Registered in England and Wales number 235481

CALEDONIA INVESTMENTS

1999

Diversified trading and investment

ANNUAL REPORT

31 MARCH

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WHO WE ARE Caledonia is a long established diversified trading and investment company with an international spread of interests. We seek to build shareholder value through active participation in strategic investments and by attracting unusual opportunities. We measure ourselves in terms of total return which includes a progressive dividend policy.

WHAT WE DO Our strategy is to identify opportunities for investment and develop our interests by encouraging the growth of businesses through an active and constructive relationship with management. A key consideration in our investment decisions is the experience and integrity of the management and our ability to work with them. We deliberately seek a diversified portfolio, but with a readiness to commit substantial resources to individual investments both listed and unlisted, participating in five broad sectors through majority, substantial minority and other strategic holdings.

SUMMARY OF INTERESTS

FINANCIAL
Comprises our substantial holding in Close Brothers, as well as interests in Rathbones, Robert Fleming, Friends Ivory & Sime and other financial services companies.

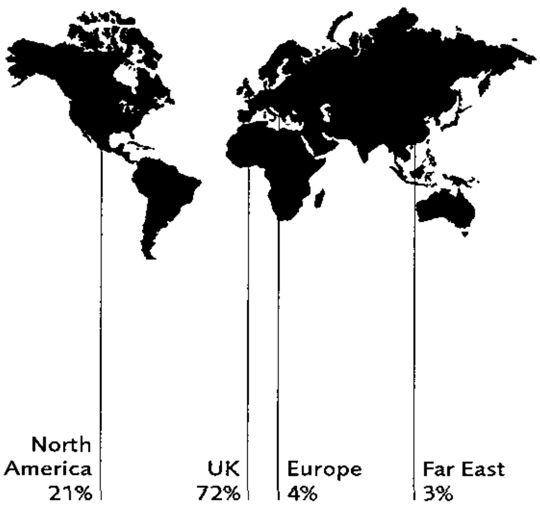
INDUSTRIAL AND SERVICES
Covers a broad range of businesses including helicopter transportation services, the manufacture and distribution of specialty chemicals, outsourcing, light engineering and crystal glass manufacture.

INVESTMENT TRUSTS
Includes English & Scottish Investors and British Empire Securities and General Trust and a portfolio of other investment company holdings.

LEISURE AND MEDIA
Comprises our residential club, The Sloane Club, a substantial investment in the resort operator Sun International Hotels and various other hotel and media interests.

PROPERTY AND GENERAL
Encompasses a range of property interests in the United Kingdom and Central Europe held either for development or investment, and a portfolio of non-strategic investments.

WHERE OUR INTERESTS ARE
Our interests are international, with major holdings in the UK, North America, Europe and the Far East.

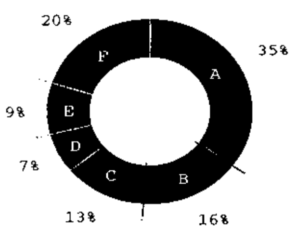


WHAT MAKES CALEDONIA DIFFERENT
The involvement in Caledonia of the Cayzer family spans five generations. The stability brought by the family's major shareholding and the continuity from its participation in management enables Caledonia, backed by its own financial resources, to take a long term view. This distinguishes us from most other institutional investors and attracts a flow of interesting and unusual opportunities.

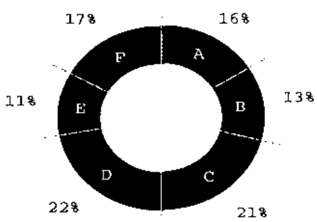
GROUP RESULTS IN BRIEF

	1999 £m	1998 £m
Total operating profit	41.3	45.5
Profit before taxation	93.9	41.1
Shareholders' funds	793.3	789.3
Basic earnings per share	79.3p	31.1p
Adjusted basic earnings per share	34.7p	33.7p
Dividends per share	22.0p	20.5p
Net asset value per share	951p	946p

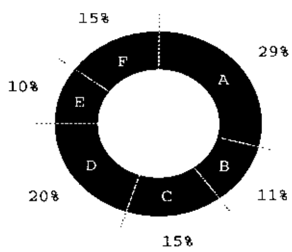
PROFIT



BOOK VALUE

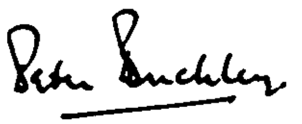


VALUATION



A — Financial
B — Industrial and services
C — Investment trusts
D — Leisure and media
E — Property and general
F — Cash and deposits

CHAIRMAN'S STATEMENT The highlight of the year was the pre-tax profit on sale of operations of £55.8m, arising principally from the disposals of Abacus Self Storage, part of our holding in Close Brothers and our English & Scottish warrants. Our substantial cash resources leave us well placed to seek rewarding opportunities.



Peter Buckley
Chairman and chief executive

Profit before taxation for the year under review amounted to £93.9m as against £41.1m reported last year. The largest element of this was a substantial profit on sale of operations of £55.8m arising from part or total disposals of some of our successful holdings. Total operating profit, which was partly reduced as a consequence of these disposals, amounted to £41.3m compared with £45.5m last year. Basic earnings per share amounted to 79.3 pence (1998 – 31.1 pence) and after adjustment to exclude principally the profits from the disposals amounted to 34.7 pence (1998 – 33.7 pence). A recommended final dividend of 15 pence per share will bring the total for the year to 22 pence representing a 7.3% increase in line with our aim to provide increasing dividends for shareholders.

Net asset value per share as stated in our accounts has increased from 946 pence to 951 pence. However, applying market value to our associates yields an adjusted value of 1070 pence per share at the year end (1998 – 1162 pence) and this movement is partly attributable to our two largest holdings – Close Brothers and Sun International – which happened to have lower share prices at the year end compared with last year. However, a snapshot of share prices on a particular date is not necessarily relevant in assessing underlying performance and Sun's share price has since risen by almost 30%. We have also decided that it is no longer appropriate to discount the share price of Sun in valuing our stake which has added 42 pence per share to asset values at the year end.

In the total operating profit, the contribution from subsidiaries has diminished following the sale of Abacus and lower profits from Amber. The contribution from associates reflects a smaller share of Close Brothers' profits following our part disposal even though underlying profits have improved, a lower result from Sterling Industries and a useful profit from Radio Investments. Investment income has reduced principally as a result of the repayment of high yielding securities in Bristow Helicopters and British Air Transport Holdings.

By contrast, interest income from our cash deposits has risen substantially from £2.3m to £9.1m. This followed the disposals last year which came partly from our view that markets were high and we were therefore prepared to increase our cash holdings, which seemed very right in the light of the market turbulence last autumn. Since then markets have recovered sharply encouraged by lower interest rates but the economic outlook remains difficult to judge. The trend to lower rates in the USA seems over, which could impact worldwide and our inclination is to remain cautious.

On the political scene, notable events since last year include the arrival of an assembly for the reluctant Welsh and a parliament for the expectant Scots, together with a single currency for eleven countries in Europe. It is too early to judge the effects of the assembly and parliament and early signs for the euro have not inspired confidence. A continuing wave of unwelcome labour and other regulation emanates from Brussels which is likely to disadvantage business in this country. It has the apparent support of the Government whose claim to be pro-business is looking increasingly tenuous.

It is interesting to witness a strong underlying wish to move closer to Europe from many in Government but this is now being played down in the light of public antipathy to such a move, as exemplified by the recent European elections.

I am very sorry to record the death of our president, Lord Cayzer, in April this year. He had been a director of Caledonia for 50 years and chairman for 36 years until 1994, during which time the value of the company increased many times over. I would wish to pay a very warm tribute to him for the unstinting service which he gave to Caledonia and we shall miss the last serving member of the third generation of the Cayzer family in the business.

I would like to thank all those who make a contribution within the group but especially our dedicated team in Cayzer House. The complexity of today's workload grows inexorably but they rise to the challenge with great professionalism. We plan to broaden the team in the coming months to give us a greater capacity not only to steward our existing interests but to widen the search for new opportunities. We are also developing a web site for those who seek to learn more about Caledonia which will initially incorporate information included in these accounts.

It is too early to make any predictions about the year in prospect but we are well placed with substantial cash resources. It will be challenging to find rewarding opportunities at current market levels but our strategy is to take the longer view and we shall continue to seek worthwhile investments.

FINANCIAL The sale of part of our holding in Close Brothers realised cash proceeds of £47.3m and generated profit on sale of operations of £26.1m. Rathbones reported impressive results with earnings and dividends increasing by 24% and 36% respectively.

CLOSE BROTHERS
Achieved its 23rd year of unbroken profit growth; a unique achievement for City based, UK owned, merchant banks.

CLOSE BROTHERS

Close Brothers announced its 23rd year of successive profit growth with a 26% advance for its year to 31 July 1998. Our results include our proportionate share of the second six months of these figures together with that of the first half of its current year which reflected a quieter period of trading. At the beginning of the year under review, given the then high share price, we decided to reduce the size of our holding, which represented some 24% of our total asset value, from 25.3% to 20.1%. This realised cash proceeds of £47.3m and generated a profit on sale of operations of £26.1m. Subsequently we took advantage of the market turbulence in October last year and purchased additional shares at approximately half the earlier disposal price thereby slightly increasing our holding to 20.8%. As a result of these changes in our shareholding, Close Brothers' contribution to our profits compared with last year was £2.1m lower, although its underlying profits continued to increase. I am pleased to say that the share price has made a strong recovery since October although not yet to levels seen at the beginning of the year under review.

The balance of profit contribution in Close Brothers between its three main business divisions – namely City Merchant Banking, comprising corporate finance, banking and investment management, Asset Finance and Market Making – remained relatively equal. The focus continues to be on smaller to medium size companies, with an opportunistic approach to growing the business both organically and by judicious purchases. A priority has always been to keep a disciplined eye on cost control, return on capital employed and the development of management within the different business units. We believe this formula will continue to deliver improving results.

Michael Morley has decided to stand down as chairman at the forthcoming AGM in November on grounds of ill health. We shall miss his outstanding contribution in this role and also his great knowledge of the business with which he has been associated for 27 years. We are delighted that Sir David Scholey has joined the board as his successor.

RATHBONES

In the year to December 1998 Rathbones saw further growth in funds under discretionary management to £4bn. Operating profit rose by 38% to £18.0m with an increase in earnings and dividends per share of 24% and 36% respectively.

In December the company acquired Curzon Securities and Trustees Limited, a trust company based in Jersey. This should prove an important addition to the existing trust business. We took the opportunity of adding to our shareholding at a cost of £2.2m by taking up part of the share placing associated with this acquisition. We look forward to continuing good returns from our investment.

ROBERT FLEMING

Robert Fleming reported reduced earnings in its first half year to the end of September 1998 as a result of turbulent market conditions, particularly in Asia. We believe that the second half year to March 1999 should show significant improvement. The acquisition of the 50% stake in Jardine Fleming held by Jardine Matheson and the recent improvement in Asian markets give encouragement for the year ahead.

Name	Business	Group share %	Attributable profits £m	Book value £m	Valuation £m
Associates					
Close Brothers Group plc †	Merchant banking	20.8	14.0	45.9	177.6
Intercapital plc †‡	Moneybroking		(0.6)		
Investments					
Rathbone Brothers Plc †	Fund management	13.0	0.8	34.3	34.3
Robert Fleming Holdings Ltd	Merchant banking	1.0	0.5	18.0	18.0
Friends Ivory & Sime plc †	Fund management	7.9	0.7	16.8	16.8
Intercapital plc †‡	Moneybroking	9.2	—	12.3	12.3
Other			0.4	3.1	3.1
			15.8	130.4	262.1

† Listed on the UK or overseas stock exchanges.
‡ The holding in Intercapital plc was transferred from associates to investments during the year.

FRIENDS IVORY & SIME

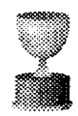
The past year has been a busy one for Friends Ivory & Sime which witnessed the integration of its asset management business with that of Friends Provident, acquired in February 1998. In addition, following the acquisition by Friends Provident of London & Manchester, the latter's asset management businesses were purchased by Friends Ivory & Sime in early 1999 – taking funds under management to over £31bn. Investment performance was generally outstanding during the period under review.

Friends Ivory & Sime now operates across three geographic centres with offices in the United Kingdom, the United States and South East Asia. It has a broad range of equity and fixed income investment management expertise, as well as specialist capabilities in property management, private equity, value asset management and AIM securities. The task ahead is to develop successfully its marketing and distribution capability in order to leverage off its well regarded investment management and administrative platforms.

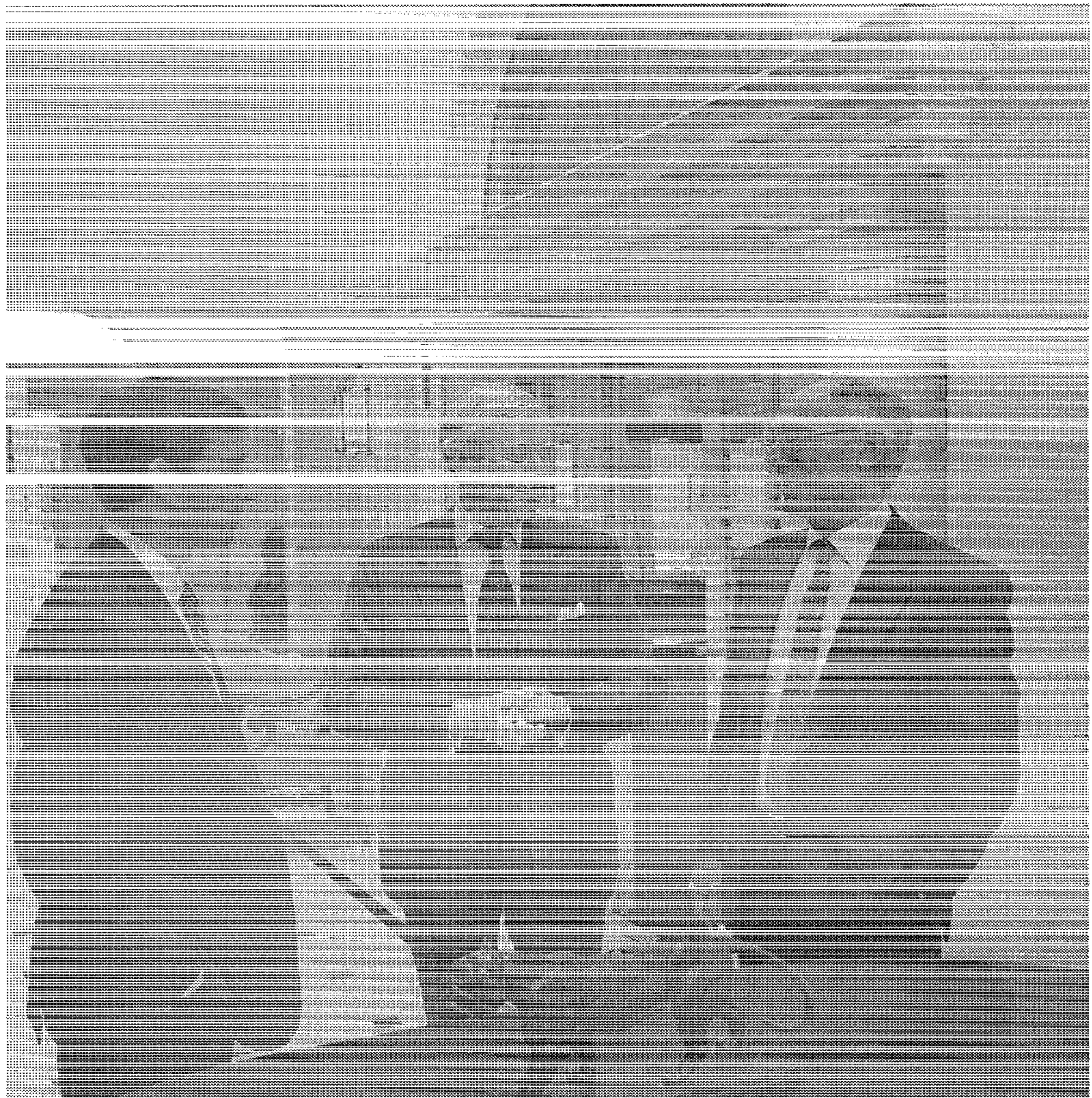
INTERCAPITAL (FORMERLY EXCO)

Following the merger of Exco with the broking operations of Intercapital last October our shareholding in the combined group, renamed Intercapital plc, was diluted from 28% to 9% and we now account for our interest as an investment rather than as an associate. The merger has brought added management strengths, some improvement in market share and useful new product lines. Considerable resource has been deployed in combining the two businesses and this process is now complete. It remains to capture greater market share and adapt to new trends in a competitive and fast changing environment, which the management is determined to achieve.

It was announced on 9 June that Intercapital was in discussion with Garban plc, another listed money and securities broker, which may lead to a merger of the two groups.



FRIENDS IVORY & SIME
The company achieved the best performance for all large funds over both one and three years according to a recent CAPS quarterly survey.



Associate director

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

Age 38.

Chairman and chief executive

A member of the Institute of Chartered Accountants of Scotland, he became a director of Caledonia in 1976, chief executive in 1987, and chairman in 1994. He is chairman of English & Scottish Investors and a non-executive director of Close Brothers, Intercapital and Sun International Hotels.

Age 56.

Associate director

A qualified chartered secretary, he worked in the insurance broking industry for over 20 years before joining Caledonia in 1991. He was appointed group administration manager in 1996 and an associate director in 1998.

Age 58.

INDUSTRIAL AND SERVICES During the year we sold our Abacus Self Storage business for a net cash sum of £47.1m, realising a profit of £29.7m. Amber strengthened its position through acquisitions in Italy and the United States.

ABACUS SELF STORAGE

We invested in Abacus Self Storage some ten years ago in the belief that the trends for this business in this country would follow the growth pattern experienced in the USA. After a slow start this judgement was rewarded by a steady expansion of the business which we had built up to some 19 centres with more in the pipeline.

A number of US companies in the sector with substantial resources seemed determined to make a bridgehead in the UK and continental markets and we took advantage of this situation by selling the business for a net cash sum of £47.1m thereby realising a profit of £29.7m which is reflected in the profit and loss account. Those associated with the development of this business are to be congratulated for this highly successful outcome.

AMBER

In January 1999, Caledonia completed the purchase of the outstanding 25% minority shareholding in Amber, our specialty chemicals business, for some £5.3m. We believe there is considerable scope to develop the business but that the burden of compliance with Stock Exchange listing requirements and the high cost of raising additional funds in this context was not justified.

Results for the Amber group were in line with last year at the trading level, but reflected varying performances between individual companies. Additional costs of restructuring and recruitment held back profitability in the UK based Ambersil business, although improved sales and marketing together with technological benefits from our Italian acquisition, Treco Srl, a specialty silicones business mentioned last year, lifted the second half. In Germany, the year started poorly as competitive pressures continued to erode sales but there has been some improvement in the second half of the year.

Full year profits were assisted by a first time trading profit from Taylor Chemical Company, based in Atlanta, which was acquired for $6.6m in October 1998. The acquisitions of Treco and Taylor represent an excellent opportunity for Amber to position itself as an international independent silicone compounder.

EDINBURGH CRYSTAL

Edinburgh Crystal incurred a loss during the year against the well publicised background of a difficult year for UK retailing. Aggressive discounting within the sector took its toll on margins as the marketplace became increasingly competitive. The company is actively seeking to improve its market position for the future but the sector remains challenging.

STERLING

Our 27% share of the operating profits of Sterling Industries dipped from the record £1.9m of the previous year to £1.6m following the pattern of the interim figures and reflecting a shortage of orders in the Thermal Process Division. The overall profit before tax of £2.4m was below the £3.5m of the previous year due to the operating result referred to above and more significantly the absence of the supplementary dividend from Caledonia.

Within the Thermal Process Division, the UK based businesses have experienced very competitive conditions and a shortage of orders. In the USA aggregate profits from Bloom and Process Combustion and Control improved slightly and Bloom in Germany moved strongly ahead. However these improvements were insufficient to cover the sharply lower results in

AMBER
Pursued its strategy to build an international independent silicone compounding business with acquisitions during the year in Italy and the USA.

Name	Business	Group share %	Attributable profits £m	Book value £m	Valuation £m
Subsidiaries					
Amber Industrial Holdings PLC	Specialty chemicals	99.9	2.4	18.4	18.4
Edinburgh Crystal Glass Co Ltd	Crystal glass	88.9	(1.0)	3.2	3.2
Abacus Self Storage Ltd [1]	*Secure storage*		1.0		
Other			—	0.4	0.4
Associates					
Sterling Industries PLC [†]	Engineering	27.2	2.4	25.7	19.4
Other			0.7	1.3	5.0
Investments					
AHL Services Inc [†]	Outsourcing	8.6	—	19.0	19.0
Offshore Logistics Inc [†2]	Helicopter operator	6.1	0.3	14.6	14.6
Bristow Aviation Holdings Ltd	Helicopter operator	49.0	0.7	4.9	4.9
Wallem Group Ltd [3]	Shipping services	74.4	—	11.8	11.8
SGS Société Générale de Surveillance Holding SA [†4]	Inspection services		0.8		
Other			—	6.8	6.8
			7.3	106.1	103.5

† Listed on the UK or overseas stock exchanges.
1 The business of Abacus Self Storage Ltd was sold on 17 August 1998.
2 The holding in Offshore Logistics Inc includes £5.5m of loan stock.
3 The holding in Wallem Group Ltd comprises 26% of voting ordinary shares and 91.2% of non-voting ordinary shares.
4 The holding in SGS Société Général de Suveillance Holding SA was sold on 28 September 1998.

OFFSHORE LOGISTICS/BRISTOW
Offshore Logistics and Bristow Aviation, in an alliance forged by Caledonia, is the world's largest offshore helicopter operator.

the UK where it was decided to close the Laker Process Engineering operation because of the very poor outlook. The Hydraulics Division was again able to improve profits on the back of its position as one of the world's leading suppliers of specialist hydraulic valves. Sterling is a worldwide group and its businesses are well placed in most of the markets which they serve but the present competitive environment will make it a considerable challenge to advance profits in the coming year.

AHL SERVICES

1998 was a year of outstanding growth for AHL being its first full year as a NASDAQ listed company. Revenues, operating income before taxation and earnings per share grew by 73%, 113% and 66% respectively. This growth came from a mix of progress within the existing businesses and from acquisitions. These are principally focused on the fast growing trend to outsource labour requirements in its four chosen fields of operation – aviation services with a specialisation in security, facility support services, operational support staffing services, and marketing execution and fulfilment services. Headquartered in Atlanta, a number of the recent acquisitions have taken place in Europe which should enable a broader platform for growth. Emphasis has also focused on businesses with higher net margins. AHL has recently raised additional equity and we took the opportunity of increasing our percentage shareholding slightly in this promising company at a cost of some £8m.

OFFSHORE LOGISTICS/BRISTOW

The industry outlook for Offshore Logistics and Bristow Helicopters has been adversely affected by the sustained dip in oil prices from August 1998 to January 1999 with a consequent impact on their results. Earnings per share for Offshore Logistics have fallen from $1.46 per share to $0.97 for its year just ended. Even though oil prices have now recovered somewhat, the setback has subdued the oil industry's enthusiasm for further exploration and encouraged a spate of merger activity and cost cutting. These have squeezed both margins and flying hours in varying degrees in the Gulf of Mexico and the North Sea which are Offshore Logistics' and Bristow's principal areas of operation. However, potentially interesting prospects elsewhere in the world, for which their operational strengths are well suited, are being pursued.

Notwithstanding the award to Bristow of its largest contract ever this time last year, a major contract win for its affiliate Norsk Helikopters and other useful contract renewals, two major long standing Bristow contracts have since been awarded to competitors with effect from later this summer. This, and the need to match Bristow's cost base to the new operating environment, combined with a flat outlook for oil and gas companies in the Gulf of Mexico, indicate that it may take a period of positive pricing for oil and gas before trading improves. However, both Offshore Logistics and Bristow remain determined to build on their strengths – especially in international markets.

WALLEM

Wallem, the Hong Kong based shipping services group, incurred a loss during the period under review. A sharp decline in ship values associated with the fall in worldwide freight rates necessitated provisions at its year end. In addition, a review of operating costs has been undertaken and the group has cut back on a number of activities. Trading conditions are now improving and the company's strategy is to focus in particular on the further development of its well-regarded shipmanagement activity.

SOCIÉTÉ GÉNÉRALE DE SURVEILLANCE

The substantial downturn in the trading outlook for SGS at the end of last summer suggested that it would take some considerable time for the profit levels of earlier years to be restored. Accordingly we realised our holding at a small profit for a consideration of £19m.

INVESTMENT TRUSTS Sustained investor emphasis on large capitalisation stocks led to relative under-performance from both English & Scottish Investors and British Empire Securities and General Trust. Nonetheless we believe that both offer longer term attractions.

Name	Business	Group share %	Attributable profits £m	Book value £m	Valuation £m
Associates					
English & Scottish Investors plc†	Investment trust	27.3	3.6	92.3	70.9
British Empire Securities and General Trust plc†	Investment trust	16.8	2.0	42.8	34.7
Investments			0.2	34.3	34.3
			5.8	169.4	139.9

† Listed on the UK or overseas stock exchanges.

ENGLISH & SCOTTISH INVESTORS

English & Scottish Investors under-performed against its benchmark for the second year in succession following a long period of considerable out-performance. Too much liquidity following the cautious approach being taken to markets, an insufficient exposure to the small number of very large companies which drove the market and an overweight position in property shares, were the main causes. Considerable management re-direction has been effected to improve the position and early indications from these changes suggest some initial success.

We took advantage of the warrant expiry date at the end of April 1998 to realise our holding of warrants in E&S raising some £9m. More recently the discounts in the investment trust sector have widened considerably and E&S has not escaped this trend. The company is assessing how best to improve this position and is examining share buy backs, the proposed generic marketing campaign by the Association of Investment Trust Companies and other means.

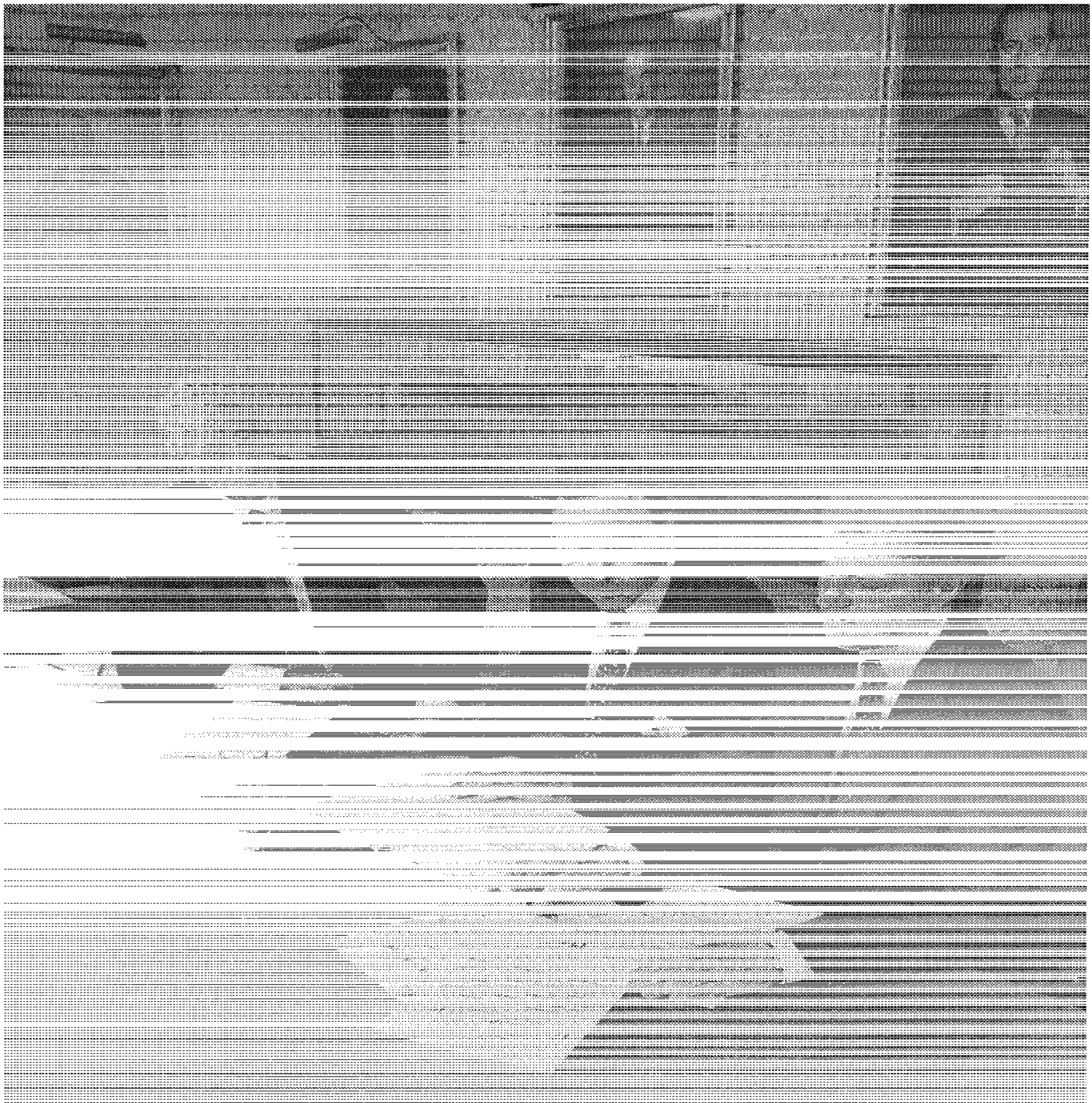
BRITISH EMPIRE SECURITIES AND GENERAL TRUST

During its year to 30 September 1998, British Empire Securities under-performed against its benchmark by a small margin and relative under-performance continued during its half year to 31 March 1999. This under-performance is understandable given the manager's "value" style investment approach, which has delivered low relative returns during a period of sustained investor emphasis on large capitalisation "growth" companies, particularly in the United States.

Nonetheless, we continue to consider that the manager's distinctive style offers long term attractions and, in addition, welcome defensive characteristics in the event of a major sell-off in the largest, most highly rated markets. Since its 30 September year end, the share price of British Empire Securities has risen by 33% reflecting its strategy of selling stocks in highly rated European markets and reinvesting in depressed sectors.

INVESTMENTS

The holdings in this category include a number of non-strategic investment trust holdings which are intended to benefit from market anomalies and other opportunities.



Deputy chief executive
A member of the Institute of Chartered Accountants in Scotland, he joined Caledonia in 1987, becoming deputy chief executive in 1994. He is non-executive chairman of Friends Ivory & Sime and The Fleming Chinese Investment Trust and a non-executive director of British Empire Securities and General Trust and Sterling Industries.
Age 57.

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 also a director of several private companies.
Age 42.

Associate director
After qualifying as a chartered accountant with Coopers & Lybrand, he worked for Laporte before joining Caledonia in 1989. He was appointed group finance manager in 1992 and an associate director in 1998 and also has responsibility for head office IT systems.
Age 40.

LEISURE AND MEDIA Sun International opened an exciting new complex on Paradise Island in The Bahamas and is now seeking to expand into Las Vegas. Radio Investments successfully placed its shareholding in Capital Radio for a profit on cost of over £40m.

THE SLOANE CLUB
During the year, The Sloane Club achieved the Investors In People award – a major endorsement of the club's commitment to its staff and members.

THE SLOANE CLUB

The Sloane Club's reputation has continued to grow and its operations have been expanded during the year by the introduction of sixteen Club Suites in a joint venture with the Cadogan Estate which has placed three nearby houses under its management. These apartments are let on a short term basis and demand has been encouraging. A number of other initiatives are in hand in related fields. Profits, which have dipped slightly because of the new venture start up costs, should move forward in the current year.

RADIO INVESTMENTS

1998 was a year of intense activity for Radio Investments. It successfully placed its 9% shareholding in Capital Radio, realising a profit on cost of over £40m. Part of the proceeds were distributed to shareholders, but it has retained liquidity for the expansion of its operating interests in smaller radio stations and good progress has been made in this area. The radio sector remains active, although values are now high by historical criteria.

SUN INTERNATIONAL HOTELS

Sun International enjoyed another year of considerable progress culminating in the opening of Phase II of Atlantis in The Bahamas to wide acclaim. An exciting new complex has added 1200 rooms to the existing 1150 rooms which were refurbished when we first became shareholders in Sun in 1994. Other new dimensions include a new and larger casino, extensive conference facilities, a substantial marina and additions to the aquarium exhibits featuring ruins of the legendary City of Atlantis which play home to over 40,000 exotic fish. High occupancies and increased room rates mark an encouraging start to this expansion of the Paradise Island operations with its many attractions. Further complementary developments are planned on the island.

Adjusted earnings grew 15% in 1998 to \$83.7m although the contribution from Paradise Island fell slightly due to the Phase II building disruption. The Atlantic City operations also dipped awaiting the \$50m refurbishment due for completion this summer. More extensive investment still awaits clearer indications on infra-structure development in the city. The major driver to earnings growth was the Mohegan Sun Casino in Connecticut from which the contribution more than doubled. Within two years of opening, the Mohegan Sun has become the second most profitable casino in North America. The management contract with the Mohegan Tribe which is due to expire in 2003, and in which Sun holds a 50% interest, is being re-arranged in the light of the Tribe's decision to go forward with a significant new development in its territory involving the construction of a 1200 room hotel, another casino and a 10,000 seat indoor stadium. Sun and its partner have been engaged to oversee this \$750m expansion, which is due for completion in the second half of 2001. The ongoing management of the existing facility will be handed back to the Tribe at the end of 1999 in exchange for a 5% participation in revenues for a further 15 years.

Results from the five 23% owned hotels in Mauritius continued to improve with a first full year's contribution from Le Coco Beach and Sugar Beach Resort. Rooms at the flagship St Geran are being completely rebuilt under Sun's management contract for these hotels and will be open in time for Christmas.

Name	Business	Group share %	Attributable profits £m	Book value £m	Valuation £m
Subsidiaries					
The Sloane Club Group Ltd	Residential club	100.0	1.4	15.1	15.1
Associates					
Radio Investments Ltd	Local radio	47.0	0.6	9.1	8.3
Investments					
Sun International Hotels Ltd †	Resort operator	17.4	—	118.3	118.3
Swallow Group plc †	Hotels	4.7	0.9	20.2	20.2
News Communication & Media plc †	Newspaper publishing	5.8	0.4	10.7	10.7
Other			0.1	4.2	4.2
			3.4	177.6	176.8

† Listed on the UK or overseas stock exchanges.

Since the end of the year Sun has entered into an agreement to acquire The Desert Inn hotel in Las Vegas for $275m. This well known Las Vegas property which comes with the only 18 hole golf course on The Strip and 32 acres of undeveloped land will give Sun the opportunity to create a distinctive resort destination which will not seek to outshine the other extravaganza hotel casinos. The purchase is expected to complete in the second quarter of 2000.

As mentioned in the chairman's statement, we have decided that it is no longer appropriate to discount the share price of Sun in valuing our stake, as the business has now moved well beyond its early development phase.

SWALLOW GROUP

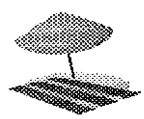
Swallow (formerly Vaux Group) recently reported a 15% increase in interim profits, once again driven principally by the hotel division, which reported a 29% increase over the comparative period assisted by the good performance of recent acquisitions and new openings. In the previous full year to September 1998 the group's pre-tax profits, before exceptional costs principally relating to a write-down of brewing assets, and property disposals, was 7% up on the previous year. The rising trend in dividend payments has been maintained, with growth averaging more than 4% compound over the last five years.

The brewing and wholesaling division has been dominated by the decision to withdraw from brewing. An MBO bid for the breweries and 350 out of its 672 tenanted pubs failed and the group subsequently entered negotiations to sell its entire tenanted estate. If no buyer is found for the breweries in Sunderland and Sheffield, they are scheduled to close on 2 July of this year.

There is a significant realignment under way in the brewing and pub industry, and Swallow has stated its intention to invest the proceeds arising from pub disposals in developing its hotels and managed houses, and in extending its leisure club operations.

NEWS COMMUNICATION & MEDIA

News Communication & Media (otherwise Newscom and formerly Southern Newspapers) recorded a strong advance in earnings in its year to June 1998 as a result of both organic and acquisition-led growth. Since then, it has reported that advertising revenues suffered during the final months of the year as the UK experienced a marked slowing of economic activity, although we believe that the better climate for its business which now prevails should enable earnings to resume their upward trend.



SUN INTERNATIONAL HOTELS
The Le Touessrok Resort in Mauritius was voted the best hotel in the world by the European readers of Condé Nast Traveler.

Associate director
He joined Caledonia in 1989 after working for Westminster Bank, British & Commonwealth Holdings and the Bricom Group. He was appointed group taxation manager in 1995 and an associate director in 1998.
Age 49.

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.
His non-executive directorships include Swallow Group and Offshore Logistics.
Age 45.

Deputy chairman
After a career in the army from 1955 to 1969, he served as a director of British & Commonwealth Holdings from 1981 to 1987. He has been a director of Caledonia since 1975 and was appointed deputy chairman in 1994.
He is a non-executive director of English & Scottish Investors and Sterling Industries.
Age 61.

PROPERTY AND GENERAL We seek interesting opportunities in the property sector and deploy part of the group's overall liquidity in equity markets.

Name	Business	Group share %	Attributable profits £m	Book value £m	Valuation £m
Subsidiaries			1.3	16.7	16.7
Associates					
Central European Land Ltd	Property investment	44.4	0.5	6.3	6.8
Other			0.2	0.2	0.1
Investments					
Quintain Estates and Development PLC†	Property investment	7.1	0.3	11.6	11.6
Other			1.6	59.9	59.9
			3.9	94.7	95.1

† Listed on the UK or overseas stock exchanges.

SUBSIDIARIES

Over the years we have held a number of smaller interests in the property sector. The year under review has received a welcome boost from our subsidiary, Edinmore, which seeks out interesting land and residential property opportunities in the UK and especially Scotland, but under the same heading there was no longer any contribution from St Botolph's House, or the Waterloo properties which were sold last year.

CENTRAL EUROPEAN LAND

During the year we invested DM20m for a 44% shareholding in Central European Land which has acquired a portfolio of retail properties in the Czech Republic and Hungary. We are co-investors with Meinl Bank in Vienna, and look forward to exploiting further opportunities in this interesting area.

QUINTAIN ESTATES AND DEVELOPMENT

We have held a stake in this property company since its flotation in 1996. During 1998 we took the opportunity of adding a further 1.2m shares, bringing our interest in the company to 7%. The management has made further progress in the development of its portfolio and has recently announced recommended offers for English and Overseas Properties and for Chesterfield Properties. We believe that the management's special skills in unravelling complicated leaseholds will lead to further progress in the current year.

OTHER INVESTMENTS

These comprise a portfolio of non-strategic investments including a separately managed portfolio of holdings in listed smaller companies which has performed well. As in the past, a part of the group's liquidity is invested in equity markets.

FINANCIAL REVIEW This review provides a commentary on the results for the year ended 31 March 1999, the financial position at the year end and a comparison with the previous year.

PROFIT BEFORE TAXATION

Profit before taxation for the year to 31 March 1999 totalled £93.9m as against £41.1m reported last year.

TOTAL OPERATING PROFIT

Total operating profit of £41.3m for the year to 31 March 1999 decreased by 9.2% compared with last year's figures restated under FRS 9.

A contribution of only 4½ months from Abacus, before its sale on 17 August 1998, together with a reduced contribution from Amber and a loss at Edinburgh Crystal, gave rise to reduced profits from trading subsidiaries at £5.0m.

Investment income of £8.5m compared with £13.5m in 1998. This reduction mainly resulted from the redemption during the previous year of high yielding loan stocks by Bristow Helicopters and British Air Transport Holdings as well as the absence of a dividend from Wallem and rental income from the St Botolph's property, which was sold in June 1997.

Interest receivable of £9.1m, compared with £2.3m in 1998, reflected the group's higher level of liquidity.

The group's share of operating profit of associates reduced by 9% overall to £24.0m. This was principally due to a lower holding in Close Brothers, following the part sale in April 1998, the absence of an attributable share of profits from Friends Ivory & Sime, which ceased to be an associate in February 1998, and a reduced contribution from Sterling Industries.

OTHER GAINS AND LOSSES

The profit on sale of operations of £55.8m, after writing back goodwill previously written off directly to reserves, reflected a number of transactions during the year. In August 1998, the group sold the business and net assets of Abacus Self Storage, resulting in a profit £29.7m. In April 1998, the group reduced its holding in Close Brothers from 25.3% to 20.1%, resulting in a profit of £26.1m. Other transactions included the sale of warrants in English & Scottish Investors for a profit of £5.2m and a £7.7m loss on the deemed part disposal of the group's holding in Exco, which was diluted as Exco undertook a reverse take-over of the broking operations of Intercapital Group.

Realised gains, net of losses, on the sale of investments of £18.3m, compared with £6.0m in 1998, are the cumulative result of a number of transactions.

The overall decrease in unrealised gains on investments of £59.5m includes an uplift of £35.5m on the indirect investment in Sun International Hotels as a result of ceasing the practice of discounting the quoted price for this stock by 30%.

DIVIDEND

An interim dividend of 7 pence has been paid and the directors are recommending a final dividend of 15 pence making a total of 22 pence for the year at a cost of £18.2m. This is a 7.3% increase over the total dividend for 1998 of 20.5 pence.

CASH FLOW

The group's net funds at the year end were £154.2m. The increase of £104.2m during the year was principally due to the receipt of proceeds from the sale of shares in Close Brothers and the sale of the assets and business of Abacus Self Storage.

	Attributable profits £m	Book value £m	Valuation £m
Financial	15.8	130.4	262.1
Industrial and services	7.3	106.1	103.5
Investment trusts	5.8	169.4	139.9
Leisure and media	3.4	177.6	176.8
Property and general	3.9	94.7	95.1
	36.2	678.2	777.4
Cash and deposits	9.2	140.6	140.6
Other income	0.8		
Other group overheads	(5.3)		
Minority interests	0.4		
Unallocated net liabilities		(25.5)	(25.5)
	41.3	793.3	892.5

OPERATING REVIEW

The operating review presents the results of the group by class of business. Each section contains a table detailing the attributable profit, book value and valuation of the group's main subsidiaries, associates and investments. Attributable profits are the group's share of profits before tax of subsidiaries and associates, and dividends and interest receivable from investments. The book value is the group's share of net assets of subsidiaries and associates, including capitalised goodwill, and a valuation of investments. The valuation column overlays the book value with the market value of associates, whilst unlisted subsidiaries are shown at book value throughout.

The table above presents a summary of the information in the operating review and reconciles the numbers to the accounts.

Taken overall, the underlying value of the group, net of minority interests, is estimated to amount to £892.5m, an underlying net asset value per share of 1070 pence, compared with 1162 pence reported last year.

If the group were to have realised its investments at 31 March 1999 at the stated underlying value, it is calculated that tax of £32m, amounting to 38 pence per share, would have arisen.

TREASURY MANAGEMENT

The group's treasury operations are managed within parameters defined formally and regularly reviewed by the board. The primary functions of group treasury are to provide a service to group companies and to manage the group's net funds. This is achieved through the central co-ordination of treasury transactions through the group's bankers and an internal set-off arrangement of individual group company overdrafts with other group liquidity.

The board establishes the policy which group treasury follows in managing risk. Limited exposures are permitted only with banks or other institutions meeting required standards as assessed normally by reference to the major credit rating agencies. The activities of group treasury are routinely reported to members of the board and are subject to review by the group's auditors. The group does not undertake transactions that are speculative or unrelated to the group's activities.

INTEREST RATE RISK

The group manages its exposure to interest rate fluctuations by the placing of deposits and the purchase of certificates of deposit and other financial instruments, of varying maturities. Money market derivatives may be used to hedge against specific exposures only.

LIQUIDITY RISK

At the year end the group held net cash, short term deposits and certificates of deposit of £155.1m (1998 – £50.7m) and had undrawn committed sterling facilities of £40.0m (1998 – £50.0m), together with a £10.0m overdraft facility (1998 – £10.0m).

The group's objective is to maintain a balance between the availability of funding and securing an advantageous return on liquid funds by means of the placing of short term deposits, and the purchase of certificates of deposit and other financial instruments.

FOREIGN CURRENCY RISK

Although the group is based in the UK, it has significant investments in operations in North America. The group is a long term investor in US dollar assets and does not seek to mitigate such structural currency exposures.

In addition, the group has investments in Europe, the Far East and other parts of the world. There is also exposure through UK investments which themselves invest abroad. The group's net assets will reflect the impact of currency movements on individual investments.

The group also has a small amount of transactional currency exposures. Such exposures arise from sales or purchases by an operating unit in currencies other than the unit's functional currency. The group does not seek to mitigate these currency exposures, except on material orders for stock or capital equipment contracted at a predetermined price and date, when it is the group's policy to hedge through forward contracts to purchase currency.

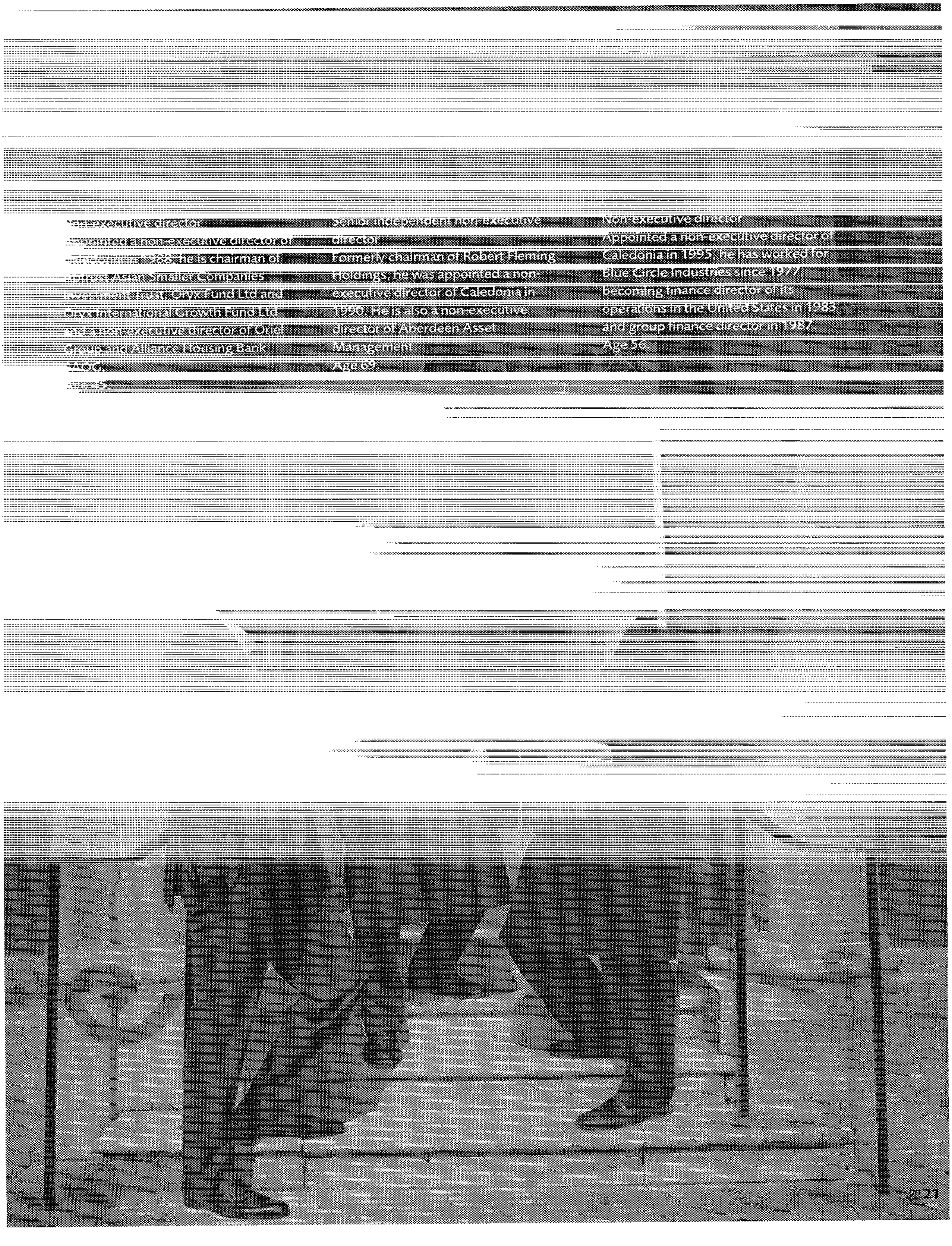
EUROPEAN MONETARY UNION

EMU is expected to have a minimal impact on the activities of the group.

YEAR 2000

The company has addressed the impact of the Year 2000 on its business and operations by reviewing the major issues to assess exposure. Plans have been put in place to seek to ensure the elimination of these exposures prior to the Year 2000. In particular, the company has a plan in place to ensure that group companies are Year 2000 compliant in all material respects. The company has also undertaken a programme of monitoring the Year 2000 compliance status of its significant associates and other investments. The incremental costs of group companies achieving Year 2000 compliance are not material to the group.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will remain, because at least some level of failure may still occur. However, the directors believe that the group will achieve an acceptable state of readiness and will provide resources to deal promptly with significant failures or issues that may arise.



Non-executive director
Appointed a non-executive director of Caledonia in 1988, he is chairman of [illegible] Asian Smaller Companies Investment Trust, Oryx Fund Ltd and Oryx International Growth Fund Ltd and a non-executive director of Oriel Group and Alliance Housing Bank SAOC.
Age 45

Senior independent non-executive director
Formerly chairman of Robert Fleming Holdings, he was appointed a non-executive director of Caledonia in 1990. He is also a non-executive director of Aberdeen Asset Management.
Age 69

Non-executive director
Appointed a non-executive director of Caledonia in 1995, he has worked for Blue Circle Industries since 1977 becoming finance director of its operations in the United States in 1985 and group finance director in 1987.
Age 56

DIRECTORS AND ADVISERS

DIRECTORS
Peter N Buckley CA[§] *chairman and chief executive*
Michael G Wyatt MBE *deputy chairman*
Sir David Kinloch Bt CA *deputy chief executive*
Jonathan H Cartwright FCA *finance director*
The Hon Charles W Cayzer
Joseph Burnett-Stuart [‡†§]
Nigel K Cayzer
James R H Loudon [‡†§]

Non-executive
‡ Member of the audit committee
† Member of the remuneration committee
§ Member of the nomination committee

SECRETARY AND REGISTERED OFFICE
Graeme P Denison MA ACIS
Cayzer House
1 Thomas More Street
London E1 9LE

ASSOCIATE DIRECTORS
Anthony J Carter
Graeme P Denison MA ACIS
John I Mehrtens ACIS
Paul M Whiteley ACA

REGISTRARS
IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

BANKERS
The Royal Bank of Scotland plc

SOLICITORS
Freshfields

AUDITORS
KPMG Audit Plc

BROKERS
Cazenove & Co

FINANCIAL CALENDAR

Interim report	November
Interim dividend payment	January
Preliminary announcement	June
Annual report	June
Annual general meeting	July
Final dividend payment	August

CONTENTS TO THE ACCOUNTS

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 March 1999.

PRINCIPAL ACTIVITIES AND RESULTS

Caledonia Investments is a diversified trading and investment company. A review of the activities of the company and its operating subsidiaries, together with the results for the year, is given in the chairman's statement and the operating and financial reviews, which should be regarded as part of this report.

ANNUAL GENERAL MEETING

The notice of the annual general meeting to be held on 30 July 1999 on pages 69 and 70 contains three items of special business.

Under resolution 7, shareholders' approval will be sought to renew the company's power to purchase its own ordinary shares given to it at the annual general meeting held on 22 July 1998. If the resolution is passed, it will empower the company to purchase up to 12,500,000 ordinary shares (being approximately 14.99% of the company's issued share capital as at 17 June 1999) at a price not more than 5% greater than the average of the middle market quotations for such ordinary shares during the five business days preceding any such purchase. This power will only be used in circumstances where the directors, after careful consideration, believe that such a purchase would result in an increase in expected earnings per share or net assets per share and would be in the best interests of shareholders.

The authority sought will expire on 1 January 2001 or, if earlier, at the conclusion of the next annual general meeting of the company.

Resolution 8 will be proposed, as in previous years, to renew the authority granted on 22 July 1998 to allot unissued shares of the company. Whilst they do not have any present intention of exercising this authority, the directors would be authorised to allot shares up to a nominal amount of £1,390,000 representing approximately 33.33% of the company's issued share capital as at 17 June 1999. The authority, if granted, will last until the next annual general meeting.

Resolution 9 seeks to renew the directors' flexibility to issue shares for cash other than strictly pro rata to existing shareholders. This authority will be limited to a nominal amount of £208,500, which represents 5% of the issued share capital as at 17 June 1999 and, if granted, will last until the next annual general meeting.

The directors will comply with the guidelines of the Investment Protection Committees that no more than 7.5% of the issued share capital should be allotted for cash on a non pre-emptive basis in any three year period.

DIRECTORS AND THEIR INTERESTS

The directors of the company are shown on page 22. All of the directors served throughout the year. Lord Cayzer also served as a director throughout the year and until his death on 16 April 1999.

Sir David Kinloch, Mr N K Cayzer and Mr P N Buckley retire by rotation and, being eligible, offer themselves for re-election. None of the directors proposed for re-election has a contract of service which cannot be determined within one year.

The interests of the directors and their families in the share capital of the company are shown in note 35 to the accounts.

SUBSTANTIAL INTERESTS

The company has been notified of the following interests amounting to 3% or more of the issued ordinary share capital as at 17 June 1999:

The Cayzer Trust Company Ltd	36.8%
Sterling Industries PLC	9.7%
The Equitable Life Assurance Society	7.5%
Prudential Corporation group of companies	3.4%

The interest of Sterling Industries PLC is also included in that of The Cayzer Trust Company Ltd.

CORPORATE GOVERNANCE

The board recognises the importance of good corporate governance. The following statements describe how the company has applied the principles of good corporate governance as set out in the Combined Code and detail those provisions of the Code with which the company has not complied either throughout or for part of the year.

Application of the principles set out in section 1 of the Combined Code

The board

The board as a whole is responsible for the group's objectives and policies and the management of its resources. It has eleven scheduled meetings a year, but also convenes at additional times when required. All directors receive appropriate and timely information to ensure that they are properly briefed in advance of board meetings and also have unlimited access to senior management should further information be required.

During the year, the board comprised five executive directors and four non-executive directors, although the number of non-executive directors has since reduced to three following the death of Lord Cayzer. All of the non-executive directors are considered to be independent, notwithstanding that Messrs N K Cayzer and J R H Loudon are members of the wider controlling shareholder, the Cayzer family. Collectively, the directors bring a wide range of experience and expertise to the stewardship of the business, as evidenced by their individual biographies which appear on pages 8, 13, 16 and 21.

The roles of chairman and chief executive remain combined. The board considers this appropriate in the context of the diversified activities of the group, where executive responsibility for running individual businesses is retained by the boards of investee companies. The day to day management of the company is delegated to a management committee comprising the executive directors and the company secretary, which meets weekly to review business issues and matters not specifically reserved to the board as a whole. This, combined with the strong independent non-executive representation, headed by the senior independent non-executive director, Mr J Burnett-Stuart, ensures a balance of power and authority at board level.

In addition, the board has delegated certain specific areas of responsibility to standing committees.

The nomination committee, chaired by Mr P N Buckley, provides advice and recommendations to the board in relation to any new appointments, including the re-election of non-executive directors. All directors are required to submit themselves for re-election at least every three years.

The remuneration committee, chaired by Mr J Burnett-Stuart, provides advice and recommendations to the board on the company's framework of executive remuneration, details of which are set out in the remuneration report on page 66. This committee also determines the individual remuneration packages of executive directors and is responsible for the grant of options under the company's executive share option schemes.

The audit committee, chaired by Mr J Burnett-Stuart, reviews the company's financial reporting procedures, all financial information issued to shareholders and the effectiveness of the company's system of internal financial control. It also considers the scope, cost effectiveness and objectivity of the external audit and the level of non-audit services provided by the auditors.

The membership of each of the above committees is noted on page 22.

Internal financial control

The board acknowledges that it is responsible for the group's system of internal financial control, although it must be recognised that such a system can only provide reasonable but not absolute assurance against material misstatement or loss. The principal elements underlying the group's system of internal financial control are as follows.

Businesses within the group are subject to an annual budget process from which the group budget is prepared for approval by the board. Management accounts for operating companies are prepared monthly, which compare actual performance against budget. Forecasts are updated quarterly.

The identification of major business risks is carried out in conjunction with operating management and procedures agreed to control these where possible. Each operating company is required to acknowledge in writing that it is aware of its responsibility to operate a system of internal financial control and this system is monitored through internal questionnaires and written reports, the results of which are formally considered by the board in an annual review. Where necessary, corrective action is taken.

The directors have reviewed the effectiveness of the system of internal financial control operated by the group.

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

Relations with shareholders
The company welcomes dialogue with institutional shareholders in order to achieve a mutual understanding of objectives. The annual general meeting also provides a forum for investors to meet the directors both formally and informally.

Statement of compliance
The company has complied throughout the year with the provisions set out in section 1 of the Combined Code, except as follows:

A.2.1 a statement on the combination of the posts of chairman and chief executive was not included in the 1998 annual report as this was posted to shareholders prior to the publication of the Code;

A.5.1 a standing nomination committee was not appointed until 21 April 1999, although prior to that date such a committee was established whenever necessary to consider the appointment of any new directors;

B.3.5 the board did not formally consider whether the circumstances were such that the 1998 annual general meeting should be invited to approve the policy set out in the remuneration committee report contained in the 1998 annual report, as this was posted to shareholders prior to the publication of the Code;

C.2.1 the number of proxy votes cast was not disclosed at the 1998 annual general meeting;

C.2.4 21 clear days' notice was given for the 1998 annual general meeting, rather than 20 working days' notice, as the notice of meeting was posted to shareholders prior to the publication of the Code;

D.2.1 pending the issuance by the Institute of Chartered Accountants of guidance to directors on the wider aspects of internal control, to which provision D.2.1 of the Code refers, the board has continued to report on the group's system of internal financial control as permitted by the London Stock Exchange;

D.3.1 the audit committee consists of only two non-executive directors as the board considers that this is sufficient to ensure the integrity of the company's financial reporting and controls.

DIRECTORS' REPORT

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year, charitable and political contributions amounted to £87,000 and £50,000 respectively. The political contribution was made to the Conservative Party.

EMPLOYEES

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

The group gives full and fair consideration to applications for employment from disabled persons, having regard to their aptitudes and abilities. Group companies make every effort to treat disabled persons equally with others.

Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

CREDITOR PAYMENT POLICY

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

The company had no trade creditors at the year end.

AUDITORS

A resolution will be proposed at the annual general meeting for the reappointment of KPMG Audit Plc as auditors of the company.

By order of the board
G P Denison
Secretary

17 June 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on a going concern basis unless it is inappropriate to assume that the group will continue in business.

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

AUDITORS' REPORT
TO THE MEMBERS OF CALEDONIA INVESTMENTS PLC

We have audited the accounts on pages 32 to 65.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the annual report including, as described on page 29, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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

We review whether the statement on page 27 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

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

BASIS OF AUDIT OPINION

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

AUDITORS' REPORT

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 accounts 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 accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group as at 31 March 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

17 June 1999

GROUP PROFIT AND LOSS

FOR THE YEAR ENDED 31 MARCH 1999

PROFIT AND LOSS ACCOUNT

	Note	1999 £m	Restated 1998 £m
Group turnover	1	58.2	68.3
Trading profit		5.0	8.5
Income from investments	2	8.5	13.5
Interest receivable		9.1	2.3
Other income		0.8	0.8
Group overheads		(5.7)	(6.1)
Group operating profit	3	17.7	19.0
Share of operating profit of associates		24.0	26.5
Amortisation of goodwill on acquisition of associates		(0.4)	—
Total operating profit		41.3	45.5
Profit on sale of operations	5	55.8	(2.2)
Interest payable	6	(3.2)	(2.2)
Profit on ordinary activities before taxation		93.9	41.1
Tax on profit on ordinary activities	7	(27.6)	(14.9)
Profit on ordinary activities after taxation		66.3	26.2
Minority interests (equity)		(0.6)	(0.5)
Profit for the financial year		65.7	25.7
Dividends	9	(18.2)	(17.0)
Profit retained for the financial year	23	47.5	8.7
Earnings per share	10		
Basic		79.3p	31.1p
Diluted		79.2p	31.0p
Adjusted basic		34.7p	33.7p
Dividends per share	9	22.0p	20.5p

HISTORICAL COST PROFIT AND LOSS

	1999 £m	1998 £m
Reported profit on ordinary activities before taxation	93.9	41.1
Realisation of investment revaluation gains	44.5	15.9
Historical cost profit on ordinary activities before taxation	138.4	57.0
Historical cost profit retained for the financial year	90.0	22.8

The accounting policies and notes on pages 37 to 65 form part of these accounts.

GROUP RESERVE MOVEMENTS

FOR THE YEAR ENDED 31 MARCH 1999

TOTAL RECOGNISED GAINS AND LOSSES

	Note	1999 £m	1998 £m
Profit for the financial year		65.7	25.7
Realised gains and losses on sale of investments		18.3	6.0
Provision against investments		(4.3)	(2.1)
Movement in revaluation reserve		(73.5)	87.3
Tax on sale of investments	7	3.4	(0.9)
Exchange differences		7.0	(2.2)
Minority interests		—	(0.6)
Share of reserve movements of associates			
Realised gains and losses on sale of investments		30.5	12.0
Movement in revaluation reserve		(35.7)	9.2
Tax on sale of investments		(5.4)	(0.2)
Exchange differences		(0.3)	(1.2)
Other movements		(3.6)	(1.7)
Total recognised gains and losses		2.1	131.3

RECONCILIATION OF SHAREHOLDERS' FUNDS

	Note	1999 £m	1998 £m
Total recognised gains and losses		2.1	131.3
Dividends		(18.2)	(17.0)
		(16.1)	114.3
Goodwill on acquisitions written off		—	(4.1)
Goodwill on disposals written back	13	18.4	12.4
Goodwill capitalised into investments	13	3.0	4.8
Share of goodwill movements of associates		(1.3)	(8.7)
Net movement in shareholders' funds		4.0	118.7
Opening balance of shareholders' funds		789.3	670.6
Closing balance of shareholders' funds		793.3	789.3

The accounting policies and notes on pages 37 to 65 form part of these accounts.

GROUP BALANCE SHEET
AT 31 MARCH 1999

	Note	1999 £m	Restated 1998 £m
Fixed assets			
Intangible assets	11	6.5	—
Tangible assets	12	39.3	52.3
Investments	13		
Investment in associates		224.9	254.0
Other investments		408.0	467.9
		678.7	774.2
Current assets			
Stocks	14	11.8	12.4
Debtors	15	21.0	18.4
Short term deposits		147.8	44.7
Cash at bank and in hand		19.2	20.7
		199.8	96.2
Creditors falling due within one year			
Short term borrowings	16	(12.1)	(15.0)
Other creditors	17	(42.2)	(32.1)
		(54.3)	(47.1)
Net current assets		145.5	49.1
Total assets less current liabilities		824.2	823.3
Creditors falling due after more than one year			
Long term borrowings	18	(0.7)	(0.4)
Provision for liabilities and charges			
Deferred taxation	20	(29.1)	(29.2)
		794.4	793.7
Minority interests (equity)		(1.1)	(4.4)
		793.3	789.3
Capital and reserves			
Called up share capital	22	4.2	4.2
Share premium account	23	1.3	1.3
Capital redemption reserve	23	0.7	0.7
Revaluation reserve	23	205.2	311.0
Profit and loss account	23	581.9	472.1
Shareholders' funds (equity)		793.3	789.3
Net asset value per share		951p	946p

The accounts were approved by the board on 17 June 1999 and signed on its behalf by:

P.N. Buckley

J.H. Cartwright

Peter Buckley chairman and chief executive

Jonathan Cartwright finance director

The accounting policies and notes on pages 37 to 65 form part of these accounts.

GROUP CASH FLOW

FOR THE YEAR ENDED 31 MARCH 1999

CASH FLOW STATEMENT

	Note	1999 £m	Restated 1998 £m
Net cash inflow from operating activities		23.1	28.8
Dividends from associates		14.0	9.4
Servicing of finance	24	(0.3)	(0.6)
Taxation		(7.6)	(7.4)
Capital expenditure and financial investment	25	14.4	31.8
Acquisitions and disposals	26	77.8	(3.0)
		121.4	59.0
Equity dividends paid		(17.4)	(40.8)
Management of liquid resources	27	(102.8)	5.6
Financing	28	—	(21.7)
Increase in cash in the year		1.2	2.1

RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	1999 £m	Restated 1998 £m
Group operating profit	17.7	19.0
Depreciation and amortisation	2.9	2.8
Loss and provision against own shares	0.8	0.4
Profit on sale of fixed assets	(0.1)	—
Tax credits on franked investment income	(0.7)	(1.2)
Investment income and interest accruals increase	(2.3)	10.1
Stocks decrease	1.0	1.9
Debtors decrease	2.7	(5.7)
Creditors increase	1.1	1.5
Net cash inflow from operating activities	23.1	28.8

RECONCILIATION OF NET CASH FLOWS TO MOVEMENT IN NET FUNDS

	Note	1999 £m	1998 £m
Increase in cash in the year		1.2	2.1
Cash outflow from decrease in debt		—	21.7
Cash outflow from increase in deposits		102.8	(5.6)
Change in net funds resulting from cash flows		104.0	18.2
Loans acquired with operations		(0.1)	—
Exchange differences		0.3	(0.2)
Movement in net funds in the year		104.2	18.0
Opening balance of net funds		50.0	32.0
Closing balance of net funds	29	154.2	50.0

The accounting policies and notes on pages 37 to 65 form part of these accounts.

COMPANY BALANCE SHEET
AT 31 MARCH 1999

	Note	1999 £m	Restated 1998 £m
Fixed assets			
Investments	13	719.9	697.2
Current assets			
Debtors	15	41.7	84.9
Short term deposits		147.9	37.6
		189.6	122.5
Creditors falling due within one year			
Short term borrowings	16	(144.7)	(98.8)
Other creditors	17	(65.6)	(22.5)
		(210.3)	(121.3)
Net current liabilities		(20.7)	1.2
Total assets less current liabilities		699.2	698.4
Provision for liabilities and charges			
Deferred taxation	20	(28.3)	(28.3)
		670.9	670.1
Capital and reserves			
Called up share capital	22	4.2	4.2
Share premium account	23	1.3	1.3
Capital redemption reserve	23	0.7	0.7
Profit and loss account	23	664.7	663.9
Shareholders' funds (equity)		670.9	670.1

The accounts were approved by the board on 17 June 1999 and signed on its behalf by:

Peter Buckley chairman and chief executive

Jonathan Cartwright finance director

The accounting policies and notes on pages 37 to 65 form part of these accounts.

ACCOUNTING POLICIES

BASIS OF PREPARATION

The accounts have been prepared under the historical cost convention, modified to include certain fixed asset investments at valuation, and in accordance with applicable accounting standards. The group has implemented the new accounting standards FRS 9 (associates and joint ventures), FRS 10 (goodwill and intangible assets), FRS 11 (impairment of fixed assets and goodwill), FRS 12 (provisions and contingencies), FRS 13 (derivatives and other financial instruments: disclosures) and FRS 14 (earnings per share). The most significant effect of the new standards is in respect of FRS 9 on the group profit and loss account. Specifically, the group's share of its associates' results is now analysed to show the operating profit, interest and non-operating elements of profit before tax. These changes do not affect the overall reported profit for the period. Where changes in presentation are made, comparative figures have been adjusted accordingly.

BASIS OF CONSOLIDATION

The group accounts consolidate the accounts of the company and all of its subsidiaries, with the exception of Bristow Aviation Holdings Ltd as disclosed in note 13. All of the subsidiaries draw up their accounts to 31 March each year, except for The Edinburgh Crystal Glass Company Ltd, which prepared its latest accounts for the 52 weeks to 26 March 1999. In the view of the directors, to require The Edinburgh Crystal Glass Company Ltd to prepare its accounts to 31 March would incur considerable expense and delay. No profit and loss account is presented for the company as permitted by section 230 of the Companies Act 1985.

Unless accounted for as a merger, the results of subsidiaries acquired or sold during the year are included in the accounts from the date of acquisition or to the date of sale. Where appropriate, the accounts of subsidiaries and associates are adjusted to conform to the group's accounting policies.

The assets, liabilities, profits, losses and cash flows of quasi-subsidiaries are included in the controlling group's accounts in the same way as if they were those of subsidiaries.

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over whose operating and financial policies the group exercises significant influence. The group's share of the profits and losses of associates is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet. The group does not have any material joint ventures.

GOODWILL

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair values of that entity's identifiable assets and liabilities.

Positive goodwill arising on acquisitions since 1 April 1998 will be included in fixed assets and amortised to nil by equal monthly instalments over its estimated useful life.

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

If a subsidiary, associate or business is subsequently sold or ceases trading, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

FIXED ASSET INVESTMENTS

Fixed asset investments are stated at valuation. Listed investments are valued at market prices at the balance sheet date. Other investments are valued at market prices at the balance sheet date where an organised market exists, or by the directors based on dealing prices, stockbrokers' valuations, net asset values or other information as appropriate. The valuation of fixed asset investments is reviewed periodically and at the date of any sale or provision for permanent diminution in value being made.

Subsidiaries are included in the company balance sheet at cost less provision for any permanent diminution in value.

INCOME FROM FIXED ASSET INVESTMENTS

Interest and fixed rate dividends are recognised on an accruals basis and dividends on equity securities are recognised when they are declared or, in the case of quoted securities, on the ex-dividend date. Dividends from United Kingdom resident companies include related tax credits.

DEPRECIATION

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

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

STOCKS

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

TAXATION

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

DEFERRED TAXATION

Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the foreseeable future, calculated at the rate at which it is estimated tax will be payable.

FOREIGN CURRENCIES

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

Company
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. All differences are taken to the profit and loss.

LEASES

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

PENSIONS

The group principally operates defined benefits pension schemes in the United Kingdom and Germany. Contributions to the funds are charged to the profit and loss account so as to spread the cost of pensions over the working lives of the employees within the schemes. In addition, contributions are made to grouped personal pension plans, which are charged to the profit and loss account when payable.

NOTES TO THE ACCOUNTS

1 TURNOVER AND SEGMENTAL ANALYSIS

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

Class of business
Turnover, profit on ordinary activities before taxation and net assets were as follows:

	Turnover		Profit before tax		Net assets	
	1999	1998	1999	1998	1999	1998
	£m	£m	£m	£m	£m	£m
Financial	—	—	2.5	1.9	86.5	85.8
Industrial and services	47.4	51.9	4.5	11.7	91.0	120.9
Investment trusts	—	—	0.2	0.3	35.5	50.5
Leisure and media	5.2	4.8	2.8	3.2	172.1	174.9
Property and general	5.6	11.6	3.5	4.9	83.5	96.4
Cash and deposits	—	—	9.1	2.3	155.1	50.0
Segment totals	58.2	68.3	22.6	24.3	623.7	578.5
Share of associates			23.4	24.6	224.9	254.0
Other income			0.8	0.8		
Group overheads			(5.7)	(6.1)		
Non-operating items			52.8	(2.5)		
Unallocated net liabilities					(54.2)	(38.8)
	58.2	68.3	93.9	41.1	794.4	793.7

Unallocated net liabilities comprised certain fixed assets, loans, taxation, dividends and other non-operating items.

Share of associates' profit before tax, including goodwill amortisation, and net assets, including goodwill capitalised, were as follows:

	Profit before tax		Net assets	
	1999	1998	1999	1998
	£m	£m	£m	£m
Financial	13.2	17.0	45.9	60.9
Industrial and services	3.4	3.7	28.0	29.7
Investment trusts	5.6	4.9	135.1	143.8
Leisure and media	0.7	0.9	9.0	19.2
Property and general	0.7	—	6.9	0.4
Segment totals	23.6	26.5	224.9	254.0
Non-operating items	(0.2)	(1.9)		
	23.4	24.6	224.9	254.0

TURNOVER AND SEGMENTAL ANALYSIS 1
CONTINUED

Geographical area
Turnover by origin, profit on ordinary activities before taxation and net assets were as follows:

	Turnover		Profit before tax		Net assets	
	1999	1998	1999	1998	1999	1998
	£m	£m	£m	£m	£m	£m
United Kingdom	46.1	59.6	19.7	20.9	399.6	329.5
Rest of Europe	10.4	8.5	2.3	2.2	28.3	68.7
North America	1.3	0.1	0.6	0.3	171.3	158.2
Far East	0.4	0.1	—	0.9	24.5	22.1
Segment totals	58.2	68.3	22.6	24.3	623.7	578.5
Share of associates			23.4	24.6	224.9	254.0
Other income			0.8	0.8		
Group overheads			(5.7)	(6.1)		
Non-operating items			52.8	(2.5)		
Unallocated net liabilities					(54.2)	(38.8)
	58.2	68.3	93.9	41.1	794.4	793.7

Unallocated net liabilities comprised certain fixed assets, loans, taxation, dividends and other non-operating items.

Share of associates' profit before tax, including goodwill amortisation, and net assets, including goodwill capitalised, were as follows:

	Profit before tax		Net assets	
	1999	1998	1999	1998
	£m	£m	£m	£m
United Kingdom	22.2	25.6	215.2	237.1
Rest of Europe	0.5	0.7	6.4	5.4
North America	1.1	0.3	2.9	6.4
Far East	(0.2)	(0.1)	0.4	5.1
Segment totals	*23.6*	*26.5*	*224.9*	*254.0*
Non-operating items	(0.2)	(1.9)		
	23.4	24.6	224.9	254.0

Turnover by destination was as follows:

	1999	1998
	£m	£m
United Kingdom	44.5	57.4
Germany	7.7	7.2
Rest of Europe	3.3	2.6
North America	1.7	0.3
Far East	1.0	0.8
	58.2	68.3

2 INCOME FROM INVESTMENTS

	1999 £m	1998 £m
Investments listed on the London Stock Exchange	4.7	4.6
Rental income from property investments	0.8	1.5
Other investments	3.0	7.4
	8.5	13.5

3 GROUP OPERATING PROFIT

Results of continuing operations were as follows:

	1999 £m	1998 £m
Turnover	58.2	68.3
Change in stocks	(4.2)	(2.1)
Other operating income	1.1	0.6
Raw materials	(15.4)	(22.2)
Staff costs	(15.7)	(15.7)
Depreciation and amortisation	(2.6)	(2.6)
Amounts written off current assets	(0.1)	(0.1)
Other operating charges	(16.3)	(17.7)
Trading profit	5.0	8.5
Income from investments	8.5	13.5
Interest receivable	9.1	2.3
Other income	0.8	0.8
Group overheads	(5.7)	(6.1)
Group operating profit	17.7	19.0

There were no material acquisitions or discontinued operations during the year, nor in the previous year.

Group overheads represented the expenses incurred in managing the group's investments, and included staff costs of £3.0m (1998 – £3.1m) and depreciation of £0.3m (1998 – £0.2m).

GROUP OPERATING PROFIT 3
CONTINUED

Group operating profit was stated after the following:

	1999 £m	1998 £m
Charges		
Auditors' remuneration – audit services	0.2	0.2
– non-audit services	0.1	0.3
Depreciation of owned assets	2.8	2.8
Amortisation of goodwill	0.1	—
Operating lease rentals – plant and machinery	0.5	0.4
– other (mainly properties)	0.3	0.8
Exchange differences	—	0.4
Credits		
Net rental income from land	1.6	2.3
Exchange differences	0.1	—

STAFF COSTS 4

	1999 £m	1998 £m
Wages and salaries	16.1	16.4
Social security costs	1.7	1.6
Other pension costs	0.9	0.8
	18.7	18.8

The average number of employees during the year (including executive directors) was 959 (1998 – 993).

PROFIT ON SALE OF OPERATIONS 5

	1999 £m	1998 £m
Group profit on sale of operations	52.9	(2.2)
Share of associates' profit on sale of operations	2.9	—
	55.8	(2.2)

INTEREST PAYABLE 6

	1999 £m	1998 £m
Bank loans and overdrafts	0.1	0.3
Share of associates' interest payable	3.1	1.9
	3.2	2.2

7 TAXATION

Tax charged to the profit and loss account

	1999 £m	1998 £m
Based on the profit for the year		
Corporation tax at 31%	22.2	6.4
Tax credits on franked investment income	0.7	1.2
Deferred taxation	(0.6)	(1.7)
Double tax relief	(2.1)	(0.6)
Overseas tax	0.4	1.0
	20.6	6.3
Adjustments relating to previous years		
Corporation tax	(0.5)	—
Deferred taxation	0.4	(0.3)
	20.5	6.0
Share of associates' taxation	7.1	8.9
	27.6	14.9

Deferred taxation provided on unremitted overseas reserves was £0.4m (1998 – £0.9m).

Tax charged/(credited) to reserves

	1999 £m	1998 £m
Based on the profit from sale of investments for the year		
Corporation tax at 31%	(3.4)	1.3
Deferred taxation	—	(0.4)
	(3.4)	0.9

8 PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit dealt with in the accounts of Caledonia Investments plc was £19.0m (1998 – £72.8m).

9 DIVIDENDS

	1999 £m	1998 £m
Interim of 7p paid (1998 – 6.5p)	5.8	5.4
Final of 15p proposed (1998 – 14p)	12.4	11.6
	18.2	17.0

The proposed final dividend will be paid on 4 August 1999 to shareholders on the register at the close of business on 2 July 1999.

Dividends were payable to Cayzer family members, trusts and controlled companies who, together, held 46.5% of the issued share capital of Caledonia (1998 – 46.5%). Dividends were also payable to associates of Caledonia which, together, held 10.4% of the issued share capital (1998 – 11.2%).

EARNINGS PER SHARE 10

The calculation of basic earnings per ordinary share is based on the profit for the financial year after deduction of minority interests, amounting to £65.7m (1998 – £25.7m), and on the 82,800,050 weighted average number of shares in issue during the year (1998 – 82,761,772). The weighted average number of shares excludes shares held during the year by the Caledonia Investments plc Employee Share Trust.

The diluted earnings per share are based on the profit for the year of £65.7m (1998 – £25.7m) and on 82,919,693 ordinary shares (1998 – 82,943,147), calculated as follows:

	1999 '000	1998 '000
Basic weighted average number of shares	82,800	82,762
Dilutive potential ordinary shares		
Employee share options	120	181
	82,920	82,943

The adjusted basic earnings per share are calculated as a measure of the group's earnings excluding sale of operations, amortisation of goodwill and other items, net of any tax adjustments. This is considered to provide a more consistent indication of underlying operating performance.

The adjusted basic earnings per share are reconciled as follows:

	1999 pence	1998 pence
Basic earnings per share	79.3	31.1
Adjustments		
Profit on sale of operations	(67.4)	2.6
Share of associate's restructuring costs	1.3	—
Amortisation of goodwill	0.6	—
Related tax effect	20.9	—
Adjusted basic earnings per share	34.7	33.7

Share of associate's restructuring costs represents the group's share of the exceptional restructuring costs incurred by Exco prior to its offer to acquire the broking operations of Intercapital Group.

11 INTANGIBLE FIXED ASSETS

	Goodwill £m
Cost	
Opening balance	—
Additions	6.6
Closing balance	6.6
Amortisation	
Opening balance	—
Charge for the year	0.1
Closing balance	0.1
Closing net book value	6.5
Opening net book value	—

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

12 TANGIBLE FIXED ASSETS

The group

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Assets in course of construction £m	Total £m
Cost					
Opening balance	50.1	13.4	7.4	0.3	71.2
Exchange differences	0.2	0.1	—	—	0.3
Additions	0.3	1.5	0.9	0.2	2.9
Reclassifications	0.3	0.1	—	(0.4)	—
Sale of operations	(17.7)	(5.3)	(1.0)	—	(24.0)
Acquisition of operations	0.1	4.3	0.1	—	4.5
Disposals	—	(0.2)	(0.2)	—	(0.4)
Closing balance	33.3	13.9	7.2	0.1	54.5
Depreciation					
Opening balance	7.9	6.3	4.7	—	18.9
Exchange differences	0.1	—	—	—	0.1
Charge for the year	0.9	1.1	0.8	—	2.8
Sale of operations	(4.2)	(1.5)	(0.6)	—	(6.3)
Disposals	—	(0.2)	(0.1)	—	(0.3)
Closing balance	4.7	5.7	4.8	—	15.2
Closing net book value	28.6	8.2	2.4	0.1	39.3
Opening net book value	42.2	7.1	2.7	0.3	52.3

Land and buildings and plant and machinery included provisions for diminution in value in the previous year of £2.8m and £0.5m respectively.

TANGIBLE FIXED ASSETS 12
CONTINUED

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

	1999 £m	1998 £m
Freehold	11.5	20.6
Long leasehold	17.0	20.8
Short leasehold	0.1	0.8
	28.6	42.2

Included in freehold land and buildings was land with a cost of £2.7m (1998 – £6.5m) which was not depreciated.

INVESTMENTS 13

The group

	1999 £m	1998 £m
Associates	224.9	254.0
Other fixed asset investments	408.0	467.9
	632.9	721.9

Associates

	Share of net assets £m	Goodwill £m	Loans £m	Total £m
Opening balance	253.9	—	0.1	254.0
Exchange differences	0.2	—	—	0.2
Additions	8.8	2.3	—	11.1
Disposals	(22.1)	—	—	(22.1)
Transfer to investments	(9.1)	—	—	(9.1)
Share of profits	16.4	—	—	16.4
Dividends receivable	(15.0)	—	—	(15.0)
Issue of shares	5.6	—	—	5.6
Share of reserve movements	(15.8)	—	—	(15.8)
Amortisation of goodwill	—	(0.4)	—	(0.4)
Closing balance	222.9	1.9	0.1	224.9

Goodwill is being amortised over the directors' estimate of its useful economic life of 10 years.

13 INVESTMENTS
CONTINUED

The share of results and net assets for associates was as follows:

	Close Brothers £m	English & Scottish £m	Intercapital £m	Sterling Industries £m	Other £m	Total £m
Turnover	34.5	4.1	37.9	22.0	9.0	107.5
Profit before tax	14.1	1.8	0.1	2.4	5.4	23.8
Taxation	(4.5)	(0.3)	(0.1)	(0.8)	(1.4)	(7.1)
Profit after tax	9.6	1.5	—	1.6	4.0	16.7
Fixed assets	5.8	106.8	—	19.1	69.4	201.1
Current assets	338.7	22.4	—	12.6	21.3	395.0
Liabilities due within one year	(299.6)	(16.8)	—	(5.7)	(8.4)	(330.5)
Liabilities due after more than one year	—	(19.8)	—	(0.1)	(22.5)	(42.4)
Net assets	44.9	92.6	—	25.9	59.8	223.2
Non-equity share capital	—	(0.3)	—	(0.1)	—	(0.4)
Minority interests	(0.5)	—	—	(0.1)	0.7	0.1
	44.4	92.3	—	25.7	60.5	222.9

Other fixed asset investments

	Listed on the London Stock Exchange £m	Listed on other stock exchanges £m	Other investments £m	Own shares £m	Total £m
Valuation					
Opening balance	193.4	89.6	180.8	4.1	467.9
Exchange differences	—	0.8	4.7	—	5.5
Additions	*6.4*	*20.9*	*15.3*	*1.0*	*43.6*
Disposals	(36.8)	(20.7)	(2.6)	(1.4)	(61.5)
Transfer from associates	9.1	—	—	—	9.1
Goodwill capitalised	3.0	—	—	—	3.0
Revaluation	(18.6)	(40.6)	(0.3)	—	(59.5)
Reclassifications	11.4	1.4	(12.8)	—	—
Provision	—	—	—	(0.1)	(0.1)
Closing balance	167.9	51.4	185.1	3.6	408.0

The historical cost of investments was as follows:

Closing balance	121.1	60.2	122.5	4.4	308.2
Opening balance	119.6	57.1	111.3	4.8	292.8

Other investments included provisions for diminution in value of £28.3m (1998 – £24.0m). Own shares included provisions for diminution in value of £0.8m (1998 – £0.7m). The provision charged to the profit and loss account in the year was *in respect of the company's own shares held by the* Caledonia *Investments* plc Employee Share Trust.

INVESTMENTS 13
CONTINUED

The group's investment in its own shares was in respect of shares held by the trustee of the Caledonia Investments plc Employee Share Trust. The trustee has purchased shares in the market with money lent interest free by the company to source options exercised under the company's executive share option schemes. If options are exercised, shares held by the trustee may be transferred to participating employees on receipt of the option exercise price. The difference between the cost at which the shares were purchased and the average option exercise price is being written off to the profit and loss account over the average period that the options will become exercisable. At 31 March 1999, the market value of the 596,044 shares held by the trustee was £4.4m. Dividends on the shares held by the trustee have been waived.

The company

	Subsidiaries £m
Valuation	
Opening balance	697.2
Additions	22.7
Closing balance	719.9

The historical cost of investments was as follows:

Closing balance	720.1
Opening balance	697.4

Investments in subsidiaries included provisions for diminution in value of £0.2m (1998 – £0.2m).

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

Companies are listed under the country of registration (or incorporation) which is also the country of operation, except for The Edinburgh Crystal Glass Company Ltd, Central European Land Ltd and Handybulk Investors (No 4) Ltd, whose operations are in Scotland, Central Europe and Hong Kong respectively.

Details of other investments held are described in the operating review.

13 INVESTMENTS
CONTINUED

Name	Country	Type of holding	Group share	Activity
Subsidiaries				
Amber Industrial Holdings PLC	England	Ordinary	99.9%	Specialty chemicals
		Preference	100%	
Caledonia Group Services Ltd	England	Ordinary	100%*	Management services
The Edinburgh Crystal Glass Company Ltd	England	Ordinary	88.9%	Crystal glass
		Preference	100%	
Handybulk Investors (No 4) Ltd	Liberia	Ordinary	100%	Ship owner
Mangalitsa Ltd	Bahamas	Ordinary	100%	Investment
The Sloane Club Group Ltd	England	Ordinary	100%	Residential club
Associates				
British Empire Securities and General Trust plc	England	Ordinary	16.8%	Investment trust
Central European Land Ltd	Jersey	Ordinary	44.4%	Property investment
Close Brothers Group plc	England	Ordinary	20.8%	Merchant banking
English & Scottish Investors plc	England	Ordinary	27.3%	Investment trust
Radio Investments Ltd	England	Ordinary	47.0%	Investment
Sterling Industries PLC	England	Ordinary	27.2%	Engineering

* Held directly by the company.

The date of associates' accounts used was 31 March 1999, except for Central European Land Ltd, where the date was 31 December 1998, and Close Brothers Group plc and English & Scottish Investors plc, where the date was 31 January 1999.

Certain investments in which the group held 20% or more are not accounted for as associates as either the directors are of the opinion that the group does not exercise significant influence or the amounts involved are not material. Conversely, certain investments in which the group held less than 20% are accounted for as associates where the directors are of the opinion that the group does exercise significant influence. In determining whether or not the group exercises significant influence, the directors take into account the level of participation in the operating and financial policy decisions of the investee, whether or not the group has board representation, shareholder agreements and other factors.

The group owns 49% of the ordinary share capital of Bristow Aviation Holdings Ltd ("BAH") and controls the majority of BAH's voting rights. The other principal shareholder is Offshore Logistics Inc, which also holds £91m of BAH subordinated loan stock. The group has a put option and Offshore Logistics Inc has a call option over the group's shares in BAH under which the shares could be transferred to another European Union national. In addition, the group receives certain agreed management fees. The directors are of the opinion that the BAH loan stock, combined with existing debt within the BAH group, creates a level of gearing which, together with the arrangements outlined above, constitutes a long term restriction over the group's potential economic benefit from BAH, other than from the management fees, sufficient that it is inappropriate for BAH to be consolidated in these accounts.

Quasi-subsidiary
The Caledonia No 1 Settlement Trust was formed during the year ended 31 March 1999. Caledonia Investments plc and its wholly owned subsidiaries are among the prospective beneficiaries of the trust. In view of this, and notwithstanding that none of the beneficiaries exercises control over the affairs of the trust, the directors consider that the trust is a quasi-subsidiary under the provisions of FRS 5, and its assets, liabilities and results have been included in the group accounts. The profit before tax of the trust for the year ended 31 March 1999 was £0.2m and its net assets at 31 March 1999 were £12.8m.

Acquisitions
During the year, the group acquired the following companies and businesses, which were accounted for as acquisitions:
1. The business of M J Taylor Chemical Company Inc on 1 October 1998 for a consideration of £4.2m.
2. The 25.0% of the issued share capital of Amber Industrial Holdings PLC that the group did not then already own over the period 2 October 1998 to 5 January 1999 for a consideration of £5.3m.
3. The entire issued share capital of Handybulk Investors (No 4) Ltd on 8 January 1999 for a consideration of £4.3m, including loan funding of £3.9m.
4. Others during the year for a total consideration of £1.5m.

During the year, the group also invested in the following associates:
1. 44.4% of the issued share capital of Central European Land Ltd on 16 April 1998 for a consideration of £6.6m.
2. An additional 0.7% of the issued share capital of Close Brothers Group plc on 14 October 1998 for a consideration of £3.3m.
3. An additional 5.7% of the issued share capital of Radio Investments Ltd on 21 December 1998 for a consideration of £1.2m.

The fair values for acquisitions of subsidiaries and investments in associates, attributable to the net tangible assets on acquisition, which were not materially different from book values, were as follows:

	Subsidiaries £m	Associates £m
Tangible fixed assets	4.5	
Stocks	0.5	
Debtors	1.0	
Cash	0.5	
Loans	(0.1)	
Creditors	(1.2)	
Minority interests	3.5	
Share of net assets of associates		8.8
Net assets acquired	8.7	8.8
Goodwill arising on acquisition	6.6	2.3
Consideration	15.3	11.1

The purchase consideration was discharged by cash.

13 INVESTMENTS
CONTINUED

Disposals
On 17 August 1998 the group sold the net assets and business of Abacus Self Storage Ltd for £47.1m.

On 23 October 1998, Exco plc issued shares to acquire the wholesale broking businesses of Intercapital Group Ltd. The enlarged group was renamed Intercapital plc and, as a consequence of the share issue, the group's interest was diluted to 9.2%.

As a result of the dilution, the directors are of the opinion that the group no longer exercises significant influence over Intercapital. Consequently, the balance of the carrying value amounting to £9.1m was transferred to other investments. In addition, the balance of goodwill on acquisition previously written off of £3.0m was capitalised by transfer to other fixed asset investments.

On 6 April 1998 the group sold 5.2% of the issued share capital of Close Brothers Group plc for £47.3m.

These disposals, together with a number of other immaterial disposals and dilutions of holdings in associates, are summarised as follows:

	Abacus £m	Close Brothers £m	Intercapital £m	Other associates £m	Total £m
Fixed assets	17.7				17.7
Stocks	0.1				0.1
Debtors	1.4				1.4
Creditors	(4.4)				(4.4)
Minority interests	(0.1)				(0.1)
Share of net assets of associates		10.6	6.9	4.6	22.1
	14.7	10.6	6.9	4.6	36.8
Goodwill	1.9	10.6	6.0	(0.1)	18.4
Issue of shares by Intercapital			(5.6)		(5.6)
Profit on sale and dilution	29.7	26.1	(7.3)	4.4	52.9
Consideration	46.3	47.3	—	8.9	102.5

The consideration was satisfied as follows:

	£m
Cash	103.7
Amounts due for costs of disposal	(0.8)
Provision against amounts owed by associate	(0.4)
	102.5

STOCKS 14

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Raw materials and consumables	2.1	1.7	—	—
Work in progress	0.4	0.3	—	—
Finished goods and goods for resale	5.1	5.4	—	—
Property and other assets held for resale	4.2	5.0	—	—
	11.8	12.4	—	—

DEBTORS 15

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Amounts due within one year				
Trade debtors	6.8	6.6	—	—
Amounts owed by subsidiaries	—	—	34.8	79.7
Amounts owed by associates	2.8	2.1	—	—
Corporation tax recoverable	*1.1*	*0.2*	*0.3*	*0.1*
Overseas tax recoverable	0.1	—	—	—
Other taxes and social security costs	0.2	0.1	—	—
Other debtors	4.3	6.3	—	—
Pension prepayments	0.4	0.4	—	—
Other prepayments and accrued income	*4.6*	*2.7*	*1.6*	*0.1*
Amounts due after more than one year				
Amounts owed by subsidiaries	—	—	5.0	5.0
Overseas tax recoverable	0.7	—	—	—
	21.0	18.4	41.7	84.9

SHORT TERM BORROWINGS 16

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Loans (note 19)	0.2	0.3	—	—
Bank overdrafts	11.9	14.7	144.7	98.8
	12.1	15.0	144.7	98.8

17 OTHER CREDITORS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Trade creditors	3.0	3.4	—	—
Amounts owed to subsidiaries	—	—	50.9	7.1
Investments purchased	2.5	2.5	—	—
Corporation tax	16.4	5.9	2.3	2.7
Overseas tax	0.4	0.3	—	—
Other taxes and social security costs	1.6	1.5	—	—
Dividends owed to minorities	—	0.2	—	—
Other creditors	0.3	0.7	—	—
Other accruals and deferred income	5.6	6.0	—	1.1
Dividends payable	12.4	11.6	12.4	11.6
	42.2	32.1	65.6	22.5

18 LONG TERM BORROWINGS

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Loans (note 19)	0.7	0.4	—	—

19 LOANS

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Not wholly repayable within five years	0.1	0.1	—	—
Wholly repayable within five years	0.8	0.6	—	—
	0.9	0.7	—	—

Amounts due were repayable as follows:

After five years	0.1	—	—	—
Between two and five years	0.3	0.2	—	—
Between one and two years	0.3	0.2	—	—
Within one year	0.2	0.3	—	—
	0.9	0.7	—	—

Bank loans of £0.9m (1998 – £0.7m) were secured by charges over group properties and other assets.

DEFERRED TAXATION 20

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Opening balance	29.2	32.5	28.3	31.1
Profit and loss account	(0.2)	(2.0)	0.4	(2.1)
Credited to reserves	—	(0.4)	—	—
Transfer to creditors	(0.3)	(0.7)	(0.4)	(0.7)
Advance corporation tax	0.4	(0.2)	—	—
Closing balance	29.1	29.2	28.3	28.3

Deferred taxation provided in the accounts and amounts not provided were as follows:

The group

	Provided		Not provided	
	1999	1998	1999	1998
	£m	£m	£m	£m
Capital allowances	*0.8*	*1.2*	*(0.1)*	*(0.1)*
Other timing differences	28.3	28.4	31.6	62.0
Advance corporation tax	—	(0.4)	—	—
	29.1	29.2	31.5	61.9

Deferred taxation not provided on other timing differences is the calculated liability that would have arisen if all investments had been realised at the balance sheet date at their underlying values as stated in the operating and financial reviews.

The company

	Provided		Not provided	
	1999	1998	1999	1998
	£m	£m	£m	£m
Other timing differences	28.3	28.3	—	—

21 FINANCIAL INSTRUMENTS

An explanation of the group's objectives, policies and strategies in using financial instruments and the risks that arise in connection with financial instruments and how they are managed can be found on pages 19 and 20.

Interest rate risk profile

The interest rate profile of the financial liabilities of the group at 31 March 1999 was as follows:

		Fixed rate borrowings			
	Floating rate borrowings £m	Amount £m	Weighted average interest rate %	Weighted average time rate is fixed Years	Total £m
Sterling	11.9	—	—	—	11.9
US dollar	0.1	—	—	—	0.1
Euro	—	0.8	5.4	5.3	0.8
	12.0	0.8	5.4	5.3	12.8

The interest rate profile of the financial assets of the group at 31 March 1999 was as follows:

		Fixed rate investments			No interest assets		
	Floating rate investments £m	Amount £m	Weighted average interest rate %	Weighted average time rate is fixed Years	Amount £m	Weighted average time to maturity Years	Total £m
Sterling	96.6	47.2	7.2	0.5	224.9	—	368.7
US dollar	4.6	5.5	6.0	4.7	171.4	—	181.5
Euro	11.2	—	—	—	3.6	—	14.8
Swiss franc	9.4	—	—	—	—	—	9.4
Other	0.4	—	—	—	—	—	0.4
	122.2	52.7	7.0	1.0	399.9	—	574.8

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

Currency risk profile

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

	Net foreign currency monetary net assets				
Functional currency of group operation	US dollar	Euro	Swiss franc	Other	Total
	£m	£m	£m	£m	£m
Sterling	3.0	12.3	9.7	0.6	25.6

Liquidity risk profile

The maturity profile of the group's financial liabilities, other than short term creditors, at 31 March 1999 was as follows:

	£m
In one year or less or on demand	12.0
In more than two years but not more than five years	0.5
In more than five years	0.3
	12.8

The group had undrawn committed facilities available at 31 March 1999 in respect of which all conditions precedent had been met at that date as follows:

	£m
Expiring in one year or less	10.0
Expiring in more than one year but not more than two years	30.0
	40.0

Fair values

The table below compares the book values and fair values of the group's financial assets and financial liabilities at 31 March 1999:

	Book value	Fair value
	£m	£m
Investments	408.0	408.0
Cash and deposits	167.0	167.3
Short term borrowings and current portion of long term borrowings	(12.1)	(12.1)
Long term borrowings	(0.7)	(0.7)

22 SHARE CAPITAL

	Number		Nominal value	
	1999	1998	1999	1998
	000's	000's	£m	£m
Ordinary shares of 5p each				
Authorised	129,000	129,000	6.5	6.5
Allotted, issued and fully paid	83,400	83,400	4.2	4.2

Authority to purchase own shares

At 31 March 1999 the company had shareholders' authority to purchase up to 12,500,000 of its own ordinary shares, being approximately 14.99% of the ordinary capital in issue, at a price not more than 5% greater than the average of the middle market quotations for such ordinary shares during the five business days preceding any such purchase. The authority expires on 1 January 2000 or, if earlier, at the conclusion of the next annual general meeting.

Options

The company has share option schemes under which options have been granted to certain executives, exercisable between three and ten years from the date of grant. Options outstanding at 31 March 1999 were as follows:

Date of grant	Number of options	Exercise price
25 July 1990	39,667	364p
10 July 1991	45,568	337p
6 August 1992	56,669	354p
29 July 1993	68,768	495p
19 July 1994	58,168	693p
22 June 1995	35,500	653p
18 April 1996	182,900	781p
31 July 1996	61,000	745p
16 July 1997	33,000	677.5p
18 July 1997	69,000	657p
2 September 1998	213,000	740p

RESERVES 23

The group

	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m
Opening balance	1.3	0.7	311.0	472.1
Exchange differences	—	—	3.4	3.6
Realised gains and losses on sale of investments	—	—	(18.3)	18.3
Provision against investments	—	—	4.3	(4.3)
Revaluation of investments	—	—	(59.5)	—
Tax on sale of investments	—	—	—	3.4
Share of goodwill movements of associates	—	—	—	(1.3)
Share of other reserve movements of associates	—	—	(35.7)	21.2
Goodwill on disposals	—	—	—	18.4
Goodwill capitalised into investments	—	—	—	3.0
Retained profit for the year	—	—	—	47.5
Closing balance	1.3	0.7	205.2	581.9

The cumulative amount of positive goodwill written off at 31 March 1999 was £53.0m (1998 – £74.4m), of which £6.0m (1998 – £7.9m) related to subsidiaries.

The company

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
Opening balance	1.3	0.7	663.9
Retained profit for the year	—	—	0.8
Closing balance	1.3	0.7	664.7

SERVICING OF FINANCE 24

	1999 £m	1998 £m
Interest paid	(0.1)	(0.3)
Dividends paid to minority shareholders	(0.2)	(0.3)
	(0.3)	(0.6)

25 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	1999 £m	1998 £m
Purchase of tangible fixed assets	(2.9)	(5.5)
Sale of tangible fixed assets	0.2	0.2
Purchase of investments	(43.6)	(33.4)
Sale of investments	60.8	71.1
Loans to associates	(0.1)	(0.6)
	14.4	31.8

26 ACQUISITIONS AND DISPOSALS

	1999 £m	1998 £m
Purchase of operations	(15.3)	—
Net cash acquired with operations	0.5	—
Investment in associates	(11.1)	(3.1)
Sale of operations	47.1	0.1
Sale of interests in associates	56.6	—
	77.8	(3.0)

27 MANAGEMENT OF LIQUID RESOURCES

	1999 £m	1998 £m
Net cash flow from management of liquid resources	(102.8)	5.6

Liquid resources comprised certificates of deposit and term deposits with a maturity of less than one year.

28 FINANCING

	1999 £m	1998 £m
New long term loans	2.0	0.6
Repayment of long term loans	(2.0)	(22.3)
	—	(21.7)

29 ANALYSIS OF CHANGES IN NET FUNDS

	Opening balance £m	Exchange differences £m	Cash flow £m	Acquisitions £m	Closing balance £m
Cash at bank and in hand	20.7	0.1	(1.6)	—	19.2
Bank overdrafts	(14.7)	—	2.8	—	(11.9)
	6.0	0.1	1.2	—	7.3
Short term deposits	44.7	0.3	102.8	—	147.8
Debt due within one year	(0.3)	—	0.1	—	(0.2)
Debt due after more than one year	(0.4)	(0.1)	(0.1)	(0.1)	(0.7)
	50.0	0.3	104.0	(0.1)	154.2

CAPITAL COMMITMENTS 30

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Tangible assets				
Contracted but not delivered	—	0.4	—	—
Investments				
Contracted but not called	26.6	28.5	—	—
Conditionally contracted	2.6	—	—	—
	29.2	28.9	—	—

OPERATING LEASE COMMITMENTS 31

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

	Land and Buildings 1999 £m	Land and Buildings 1998 £m	Other 1999 £m	Other 1998 £m
Operating leases which expire				
Within one year	0.1	—	0.2	0.1
Within two to five years	0.1	0.3	0.2	0.2
In over five years	0.3	0.8	—	0.1
	0.5	1.1	0.4	0.4

CONTINGENT LIABILITIES 32

The group has given guarantees totalling £1.8m and the company £0.3m (1998 – £12.7m for the group and £5.4m for the company) in respect of an indemnity to the purchasers of former group operations VAT indemnities provided by subsidiaries.

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

RELATED PARTY TRANSACTIONS 33

Transactions with related parties, as defined by FRS 8, not disclosed elsewhere in the accounts are described below.

Administration fees of £162,000 (1998 – £157,000) were receivable from The Cayzer Trust Company Ltd which held 27.1% of the issued share capital of the company at 31 March 1999 (1998 – 27.1%).

Normal business transactions with associates amounted to £0.3m payable and £0.3m receivable (1998 – £0.3m payable and £0.3m receivable). Also, funds were deposited with and repaid by a banking subsidiary of Close Brothers Group plc. The totals over the year of all such deposits and repayments was £72.0m and £62.0m respectively (1998 – £10.0m deposited and repaid), earning the group £0.2m of interest. Amounts due to and from associates at 31 March 1999 were £1.3m and £12.8m respectively (1998 – £1.4m and £2.1m).

33 RELATED PARTY TRANSACTIONS CONTINUED

Included in normal business transactions is a management fee of £200,000 (1998 – £183,000) payable to Landsdown Ltd, which owns 25% of St Lawrence Properties Ltd, and in which the group has a 50% interest.

Mr J M B Cayzer-Colvin, a relative of certain directors of the company, is a director of some group companies.

34 PENSIONS

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

For the year ended 31 March 1999, the total pension cost for the group was £0.9m (1998 – £0.8m).

Pension cost relating to the principal UK defined benefit schemes is assessed in accordance with the advice of qualified actuaries, using the projected unit cost or attained age method. The latest actuarial valuations of the Caledonia, Amber (both of which are now closed to new members) and Edinburgh Crystal group pension funds were at 31 March 1997, 6 April 1997 and 1 April 1996 respectively. The main actuarial assumptions made in the valuations were that long term investment returns would be 1.5% to 2% per annum higher than the annual increase in pensionable salaries and pensions would increase at the lesser of 5% per annum or the increase in the Retail Price Index.

The market value of the assets on the dates of the most recent actuarial valuations totalled £8.5m for the Caledonia scheme, £2.2m for the Amber scheme and £2.3m for the Edinburgh Crystal scheme. In respect of the Amber scheme, the level of funding shown by the valuation, being the actuarial value of assets expressed as a percentage of accrued withdrawal benefits at the valuation date, was 87% and action has been taken to eliminate any deficiencies. The actuarial value of the assets of the Caledonia and Edinburgh Crystal schemes represented 106% and 114% respectively of the value of accrued benefits allowing for expected future increases in salaries.

Directors' remuneration
Total emoluments were as follows:

	1999 £'000	1998 £'000
Fees	67	63
Salaries	900	845
Benefits	83	71
Performance related bonuses	153	327
	1,203	1,306
Gains on exercise of share options	890	—
	2,093	1,306

Emoluments of the directors were as follows:

	Fees and salaries £'000	Benefits £'000	Bonuses £'000	Total 1999 £'000	Total 1998 £'000
Executive					
P N Buckley	270	18	30	318	345
M G Wyatt	65	3	8	76	79
Sir David Kinloch	260	16	30	306	420
J H Cartwright	180	9	22	211	225
Hon C W Cayzer	125	10	78	213	161
Non-executive					
Lord Cayzer	16	10	—	26	25
J Burnett-Stuart	18	2	—	20	20
N K Cayzer	16	—	—	16	14
J R H Loudon	17	—	—	17	17
	967	68	168	1,203	1,306

Benefits comprise cars, fuel, private healthcare cover, attendance fees and travel expenses.

Directors' pensions
Pension benefits earned by directors during the year and the accumulated total accrued pension at 31 March 1999 were as follows:

	Increase in accrued pension £'000	Transfer value of increase £'000	Total accrued pension at year end £'000
P N Buckley	7	110	153
M G Wyatt	6	99	42
Sir David Kinloch	14	210	127
J H Cartwright	8	67	42
Hon C W Cayzer	4	39	38

35 DIRECTORS' REMUNERATION AND INTERESTS CONTINUED

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. The increase in accrued pension during the year excludes any increase for inflation.

The transfer value has been calculated on the basis of actuarial advice, in accordance with Actuarial Guidance Note GN11, less directors' contributions. This value represents a liability of the company – not a sum paid or due to the individual director – and cannot therefore be added meaningfully to annual remuneration.

Directors' interests

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

	Beneficial and family interests		As trustee	
	1999	1998	1999	1998
	No	No	No	No
Lord Cayzer	466,000	466,000	—	—
P N Buckley	490,000	380,000	204,620*	204,620*
M G Wyatt	270,000	262,500	16,000*	16,000*
Sir David Kinloch	—	—	—	—
J H Cartwright	1,500	1,500	—	—
Hon C W Cayzer	76,070	76,070	220,000	270,000
J Burnett-Stuart	10,000	10,000	—	—
N K Cayzer	198,900	198,900	—	—
J R H Loudon	9,442	11,392	25,103	25,523

* Includes interests held by other directors arising through co-trusteeships.

The Caledonia Investments plc Employee Share Trust acquires and holds shares in the company for subsequent transfer to employees exercising options under the company's executive share option schemes. By virtue of the provisions of the Companies Act 1985, each executive director, as a potential beneficiary, is deemed to have an interest in any shares in the company held by the Trust. At 31 March 1999, the trust held 596,044 shares (1998 – 661,544 shares).

The directors' options to subscribe for ordinary shares in the company were as follows:

	Number of options					Options exercised	
	Opening balance	Granted	Exercised	Closing balance	Exercise price	Exercise price	Market price
	No	No	No	No	pence	pence	pence
P N Buckley	238,000	100,000	(185,000)	153,000	698	384	847
M G Wyatt	36,400	6,000	(7,500)	34,900	728	393	845
Sir David Kinloch	148,001	8,000	—	156,001	665	—	—
J H Cartwright	113,501	8,000	—	121,501	588	—	—
Hon C W Cayzer	70,500	5,000	—	75,500	656	—	—
	606,402	127,000	(192,500)	540,902			

The exercise prices stated above are weighted average prices for each director.

DIRECTORS' REMUNERATION AND INTERESTS CONTINUED 35

The company has two executive share option schemes – an original scheme established in 1988 and which expired in April 1999 for the purposes of new option grants, and a 1998 scheme adopted by shareholders on 22 July 1998.

Under the terms of the original scheme, options may be exercised between three and ten years after the date of grant, only if a performance target is met. In relation to options granted prior to 10 November 1995, the target requires the company's earnings per share to out-perform the Retail Price Index over a consecutive three year period. For those granted after that date the company's adjusted net asset value per share must out-perform the average of the increases in the FT All-Share and FT/S&P Actuaries World Pound Sterling Indices over a consecutive three year period. In addition, only one third of the shares comprised in an option may be subscribed within six years of the date of grant.

Under the terms of the 1998 scheme, options may also be exercised between three and ten years after the date of grant, only if a performance target is met. The target requires the company's adjusted net asset value per share to out-perform either the Retail Price Index by 3% per annum, or the average of the increase in the FTSE 250 and the FT Investment Trust Indices, over a consecutive three year period. In addition, only one third of the shares comprised in an option may be subscribed within six years of the date of grant.

At 31 March 1999, the market price of the company's shares was 732.5p (1998 – 879p) and the range during the year was 628p to 975p. The performance targets in respect of the options granted in 1988 to 1995 have now been met.

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

There have been no changes in directors' interests notified up to the date of approval of these accounts.

CAPITAL GAINS TAX 36

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

REMUNERATION REPORT

THE REMUNERATION COMMITTEE

The remuneration committee, whose membership is noted on page 22, has been established to make recommendations to the board on the company's policy for executive remuneration and its cost and to determine the individual remuneration packages for executive directors. The fees of non-executive directors are determined by the board without the relevant non-executive director being present. The committee also approves the grant of share options to eligible employees under the company's executive share option schemes.

In framing the company's remuneration policy, the committee has given full consideration to the provisions in schedule A of the Combined Code.

POLICY ON REMUNERATION OF EXECUTIVE DIRECTORS

Total level of remuneration
The company's policy is to ensure that remuneration packages are sufficiently competitive to retain and motivate executive directors and also to reflect the annual and longer term performance of the company and the directors as measured by criteria recommended by the remuneration committee.

Components of directors' remuneration
The components of directors' remuneration are as set out in note 35 to the accounts.

Basic salary is determined by the remuneration committee and takes into account the experience and performance of the director concerned. In addition, annual bonuses may be awarded at the discretion of the committee, which take into account the performance of individual directors' areas of responsibility and of the company as a whole, measured against external benchmarks over both the shorter and longer term. In assessing overall remuneration packages, the committee consults with executive management and has had regard to external pay level comparatives provided by an independent firm of remuneration consultants and also to salary levels elsewhere within the group.

The executive directors are eligible to participate in the company's executive share option schemes. It is the policy of the committee to grant options to those employees whom it considers may make a significant contribution to the performance of the company over the medium term, at a level commensurate with their individual duties and responsibilities. No options are granted at a discount.

The executive directors participate in the Caledonia Pension Scheme which is contributory for employees who joined the company after 1 April 1988. The schemes provides a pension of up to two thirds of basic salary on retirement dependent on service and also provides for dependants' pensions and lump sums on death in service. No arrangements are in place to provide pensions in relation to pensionable earnings in excess of the earnings limit imposed by the Finance Act 1989. All of the executive directors, other than Mr Cartwright, transferred into the scheme from The Union-Castle Line Superannuation Scheme, which was non-contributory, and this status has been preserved.

POLICY ON SERVICE CONTRACTS

It is the current policy of the company that no director should be offered a service contract which cannot be determined within one year and all existing directors' service contracts comply with this policy. The directors' service contracts do not contain specific compensation commitments and in the event of early termination, the remuneration committee would consider all relevant factors and seek to agree a level of compensation which was appropriate to the circumstances.

FIVE YEAR FINANCIAL RECORD

Years ended 31 March	1995	1996	1997	1998	1999
	£m	£m	£m	£m	£m
Trading profit	5.3	3.8	5.8	8.5	5.0
Income from investments	16.2	14.3	13.7	13.5	8.5
Interest receivable	3.2	2.9	3.4	2.3	9.1
Other income and group overheads	(2.8)	(3.1)	(3.9)	(5.3)	(4.9)
Share of operating profit of associates	22.7	23.2	33.0	26.5	23.6
Total operating profit	44.6	41.1	52.0	45.5	41.3
Non-operating items	(0.1)	(0.9)	23.7	(4.4)	52.6
Profit before taxation	44.5	40.2	75.7	41.1	93.9
Taxation	(16.3)	(13.7)	(18.1)	(14.9)	(27.6)
Minority interests	(1.2)	(0.9)	(1.0)	(0.5)	(0.6)
Ordinary dividends	(14.1)	(15.0)	(40.6)	(17.0)	(18.2)
Profit retained	12.9	10.6	16.0	8.7	47.5
Fixed asset investments	483.2	635.5	638.8	721.9	632.9
Intangible and tangible fixed assets	41.1	46.2	50.1	52.3	45.8
Net current assets less liabilities	11.1	9.6	(13.6)	(1.3)	(9.4)
Deferred taxation	(30.0)	(31.8)	(32.5)	(29.2)	(29.1)
Employment of capital	505.4	659.5	642.8	743.7	640.2
Ordinary capital and reserves	529.7	650.8	670.6	789.3	793.3
Minority interests	3.4	3.9	4.2	4.4	1.1
Creditors due after one year	0.1	0.1	—	—	—
	533.2	654.8	674.8	793.7	794.4
Net funds					
Short term deposits	(21.1)	(12.5)	(50.4)	(44.7)	(147.8)
Cash at bank and in hand	(20.3)	(23.6)	(58.8)	(20.7)	(19.2)
Bank overdraft	12.8	20.2	54.7	14.7	11.9
Loans	0.8	20.6	22.5	0.7	0.9
	(27.8)	4.7	(32.0)	(50.0)	(154.2)
Capital employed	505.4	659.5	642.8	743.7	640.2
Per ordinary share of 5p					
Basic earnings	32.5p	30.7p	68.3p	31.1p	79.3p
Adjusted basic earnings	32.4p	30.8p	37.1p	33.7p	34.7p
Dividends	17.0p	18.0p	49.0p	20.5p	22.0p
Net asset value	637p	781p	804p	946p	951p

Adjusted basic earnings exclude sale of operation, amortisation of goodwill and other items, net of any tax adjustments.

Dividends for 1997 include a supplementary dividend of 30p per share.

Notice is hereby given that the seventieth annual general meeting of Caledonia Investments plc will be held at Cayzer House, 1 Thomas More Street, London E1 9LE on Friday, 30 July 1999 at 12:15pm for the following purposes:

As ordinary business
1. To receive and adopt the directors' report and the accounts for the year ended 31 March 1999, together with the auditors' report to the members.
2. To declare a final dividend.
3. To re-elect Sir David Kinloch as a director.
4. To re-elect Mr N K Cayzer as a director.
5. To re-elect Mr P N Buckley as a director.
6. To reappoint KPMG Audit Plc as auditors and authorise the directors to agree their remuneration.

As special business
To consider and, if thought fit, pass the following resolutions, of which resolutions 7 and 9 will be proposed as special resolutions and resolution 8 will be proposed as an ordinary resolution:
7. That the company be and is hereby unconditionally authorised at any time or times to make a market purchase or market purchases (within the meaning of section 163 of the Companies Act 1985) of any of its own ordinary shares of 5p provided that:
   a. the maximum number of ordinary shares hereby authorised to be so acquired is 12,500,000;
   b. the minimum price which may be paid for such shares is 5p per share;
   c. the maximum price which may be paid for a share contracted to be purchased on any day is an amount equal to 5% above the average of the middle market quotations for the ordinary shares of the company as taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased;
   d. the authority hereby conferred shall expire on 1 January 2001 or, if earlier, at the conclusion of the next annual general meeting of the company; and
   e. the company may make a contract to purchase its own shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of its own shares in pursuance of any such contract.
8. That the directors be and they are hereby authorised pursuant to and in accordance with section 80 of the Companies Act 1985 for a period expiring at the conclusion of the next annual general meeting of the company to allot relevant securities up to an annual aggregate nominal amount of £1,390,000, provided that the company may before such expiry make an offer or enter into an agreement which would or might require relevant securities to be allotted after such expiry.

NOTICE OF ANNUAL GENERAL MEETING

9. That subject to the passing of resolution 8 the directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 and pursuant to the authority conferred by the said resolution 8 to allot equity securities (within the meaning of section 94(2) of the Companies Act 1985) as if section 89(1) of the Companies Act 1985 did not apply to any such allotment provided that this power shall be limited:
   a. to the allotment of the equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of ordinary shareholders are proportionate to the respective amount of ordinary shares held by them (but subject to such exclusion or other arrangement as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange); and
   b. to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £208,500

   and shall expire on the date of the next annual general meeting save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By order of the board
G P Denison
Company Secretary

17 June 1999

Notes
1. A member entitled to attend and vote at this meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the company.
2. To be effective, forms of proxy must be lodged with the company not less than 48 hours before the meeting. A form of proxy is attached at page 71. Completion of a form of proxy does not preclude a member from attending and voting at the meeting.
3. Biographies of the directors offering themselves for re-election appear on pages 8,13 and 18.

FORM OF PROXY

For use at the annual general meeting to be held on 30 July 1999

I/We ____

of ____

being (a) member(s) of Caledonia Investments plc hereby appoint the chairman of the meeting

or* ____

as my/our proxy to attend and, on a poll, to vote for me/us and on my/our behalf at the annual general meeting of the company to be held on 30 July 1999 and at any adjournment thereof.

Resolutions	For	Against
1. To receive and adopt the directors' report and the accounts for the year ended 31 March 1999		
2. To declare a final dividend		
3. To re-elect Sir David Kinloch as a director		
4. To re-elect Mr N K Cayzer as a director		
5. To re-elect Mr P N Buckley as a director		
6. To reappoint the auditors and to agree their remuneration		
7. To authorise the company to make market purchases pursuant to section 163 of the Companies Act 1985		
8. To authorise the directors to allot relevant securities pursuant to section 80 of the Companies Act 1985		
9. To empower the directors to allot equity securities pursuant to section 95 of the Companies Act 1985		

Please indicate how you wish your proxy to vote by inserting an 'x' in the appropriate space above. In the absence of any specific directions the proxy will abstain or vote at his discretion.

Signed this ____________________ **day of** ____________________ **1999**

Signature(s) ____

Notes

1. In order to be effective, this form of proxy, duly completed and signed, together with any power of attorney or other authority under which it is signed or a notarially certified copy thereof, must be deposited at the address shown overleaf not later than 48 hours before the meeting.
2. Corporations must execute this form under seal or as a deed or under the hand of a duly authorised officer.
3. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
4. A proxy need not be a member of the company, but must attend the meeting in person to represent the member.
5. * A member may appoint a proxy of his own choice in which case he should delete the reference to the chairman of the meeting and insert the name of the proxy in the space provided.
6. The return of a completed form of proxy will not preclude any member from attending in person and voting at the meeting.

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IRG plc (Proxies)
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