213	–		
			979,813	143,406	(262,815)	(60,741)	799,663			3,071	116		

1. Mr Buckley died on 2 December 2008. In accordance with the rules of the 1998 option scheme, his legal personal representatives are entitled to exercise all of his outstanding options during the period ending 12 months after the date of his death.

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 is the period of three financial years measured at the end of the third financial year following the date of grant of the options. There is no retesting of the performance targets. To the extent that the performance target is not met over this three year period, the options will lapse.

The performance targets have been met for all options granted up to 2005. For the options granted in 2006, the 50% tested by reference to the FTSE All-Share index has met its performance target, whereas the 50% tested by reference to the Retail Prices Index has failed to do so and accordingly has lapsed.

The Remuneration Committee has selected the FTSE All-Share Index as the performance measure for both the company's shorter term annual bonus scheme and its longer term share plans as it believes that this is the best way to incentivise executives to deliver continued strong NAV per share performance, which underpins Caledonia's objective of achieving TSR in excess of the FTSE All-Share Total Return index over five and ten year periods. TSR itself has not been chosen as a measure of executive management performance, as this may be affected by the level of Caledonia's share price discount, which can be influenced by factors outside the company's control. The Retail Prices Index has also been chosen as a performance measure for the company's longer term incentive plans, as the Remuneration Committee believes that this is an appropriate benchmark for the company's other objective of achieving a positive total return over rolling five year periods.

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 were subject to a stretching performance condition requiring the company's TSR to outperform the FTSE All-Share Total Return index ('Benchmark') over the measurement period, which commenced on the date of grant. Tranches vested in full if TSR exceeded that of the Benchmark by an average of at least 2% per annum over the relevant measurement period. If TSR equalled that of the Benchmark, none of that tranche would be exercisable and there would be proportionate vesting of a tranche if TSR exceeded that of the Benchmark 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, being options over 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 and Mr Ingram exercised the two-thirds tranche during the year. The shares required to satisfy Mr Ingram's special options were transferred from the Caledonia Investments plc Employee Share Trust. The remaining terms of the special options were based on the rules of the 1998 scheme, and included provisions that any benefits obtained from the special options would not be pensionable and that the terms of the special options would 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, being options over 9,333 shares, was tested on 20 November 2007 and was met. Mr May exercised this one-third tranche during the year.

As at 31 March 2009, the market price of the company's shares was 1289p (2008 – 2050p) and the range during the year was 1087p to 2140p.

Statement on executive directors' service contracts and the Chairman's 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
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 and a liquidated sum is payable 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.

The Chairman and the 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 the Chairman's and non-executive directors' letters of appointment are available for inspection at the registered office of the company.

The directors' remuneration report was approved by the board on 28 May 2009 and signed on its behalf by:

Mark 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 main principles of good corporate governance as set out in section one of the Combined Code issued in June 2006 (the 'Combined Code'). It also identifies those provisions of section one of the Combined Code with which the company did not comply throughout the year and explains why the board believes that, notwithstanding its non-compliance, the company's practices are consistent with the principles of good corporate governance to which the relevant provisions related.

Shareholders registered on the company's New Zealand branch register should note that the principles of good corporate governance set out in the Combined Code may materially differ from the New Zealand Exchange Limited's corporate governance rules and the principles of its Corporate Governance Best Practice Code.

A copy of the Combined Code is available on the website of the Financial Reporting Council at www.frc.org.uk/corporate/combinedcode.cfm

The board

Overall responsibility and operation

The board as a whole is collectively responsible for the success of the company. It has adopted a Schedule of Authorities which sets out those matters which it specifically reserves for its own decision and those which are delegated to board committees and to executive management. The Schedule of Authorities is reviewed annually by the board.

All directors receive detailed papers in advance of board meetings to enable them to discharge their duties and also have unlimited access to senior management should further information be required. Visits to investee companies or presentations by their senior executives are also arranged periodically to enable the board, and the non-executive directors in particular, to gain a closer understanding of some of the company's significant investments.

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 biographies of the directors appear on pages 22 and 23.

The board currently comprises eleven directors. Excluding the Chairman, six of the directors are executive and four non-executive. The board considers all of the non-executive directors to be independent. 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. The board regards independence principally to be applied in terms of independence from the executive and from the Cayzer Concert Party. Moreover, the board attaches importance to Mr Goblet d'Alviella's past investment banking experience and knowledge of continental European business.

The roles of the Chairman, Mr Loudon, and the Chief Executive, Mr Ingram, are separated and clearly defined in the Schedule of Authorities adopted by the board. The Chairman is primarily responsible for the efficient operation of the board and the Chief Executive for the implementation of the board's strategy and policies and the management of the company's activities, other than those matters specifically reserved to the board. Mr Loudon was appointed Chairman on 17 December 2008, following the death of the previous Chairman, Mr Buckley, on 2 December 2008. Mr Loudon did not, on his appointment, meet the criteria for independence set out in the Combined Code, given that he had served as a non-executive director for over nine years. His appointment did not therefore comply with provision A.2.2 of the Combined Code. Following Mr Buckley's death, the board considered whether to seek an external appointment for the position of Chairman, however in view of the immediacy of the circumstances, the importance of continuity and his detailed knowledge and experience of the business, the board believed that Mr Loudon was the most appropriate person for the role.

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, which requires that, excluding the Chairman, at least half of the board should comprise non-executive directors determined by the board to be independent. The board however believes that the main principle 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.

There are six executive directors as the board believes it to be important that executives with key responsibilities within the company should be directly involved in decisions on its strategy and objectives. This number of executive directors however makes it difficult to meet the requirement of provision A.3.2 without the board becoming so large as to be unwieldy. An effective balance of power is nonetheless ensured by the fact that the board, excluding the Chairman, is comprised of three separate categories of directors – the four independent non-executive directors; 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 the three other executive directors, Messrs Ingram, Cartwright and May. The company has announced that it is also seeking to recruit an additional independent non-executive director, which will further strengthen the non-executive representation on the board.

In addition to the balance on the board brought by these categories, the Governance Committee, comprising solely independent non-executive directors, keeps under review corporate governance and conflict of interest issues relating to the company and the board and has authority to recommend that any director abstains from participating in any decision of the board, or any board committee, where it believes that a conflict of interest could, or could be perceived to, arise. Accordingly, whilst it recognises that it is 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.

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 65.

The membership of the Remuneration and Audit Committees did not comply throughout the year with provisions B.2.1 and C.3.1 of the Combined Code, which respectively require these Committees be comprised entirely of independent non-executive directors. Mr Loudon was a member of both Committees until 17 December 2008, but was not considered by the board to be independent given that he had served as a director for over nine years. However, the board believed that his membership of these Committees was in the best interests of the shareholders as, other than in respect of the Combined Code's nine year rule, it regarded him as independent and considered his length of experience with the company and his business career to be significant assets. On 17 December 2008, Mr Loudon was replaced on the Remuneration Committee by Mr Thompson and on the Audit Committee by Mr Goblet d'Alviella, both of whom are regarded by the board as independent. The board therefore considers that, since 17 December 2008, provisions B.2.1 and C.3.1 of the Combined Code have been met.

Nomination Committee

The Nomination Committee, chaired by Mr Loudon, 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 the non-executive directors and ensures that they receive formal letters of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings.

The Nomination Committee met three times during the year and the principle business undertaken included:

- a formal review of the size and composition of the board following the 2008 annual board performance evaluation and consideration of the contribution of the non-executive directors retiring at the 2008 annual general meeting, prior to giving recommendations for their re-election.
- consideration of the role and capabilities required for the position of Chairman following Mr Buckley's death and the recommendation to the board that Mr Loudon be appointed to this position.
- consideration of the membership of the Remuneration and Audit Committees in the light of Mr Loudon's proposed appointment as Chairman and the recommendations that Mr Thompson and Mr Goblet d'Alviella respectively be appointed to those Committees in his place.
- a recommendation to the board that a new independent non-executive director be recruited.

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 six 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 2008.
- 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 2009.
- the determination of the fee payable to Mr Loudon on his appointment as Chairman.
- the consideration of the level of vesting of deferred bonus awards of Mr Buckley following his death and matters relating to his pension benefits.

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 52 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, 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. The Audit Committee then selects a number of valuations for review. 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.

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

Corporate governance report

The Audit Committee met four 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 LLP, and the level of fees charged for their services.
- consideration of the scope of the 2009 annual audit and agreement with the external auditors of the key areas of focus.
- scrutiny of valuations of unquoted investments selected by the Audit Committee in accordance with its adopted criteria.
- consideration of the reports from the external auditors concerning their audit of the 2008 annual financial statements of the company and their review of the 2008 half-year report.
- consideration of the financial disclosures contained in the 2008 annual and half-year reports to shareholders and financial reporting issues for the 2009 annual report.
- 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 2009, and on the implications to the company of the credit crisis, in particular in relation to liquidity risk within investee companies.
- 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 including a review of its role and responsibilities.
- assurance of the company's compliance with the requirements for approval as an investment trust.

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. The Governance Committee also reviews conflict or potential conflict situations relating to directors which may require the prior authorisation of the board under the Companies Act 2006 and makes recommendations to the board as to whether such conflict or potential conflict situations should be authorised and, if so, whether any conditions, such as duration or scope of the authority, should be attached. The Governance Committee reviews annually all authorisations granted by the board to ensure that they remain appropriate. If the Governance Committee believes that a director may be subject to a conflict of interest which may prejudice his ability to exercise independence of judgement, it may make such recommendations to the board as it may think fit, including that the director abstains from participating in any decision of the board or any of its committees on the matter concerned.

The Governance Committee met three times during the year, principally to review and approve the corporate governance report for the year ended 31 March 2008 and to review potential conflict situations notified by directors in accordance with the Companies Act 2006 and to make recommendations to the board in relation thereto.

Attendance at meetings

The following table identifies the number of board and committee meetings held in the year to 31 March 2009 and the attendance record of individual directors.

	Board	Nomination Committee	Remuneration Committee	Audit Committee	Governance Committee
Number of meetings in the year	11[1]	3	6	4	3
Attendance by					
J R H Loudon[2]	11	3	4	3	–
T C W Ingram	11	–	–	–	–
J H Cartwright	11	–	–	–	–
The Hon C W Cayzer	11	–	–	–	–
J M B Cayzer-Colvin	10	–	–	–	–
J M May	11	–	–	–	–
W P Wyatt	10	–	–	–	–
C M Allen-Jones	11	3	6	4	3
M E T Davies	10	3	6	–	3
R Goblet d'Alviella[3]	10	–	–	1	–
D G F Thompson[4]	11	3	2	4	3
P N Buckley[5]	7	1	–	–	–

1 Scheduled board meetings.
2 Mr Loudon ceased to be a member of the Audit and Remuneration Committees on 17 December 2008, but attended all meetings of those Committees held prior to that date.
3 Mr Goblet d'Alviella was appointed a member of the Audit Committee on 17 December 2008 and attended all meetings of that Committee held after that date.
4 Mr Thompson was appointed a member of the Remuneration Committee on 17 December 2008 and attended all meetings of that Committee held after that date.
5 Mr Buckley died on 2 December 2008, but attended all board and Nomination Committee meetings held prior to that date.

Board performance evaluation

The board conducts an annual formal evaluation of its performance and that of its committees and individual directors. For the year ended 31 March 2009, 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 from 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 on his performance, the results of which were then considered at a meeting of the non-executive directors, without the Chairman present, and also at a meeting of the Governance Committee. The evaluation of the performance of the Chief Executive was undertaken by the Chairman and the non-executive directors. The performance of the non-executive directors was reviewed by the Chairman, the Chief Executive and the Senior Independent Non-Executive Director, with the Senior Independent Non-Executive Director absent in respect of his own performance appraisal. As part of this review, non-executive directors were invited to complete self-assessment questionnaires in relation to their own effectiveness. The performance of the executive directors, which included further consideration of that of the Chief Executive, was undertaken by the Remuneration Committee as part of the annual executive salary review process.

The results of the evaluation of the board as a whole and of its committees for the year ended 31 March 2009 were presented in a report to the board.

The key actions that arose from the performance evaluation were that the board should be provided with more formal reporting on business risks, as well as financial risks, facing significant investee companies and that the Governance Committee should formally consider each year whether the influence of the Cayzer Concert Party on Caledonia's board is in the general interest of the non-Concert Party shareholders and to confirm in the annual report that it has done so. The Governance Committee subsequently met to consider this issue and concluded that the Cayzer Concert Party's influence on the board was in the general interest of the non-Concert Party shareholders.

The Nomination Committee reviewed the size, structure and composition of the board in the light of the report to the board.

Directors' conflicts of interest

With effect from 1 October 2008, each director has a duty under the Companies Act 2006 (the 'Act') to avoid a situation where he has, or could have, a direct or indirect interest which conflicts, or may possibly conflict, with the company's interests. The Act however allows directors of public companies to authorise conflicts and potential conflicts where the articles of association contain a provision to this effect. The Act also allows the articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. Shareholders approved the necessary changes to the company's articles to incorporate these provisions (effective from 1 October 2008) at the annual general meeting held on 29 July 2008.

There are safeguards in the new articles adopted at the 2008 annual general meeting which apply when the directors decide whether to authorise a conflict or potential conflict of interest. First, only independent directors, being those who have no interest in the matter being considered, are able to take the relevant decision and, second, in taking the decision, the directors must act in a way which they consider, in good faith, will be most likely to promote the success of the company. The directors are able to impose time limits or conditions when giving authorisations if they think this is appropriate.

During the year, the board implemented procedures to address the new requirements introduced by the Act in relation to directors' conflicts of interest. Prior to 1 October 2008, each director was invited to declare all potential conflict situations relating to him and his connected persons. These were then reviewed by the Governance Committee (with each member taking no part in the consideration of his own declaration), which then put forward recommendations to the board as to whether these situations should be authorised and, if so, whether any conditions to such authority should be attached. The board then considered and approved these recommendations, again with each director taking no part in relation to his own conflict situations.

Each board meeting now includes a standing agenda item on conflicts of interest to ensure that directors disclose any new potential conflict situations. These are then reviewed by the Governance Committee and authorised by the board as appropriate. A register of directors' conflicts of interest is maintained by the Company Secretary and reviewed annually by the Governance Committee.

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 significant investments are reviewed at least annually by the board and the smaller portfolio holdings reviewed at least annually by the Investment Management Committee. The Risk Manager reports to the Audit Committee on specific risk areas as requested.

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 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 meets weekly to review the company's ongoing compliance with its investment trust status and to monitor and approve all investment activity from an investment trust compliance perspective.

Financial performance is continuously measured by comparing total shareholder returns and net asset value movements against the FTSE All-Share index. Performance statistics are reported monthly to the board. Income and expenses are monitored by the board against an approved annual budget and regularly updated forecasts. Valuations of unquoted investments are subject to a rigorous six monthly review process undertaken by a Challenge Committee independent of the relevant investment executives, whose meetings are also attended by the auditors, and a selection of valuations are then reviewed by the Audit Committee. Where appropriate, adjustments are made to the valuations of unquoted investments on a monthly basis.

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.

Information for shareholders

Dividends
Shareholders on the UK register who wish to have dividends paid directly into a bank account, rather than by cheque to their registered address, can complete a mandate form for this purpose. Mandates may be obtained from Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Where dividends are paid directly into shareholders' bank accounts, dividend tax vouchers are sent directly to shareholders' registered addresses.

Shareholders on the New Zealand register may arrange to receive their dividends by direct credit to a specified New Zealand bank account. New Zealand registered shareholders should contact Computershare Investor Services Ltd, Private Bag 92119, Auckland 1142, New Zealand if they wish to set up such an arrangement.

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

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

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

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

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

Monthly net asset value
The company releases a net asset value per share announcement and publishes a fact sheet shortly after each month end. These are also available 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:

Final results announced	28 May 2009
Annual report published	22 June 2009
Annual general meeting	23 July 2009
Final dividend paid	13 August 2009
Half-year results announced	25 November 2009
Half-year report published	7 December 2009
Interim dividend paid	7 January 2010

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 (£10,200 from 6 April 2010, or from 6 October 2009 for savers who are over 50). Lump sum payments or regular monthly deposits can be made into the ISA.

The plan manager of the ISA is Capita Financial Nominees Ltd, which can be contacted at Capita Financial Group, 2 The Boulevard, City West One Office Park, Gelderd Road, Leeds LS12 6NT, or telephoned on 0845 922 0044 (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 into the Share Savings Scheme.

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

Chairman
James R H Loudon[2]

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

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

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

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Registered number
Registered in England no 235481

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Tel: 0871 664 0300 (calls cost 10p per minute including VAT, plus network extras)
or: +44 20 8639 3399 if calling from overseas

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aic
The Association of
Investment Companies

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