Annual report 2004

Year ended 31 March 2004

CALEDONIA
INVESTMENTS

Caledonia Investments plc

Registered in England no 235481

Report and accounts
For the year ended
31 March 2004

Caledonia invests in and actively manages a focused portfolio of significant stakes in companies and situations where it believes there to be good opportunities for building value.

Caledonia's objective is consistently to achieve a long term shareholder return in excess of the FTSE All-Share Total Return while maintaining a progressive annual dividend.

Contents

Highlights

- **Substantial outperformance against benchmark of 90% and 44% over five and ten years**
- **13% outperformance of NAV per share against FTSE All-Share over 12 months**
- **Company total return for the year of £283m (392p per share)**
- **4% increase in annual dividend to 27p marks 37th year of progressive annual dividends**
- **£108m invested and £105m of divestments**
- ***Narrowing of share price discount to NAV from 30% to 20% over the year***

Performance

	10 year %	5 year %	3 year %	1 year %
Share price total return	138.5	77.2	39.7	63.2
FTSE All-Share Total Return	94.3	(12.7)	(11.0)	31.0
Total shareholder return outperformance	44.2	89.9	50.7	32.2
Dividend increase	66.7	22.7	12.5	3.8

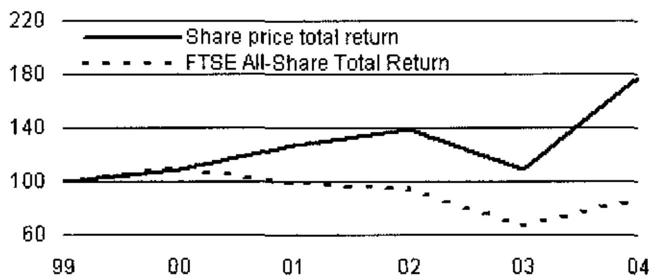
Dividend increase excludes special dividends paid in 1997 and 2000 of 30p and 70p per share respectively.

Summary of the year

	2004	2003	Change %
Total shareholders' funds	£914.6m	£651.2m	40.4
Net asset value per ordinary share	1278p	915p	39.7
Share price	1017.0p	642.5p	58.3
Discount	20.4%	29.8%	31.5
FTSE All-Share index	2197.0	1735.7	26.6
Dividends per ordinary share	27.0p	26.0p	3.8

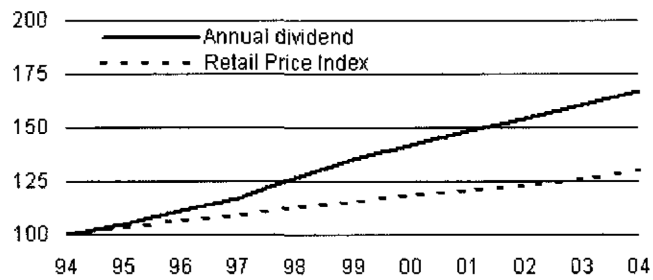
Results are based on the company balance sheet. Net asset value per ordinary share is stated before accrued dividends.

Total return growth – five years



Source: FTSE/Datastream

Annual dividend growth – ten years



Chairman's statement

Results

The first year for Caledonia as an authorised investment trust has been highly successful with significant outperformance recorded against its chosen benchmark. Total shareholder returns of 77% and 138% over five and ten years have outdistanced the FTSE All-Share Total Return index by 90% and 44% respectively. This performance has been achieved by following our long established strategy of taking significant stakes in businesses of which we have a good understanding, with particular emphasis on identifying high calibre management. We also take the longer term view.

We are particularly pleased that this continued outperformance is being recognised in our share price, which over the financial year has increased by 58% from 642.5 pence to 1017 pence. This not only reflects the improved underlying net asset value but, just as encouragingly, a narrowing of the share price discount from 30% to 20%. Whilst it is always wise to acknowledge that we cannot control our own share price, we have made determined efforts to explain ourselves more widely to the retail investing community, which we believe has contributed to increased investor interest and the marked reduction in the discount.

Our good results have enabled us to recommend an increased final dividend of 18.6 pence per share, resulting in an increase in our annual dividend from 26 pence to 27 pence. This is in line with our stated aim of progressive dividend increases, which has been unbroken for the past 37 years, and we are well positioned for this with distributable reserves of £451m, which is unusually high for an investment trust.

Settlement proposals

In my interim statement I explained the proposals, put to us in June of last year, which would have resulted in the liquidation of the assets of Caledonia and destroyed a company that has produced outstanding long term performance for its shareholders. These proposals were nevertheless carefully considered by your board with advice from N M Rothschild & Sons and Cazenove & Co. With the benefit of this advice, the board unanimously concluded that the proposals were not in the best interests of shareholders. These proposals had been formulated by a minority group of shareholders in The Cayzer Trust Company, a 38% shareholder in Caledonia and wholly owned by members of the Cayzer family and related trusts. The support of a majority in Cayzer Trust was needed for the proposals to succeed, but in the event they were overwhelmingly rejected and formally withdrawn on 17 October 2003.

Chairman's statement

Your board, as represented by all of its independent directors, was quite clear that it was not in the interests of the shareholders of Caledonia, nor its business, for this highly public dispute, which had lasted for several years, to continue and urged the board of Cayzer Trust to continue to seek a solution. This subsequently led to Caledonia's announcement, on 15 March this year, of a proposed return of funds by way of an elective special dividend, on up to two-ninths of all shareholdings, of an amount based on an 18% discount to the company's net asset value per share. This net asset value per share will be after making provision for the proposed final dividend, which will be paid to all shareholders on all their shares, whether or not they elect to receive the special dividend. All shares on which the special dividend is elected will be cancelled for nil consideration through a Court approved reduction of capital. If this proposal is approved, this net asset value will be struck shortly before the elective dividend is due to be paid in early July and will result in an enhanced net asset value per share for continuing shareholders of between 1.6% and 4.7%, depending on the level of take up of the elective special dividend. Cayzer Trust will elect to receive its dividend in full, which will enable it, in conjunction with existing resources, to pay out its dissident minority group of shareholders under the terms of an agreed settlement.

A circular setting out full particulars of the elective special dividend proposals has been sent to shareholders. The circular also sets out proposals for Caledonia to renew its authority to make market purchases of its own shares and for approval of a waiver of the mandatory offer provisions in the City Code that might otherwise apply to the Cayzer concert party as a consequence of such purchases. These would provide Caledonia with additional flexibility in the management of its capital base and are more fully explained under the heading of 'Extraordinary general meeting' in the directors' report on page 31. Your board very much hopes that these proposals will be successfully concluded and allow management to concentrate fully on the development of the business.

Economic and political background
It has been my custom to make brief mention of the economic and political background in which we must exercise our investment and commercial decisions and, in my view, if the present Government were a listed business, most analysts would post a 'sell' rating. Public expenditure has soared with few visible benefits, taxation has risen steeply, but disguised as cleverly as the spin merchants know how, and both business and the citizen are becoming increasingly entangled in webs of legislation, which seem to encourage both blame and dependency cultures. What surprises many is that our economy still seems in such good shape, but when the honeymoon of tax rises to fuel the ever increasing, but non-productive, government expenditure is over, as surely must come, we have to earn our place in an increasingly competitive world economy and not just within the slower economies of Europe.

It is of considerable concern that the political leaders within Europe continue to enlarge the European Community, with the recent accession of ten new member states with less advanced economies, when it is painfully obvious that the formula for a combined Europe is at breaking point so far as many members of its electorate are concerned. Reality and affordability need to come more to the forefront, but it does seem that democracy may temper the political pipe dreams and, so far as Britain is concerned, the re-emergence of a credible opposition political party, with a more balanced view on the European Union, is encouraging.

Board
We were pleased to welcome John May, who joined the board as an executive director on 1 September last year. His experience over 25 years of advising, managing and investing in both listed and unlisted companies is well fitted to Caledonia's business model and he has already made a significant contribution. This appointment partly anticipated the retirement of Sir David Kinloch, who reached the age of 62 in January this year, but who remains a non-executive director until the conclusion of this year's AGM. David, who joined British & Commonwealth shortly before the separation from Caledonia, was a founder executive director of Caledonia when it took on its new life in 1988, and became deputy chief executive in 1994. His shrewd judgement and overall contribution during this time has been of great value to shareholders and I would like to thank him most warmly on your behalf.

I would like to advise shareholders that, since the publication of the revised Combined Code by the Financial Reporting Council after the lengthy debate on the Higgs Report, your board has introduced a Governance Committee, comprising three independent non-executive directors. This will ensure that any potential conflict of interest will be identified, and then addressed only by those directors who are free of any such conflict. We continue to review the balance and composition of the board in the light of the revised Combined Code.

Staff
The liquidation proposals already referred to proved an unwelcome distraction for management, incurring considerable cost, and diverting the proper focus of creating shareholder value. As you may imagine, the settlement proposals have been equally time consuming, but in a much better cause. Adjusting to our new status as an investment trust, with the increased level of reporting which we have introduced, has also added to the work load and Caledonia is more complicated than the majority of conventional investment trusts. As ever, our management team has risen admirably to the challenges and I would like to record the fullest thanks of the board on behalf of all the shareholders for their unstinting efforts. We are fortunate to have a high calibre management team, which is well suited to lead the business forward.

Outlook
The difficult political and economic background referred to above, combined with instability in the Middle East, make the climate for investment judgements, as ever, most challenging. However, we continue to identify an encouraging number of opportunities, which we have found over the years do not always conform with world economic trends. Such opportunities can, if carefully chosen, still deliver value against the trend and we shall endeavour to succeed in this regard.

Peter Buckley
Chairman

Chief executive's report

This is the first year we are reporting our results as an investment trust, as we believe we have been meeting all the requirements for this status as from 1 April 2003. However, as for all investment trusts, this can only be confirmed by the Inland Revenue at a time after the end of each financial year. In the context of our new status, it is pleasing to note that we have been awarded the 'Brightest Newcomer' by the Investment Trusts magazine.

Performance
The year ended 31 March 2004 has seen strong growth in the value of our investment portfolio. Net assets per share have grown from 915p at the beginning of the year to 1278p at 31 March 2004 – a 40% growth. As the FTSE All-Share index has grown by 27% over the same period, this represents outperformance in net assets for the year of around 13%. Part of this outperformance can be attributed to the extent to which our investments have been in sectors which have grown at rates faster than the market as a whole, and nearly 8% of our outperformance can be attributed to us having, in aggregate, invested in companies that have themselves outperformed within their sectors. Table 1 shows an attribution summary of our performance over the year.

Table 1 – one year performance attribution

	Return %
Market (FTSE All-Share index)	26.6
Stock selection	7.9
Sector allocation	7.0
Management and other expenses	(1.8)
Caledonia's NAV per share	39.7

Notwithstanding our good one year performance, we continue to believe that, given our long term approach, our total shareholder return ('TSR') measured over five and ten year periods, gives a better measure of how we are performing for our shareholders. In this respect, as table 2 shows, for our TSR over five years we have again produced good absolute returns when the market as a whole has been negative, while we have also comfortably outperformed the market over ten years.

Table 2 – 5 and 10 year relative TSR performance

To 31 March 2004	Caledonia TSR %	FTSE All-Share TSR %	Outperformance %
5 years	77.2	(12.7)	89.9
10 years	138.5	94.3	44.2

This again easily puts us in the top quartile for TSR performance when measured against the Association of Investment Trust Companies global growth sector.

Chief executive's report

Table 3 – New and follow-on investments

Investment	Amount £m	Total holding %	Category	Business
New investments				
Eddington Capital	15.8	50.0 [1]	Unquoted	Fund of hedge funds management company, plus investment in fund
Marketform	15.1	26.8	Unquoted	Managing agent and insurance company
SVB Holdings	14.0	5.3	Quoted	Insurance company
Melrose Resources	6.0	6.7	Quoted	Oil and gas company
MORI	5.8	16.0	Unquoted	Opinion poll and market research company
Oval	4.5	34.0	Unquoted	Commercial lines insurance broker
Tribal Group	2.3	1.6	Quoted	Support services company
	63.5			
Follow-on investments				
Polar Capital funds	14.4	24.6 [2]	Unquoted	Investment in various new funds launched by Polar Capital
Easybox	9.0	99.2	Unquoted	Self storage business in Spain and Italy
Paladin Resources	4.1	11.1	Quoted	Oil and gas company
Savills	3.3	3.8	Quoted	Estate agency business
Other	13.5			Includes drawdowns by various private equity funds
	44.3			
	107.8			

1. Holding in the management company.
2. Holding in the management company was unchanged.

Investment activity
We believe that we have, in particular, two distinctive characteristics inherent in our investment style that help produce this performance.

The first is the strong deal flow of investment opportunities that are specifically presented to us as a result of our valuable reputation as a long term supportive and constructively active investor. In this respect, during the course of last year, our investment committee evaluated over 170 potential and serious new investment opportunities. We shortlist such opportunities down to a more manageable number that are then intensively evaluated. Considerable time is spent making sure that such investment opportunities are suitable for our approach, and indeed that the entry price offers good value. The most intensive part of our appraisal is the assessment of the calibre and capabilities of the management team. Out of all these opportunities during the year, we invested in just 7 new investments for a total amount of around £64m. In addition, we invested a further £44m as follow-on funding in existing investments. Both new and follow-on investments are shown in table 3.

The second significant distinctive characteristic in our investment style is our hands-on constructive involvement with each investee company, whether they are quoted or unquoted. This, we believe, provides more value creation than a passive investment style and has therefore significantly contributed to our outperformance. In most of our major investments we have representation on the board – as evidenced by the fact that we have a Caledonia executive as a director on the boards of 16 of our top 20 investments. Throughout the year, we have used these positions to influence constructively the operations and strategies of each investee company and in all cases maintain a close contact with the management of all of our major investee companies.

Although we are long term investors, we are not 'forever' investors and believe that there comes a time when it is appropriate for us to divest. During the year, we realised nearly £105m from such divestments, which are listed in table 4.

Table 4 – Divestments

	£m
ICAP	26.4
Meinl European Land	14.1
Offshore Logistics/Bristow [1]	12.9
Polar Capital funds	11.9
Ionian fund	9.1
Bateman Chapman	6.0
Compco	3.7
Quintain Estates & Development	2.3
Other	18.3
	104.7

1. Redemption of loan note on maturity plus receipt from capital reduction.

Naturally we seek to maximise returns when we realise an investment. However, care is taken to ensure that we do not damage our valuable reputation as a long term supportive investor.

Chief executive's report

Table 5 – Significant investments since the year end

Investment	Amount £m	Total holding %	Category	Business
Cobepa	20.0	10.0	Unquoted	Belgium-based investment company
Oval	10.5	34.0	Unquoted	Commercial lines insurance broker (follow-on investment)
Incisive Media	8.3	6.8	Quoted	Business publishing
Tribal Group	5.0	5.0	Quoted	Support services for the UK public sector (follow-on investment)

Liquidity
The chairman's statement has explained the background to, and brief details of, the recent proposal to pay an elective special dividend. More details of this are contained in our shareholder circular dated 19 May 2004. As the circular explains, based on valuations at 30 April 2004, the maximum estimated cash requirement for this proposal would be £158m. In this context, as at the same date, Caledonia had committed term bank facilities of £200m. This means that, notwithstanding the potential cash requirements of the proposal, we are well placed to take advantage of new investment opportunities.

Shareholders
In line with my comments last year, we have been continuing to make company presentations to private client fund managers and brokers in order to broaden the market for our shares. As a result, the percentage of our shares held by retail investors has increased.

Over the long term, our ability to increase the net asset value per share should provide the main component of shareholder returns. Nonetheless, we are fully aware of the desire of our shareholders also to see a narrowing of the discount of our share price compared with net assets per share. It is therefore pleasing to note that, whereas this discount was 30% at 31 March 2003, by 31 March 2004 the discount had narrowed to 20% and has further narrowed since then. We plan to continue our efforts to expand our appeal to retail investors during the current year.

Recent activity
Since the year end, we have invested about £50m. Table 5 lists our most significant recent investments.

Our most significant divestment has been the sale of our stake in Radio Investments, which should realise £14m.

The future
We are continuing to see a strong flow of good business opportunities where our long term active approach is valued and can create outperformance. However, as in the past, we will be highly selective in choosing in which companies to invest and will be careful not to overpay.

By carefully selecting the right opportunities where there are strong management teams, by continuing our active involvement in investee companies and through divesting when appropriate, we seek to maintain our distinctive performance.

Tim Ingram
Chief executive

Objectives and strategy

Objectives

Caledonia aims to achieve a long term total shareholder return in excess of the FTSE All-Share, while maintaining a progressive annual dividend, through a focused portfolio of significant stakes in companies where it believes there to be good opportunities for building value.

Caledonia measures its performance over the long term by comparing its total shareholder return against the FTSE All-Share Total Return index over five and ten year periods.

Strategy

Caledonia's strategy is to invest in and actively manage significant stakes in 30 to 40 companies and situations where it believes there to be good opportunities for building value. Active management will usually be achieved by working closely and constructively with the investee management, often through board representation, as a long term supportive shareholder. Risk is managed by holding a diversified portfolio, with at least 50% of the portfolio in quoted securities or liquid assets. Caledonia self-manages its portfolio, using in-house expertise, as well as using third party managers who specialise in particular asset classes or geographical areas.

Caledonia seeks new investments with a typical size of £10m to £25m. Although Caledonia usually aims to have an influential minority stake it will, on occasion, be prepared to take a controlling interest where it believes that this will maximise shareholder value. When considering an investment opportunity, particular care is taken in appraising the capabilities and commitment of the management team of the prospective investee company. The anticipated total return from the investment, the strategy in relation to it, and the overall risks, are carefully analysed as part of the investment process.

Caledonia will invest part of its portfolio in third party managed funds. Again, a core skill is its ability to assess the capabilities and commitment of the fund management team and Caledonia will often seek to obtain a significant stake in the management company, thereby potentially enhancing returns to shareholders.

Caledonia seeks to work closely and constructively with the management of companies that it has backed and to make available the considerable experience of its own team to help the investee company's management to address the business issues. The strategy for each investment, including the returns and the timing of eventual disposal, is reviewed regularly. Investments are realised when it is believed that the funds released can provide better long term returns, but in a manner consistent with Caledonia's reputation as a supportive long term investor.

Whilst the source of funding for new investments generally comes from its own resources, Caledonia may at times seek to enhance returns by taking on moderate levels of gearing.

Tight control is exercised over costs, notwithstanding Caledonia's active and participative management style. Cost containment is significantly aided by managing the large majority of investments through the in-house management team.

Competitive advantages

Caledonia believes that its history and strategy deliver the following key competitive advantages:

- Favoured access – Caledonia's long established and valuable reputation as a supportive long term investor attracts a strong deal flow of opportunities not always available to others, which enables it to be highly selective in its investments.
- Long experience – Caledonia's management team has long experience of proactively working with the management teams of investee companies to identify and promote business growth opportunities.
- Self-management – Caledonia's portfolio is largely self-managed, thereby reducing third party fees and ensuring that performance gains accrue to Caledonia's shareholders. Where investments are made in managed funds, Caledonia seeks to secure a stake in the asset management business, to enhance further potential returns.
- Progressive dividends – Caledonia has a substantial level of distributable reserves to support its progressive dividend policy for the foreseeable future.

Investment analysis
Significant holdings

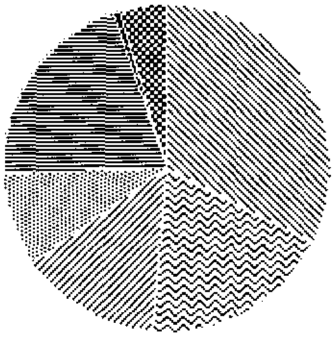
Name	Country of incorporation	Nature of business	Total £m	Proportion of total assets %
Close Brothers [1,2]	UK	Merchant banking	203.2	21.8
Kerzner International [1,2]	Bahamas	Resorts owner/operator	143.9	15.4
British Empire Securities [1,2]	UK	Investment trust	76.6	8.2
Quintain Estates & Development [1]	UK	Property holding/development	38.3	4.1
Paladin Resources [1]	UK	Oil and gas exploration	37.4	4.0
Rathbone Brothers [1,2]	UK	Fund management	34.9	3.7
Aberforth Partnership fund [3]	UK	Managed fund	32.9	3.5
Polar Capital [2,4] and funds [3]	UK	Fund manager and funds	28.0	3.0
Offshore Logistics/Bristow [1,2]	USA/UK	Helicopter services	20.9	2.3
ISIS Asset Management [1,2]	UK	Fund manager	19.2	2.0
Eddington Capital [2,5] and fund [3]	UK	Fund manager and funds	17.7	1.9
SVB Holdings [1,2]	UK	Insurance	15.5	1.7
Marketform [2]	UK	Insurance	15.1	1.6
Amber Industrial [2]	UK	Specialty chemicals	12.8	1.4
Edinmore [2]	UK	Property trading	12.7	1.4
A G Barr [1]	UK	Soft drinks	12.0	1.3
Radio Investments [2]	UK	Local radio	11.3	1.2
Wallem [2]	Cayman	Shipping services	10.7	1.2
Easybox [2]	Luxembourg	Self storage	10.6	1.1
Savills [1,2]	UK	Property agency	10.0	1.1
Sterling Industries [2]	UK	Engineering	10.0	1.1
Melrose Resources [1]	UK	Oil and gas exploration	9.7	1.0
The Sloane Club [2]	UK	Residental club owner/operator	9.3	1.0
Buckingham Gate [2]	UK	Property holding	9.3	1.0
Other investments			87.7	9.4
Total investments			889.7	95.4
Net liquid assets [6]			43.1	4.6
Total assets			932.8	100.0
Dividend accrual			(13.4)	
Loan notes			(4.8)	
Shareholders' funds			914.6	

1. Equity securities listed on the UK or overseas stock exchanges.
2. Board representation.
3. Advisory committee representation.
4. Included £6.1m for the management company and £21.9m of funds.
5. Included £0.7m for the management company and £17.0m of funds.
6. Included £3.3m of net liquid assets held in subsidiary holding companies and £3.9m of own shares.

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

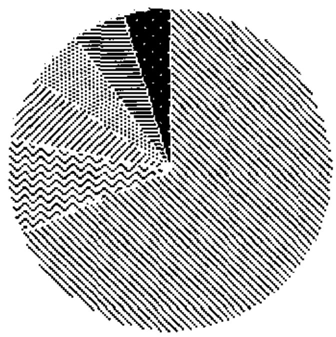
Investment analysis
Asset distribution

Sector



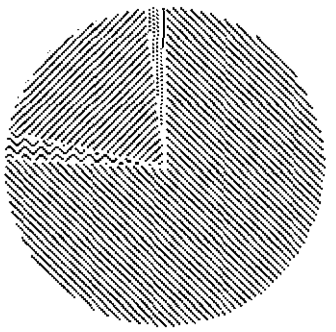
	£m	%
Financial	302.8	32.5
Leisure and media	176.7	18.9
Industrial and services	129.3	13.9
Property	84.8	9.1
Managed general funds	188.7	20.2
Others	7.4	0.8
Net liquid assets	43.1	4.6
	932.8	100.0

Category



	£m	%
Equities – quoted	640.4	68.7
Equities – unquoted	87.7	9.4
Loans and fixed income	59.2	6.3
Private equity LPs	52.9	5.7
Hedge and other funds	49.5	5.3
Others	43.1	4.6
	932.8	100.0

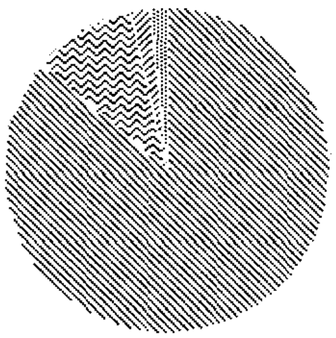
Geography



	£m	%
United Kingdom	706.3	75.7
Continental Europe	25.8	2.8
North America	182.0	19.5
Asia and Far East	17.4	1.9
Latin America	1.3	0.1
	932.8	100.0

Based on country of domicile or underlying spread for funds.

Currency



	£m	%
Pounds sterling	803.1	86.1
US dollar	97.2	10.4
Euro	17.3	1.9
Other	15.2	1.6
	932.8	100.0

Based on currency of investment, net of currency hedges.

Investment analysis
Sector analysis

Caledonia organises its investments into sectors, based on groupings of the FTSE industry sectors. The FTSE industry sectors are allocated to the Caledonia sectors. UK listed securities are classified according to their standard listing sector. Other securities are classified according to the FTSE sector they would probably be included in, if they were listed. The Caledonia sectors are as follows:

Financial
Banks
Insurance
Life assurance
Speciality and other finance

Leisure and media
Beverages
Leisure, entertainment and hotels
Media and photography
Tobacco

Managed general funds
Investment companies

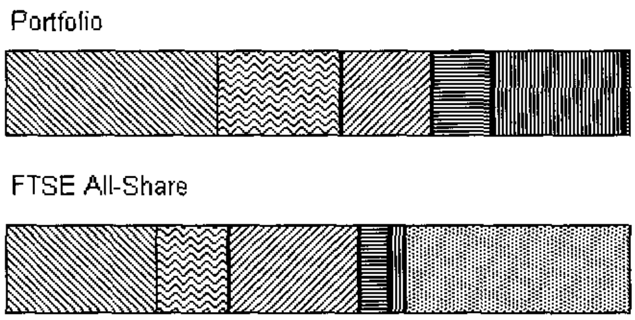
Industrial and services
Aerospace and defence
Automobiles and parts
Chemicals
Electronic and electrical equipment
Engineering and machinery
Oil and gas
Steel and other metals
Support services
Transport

Property
Construction and building materials
Forestry and paper
Real estate

Other
Electricity
Food and drug retailers
Food producers and processors
Gas distribution
General retailers
Health
Household goods and textiles
Information technology hardware
Mining
Personal care and household products
Pharmaceuticals and biotech
Software and computer services
Telecommunication services
Utilities other

The following chart shows the weighting of Caledonia's portfolio by sector in relation to the equivalent FTSE industry grouping:

Sector weighting against the FTSE All-Share



	Portfolio £m	Portfolio %	FTSE All-Share %
Financial	302.8	34.0	24.1
Leisure and media	176.7	19.9	11.7
Industrial and services	129.3	14.6	20.9
Property	84.8	9.5	4.6
Managed general funds	188.7	21.2	2.5
Others	7.4	0.8	36.2
	889.7	100.0	100.0

Based on Caledonia's grouping of the FTSE industry sectors.

Investment analysis
Holdings by sector

Name	Equity interest %	Quoted equities £m	Unquoted equities £m	Loans and fixed income £m	Private equity partnerships £m	Hedge and other funds £m	Total £m	Proportion of total assets %
Financial								
Close Brothers	17.6	203.2	—	—	—	—	203.2	21.8
Rathbone Brothers	11.3	34.9	—	—	—	—	34.9	3.7
ISIS Asset Management	6.3	19.2	—	—	—	—	19.2	2.0
SVB Holdings	5.3	10.0	—	5.5	—	—	15.5	1.7
Marketform	26.8	—	7.6	7.5	—	—	15.1	1.6
Polar Capital	24.6	—	4.4	1.7	—	—	6.1	0.7
Oval	34.0	—	3.0	1.5	—	—	4.5	0.5
Eddington Capital	*50.0*	—	*0.1*	*0.6*	—	—	*0.7*	*0.1*
Other investments		—	3.6	—	—	—	3.6	0.4
		267.3	18.7	16.8	—	—	302.8	32.5
Leisure and media								
Kerzner International [1]	20.2	143.9	—	—	—	—	143.9	15.4
A G Barr	9.4	12.0	—	—	—	—	12.0	1.3
Radio Investments	39.5	—	10.6	0.7	—	—	11.3	1.2
The Sloane Club	100	—	9.3	—	—	—	9.3	1.0
Other investments		—	0.2	—	—	—	0.2	—
		155.9	20.1	0.7	—	—	176.7	18.9
Industrial and services								
Paladin Resources	11.1	37.4	—	—	—	—	37.4	4.0
Offshore Logistics/Bristow	5.8	16.3	4.6	—	—	—	20.9	2.3
Amber Industrial	100	—	0.9	11.9	—	—	12.8	1.4
Wallem	74.4	—	10.7	—	—	—	10.7	1.2
Easybox	99.2	—	—	10.6	—	—	10.6	1.1
Sterling Industries	100	—	9.7	0.3	—	—	10.0	1.1
Melrose Resources	6.7	9.7	—	—	—	—	9.7	1.0
Other investments		6.9	1.4	7.6	1.3	—	17.2	1.8
		70.3	27.3	30.4	1.3	—	129.3	13.9
Property								
Quintain Estates & Development	7.0	38.3	—	—	—	—	38.3	4.1
Edinmore	100	—	3.7	9.0	—	—	12.7	1.4
Savills	3.8	10.0	—	—	—	—	10.0	1.1
Buckingham Gate	100	—	8.5	0.8	—	—	9.3	1.0
Other investments		—	8.1	1.5	—	4.9	14.5	1.5
		48.3	20.3	11.3	—	4.9	84.8	9.1
Managed general funds								
British Empire Securities	19.7	76.6	—	—	—	—	76.6	8.2
Aberforth Partnership fund	25.5	—	—	—	32.9	—	32.9	3.5
Polar Capital funds		—	—	—	—	21.9	21.9	2.3
Eddington Capital fund	100	—	—	—	—	17.0	17.0	1.8
Other investments		14.6	1.3	—	18.7	5.7	40.3	4.4
		91.2	1.3	—	51.6	44.6	188.7	20.2
Non-categorised investments		7.4	—	—	—	—	7.4	0.8
Total investments		640.4	87.7	59.2	52.9	49.5	889.7	95.4
Net liquid assets							43.1	4.6
Total assets							932.8	100.0
Dividend accrual							(13.4)	
Loan notes							(4.8)	
Shareholders' funds							914.6	

1. Included £3.7m representing the value of hedges against US$150m of currency exposure.

Investment review
Financial

Caledonia has a history of success with investments in financial services and our active involvement in the development of many financial services businesses has given us an extensive knowledge of this sector. Our weighting of 34% is greater than the FTSE All-Share weighting of 24% and reflects our belief in the sector's long term prospects. Over the year, the value of our holdings in financial services companies has risen by 60%, compared with an increase of 27% in this sector of the FTSE All-Share.

Close Brothers
valuation: £203.2m; holding: 17.6%
Close Brothers is the largest independent quoted merchant bank in the UK. Caledonia has been a supportive shareholder in Close Brothers since 1986, a fact that highlights both our long term investment approach and our ability to identify sound management. Caledonia plays an active role at Close Brothers with a non-executive directorship. The success of this investment has resulted in it becoming our largest holding by value. Over the year, the performance of the shares has been strong, rising 64% and far outstripping the rise in the FTSE All-Share index of 27%. In addition, Close Brothers paid a dividend of 26p per share for its financial year to 31 July 2003 out of earnings per share before goodwill amortisation of 41.0p.

Close Brothers released its interim results for 2004 at the beginning of March. The results demonstrated the continued steady organic growth of its lending activities and, following the end of the long bear market, the improved fortunes and outlook for its investment banking operations. Overall, group operating profits before taxation and goodwill amortisation rose by 46% to £57.8m and earnings per share before amortisation of goodwill rose by 44% to 27.7p.

Banking profits, which represented around 52% of group operating profits, rose by 10% compared with the same period a year earlier. The loan book grew by 11% and bad debt charges remained stable. Meanwhile, investment banking profits more than doubled compared with the first half of 2003. The asset management division saw funds under management grow to £5.0bn at the end of January 2004, with net new funds totalling £300m. Within corporate finance, activity improved in mergers and acquisitions, and market making profits doubled, reflecting the strong rise in the equity market and increased private client confidence.

Investment review
Financial

Rathbone Brothers
valuation: £34.9m; holding: 11.3%
This has been a good year for Rathbones, one of the UK's leading private client discretionary fund management businesses. Over our year to 31 March 2004, the share price rose by 68%, making it one of our best performing investments. The company announced an unchanged dividend of 26p per share for its year ending 31 December 2003. Caledonia originally identified Rathbones as an investment opportunity, because of its strong and highly regarded management, and in 1995 we bought a stake of 8%. We have a representative on the board.

In the year ending 31 December 2003, Rathbones' funds under management grew by 28% to £6.8bn. This compared with a rise in the FTSE 100 index of 13.6% over the same period. During the year, the company had particular success in attracting mandates from charities and its excellent investment performance has continued to attract funds into its unit trust business, where funds under management at its year end stood at over £500m. These encouraging trends, together with a focus on managing costs in the business, led to a 12.4% increase in earnings per share before goodwill amortisation to 38.1p.

ISIS Asset Management
valuation: £19.2m; holding: 6.3%
ISIS is one of the ten largest UK fund management businesses and aims to be one of the top five by 2007. Caledonia has been a significant investor in ISIS and its forerunners – Ivory & Sime and Friends, Ivory & Sime – since 1994. A Caledonia director has been the chairman since 1995. Funds under management have grown from £3.0bn in 1994 to £63.5bn at the end of December 2003. Like many asset management companies, the shares have risen strongly since the stock market bottomed in March 2003, increasing in value by 45% during the year to 31 March 2004. The company paid an unchanged dividend for its 2003 financial year of 11p per share.

During 2003, ISIS saw a significant improvement in its financial performance, with earnings per share before amortisation of goodwill and exceptional items increasing by over 15% to 12p. Operating margins increased from 28.2% to 32.7%, reflecting in part the company's focus on cost control as well as the successful integration of Royal & SunAlliance Investments, which it acquired in 2002.

2003 saw a number of initiatives to grow the business.
A combination of improved investment performance, underpinned by focused advertising and significant profile building exercises in the media, has resulted in a number of ISIS retail funds being added to the recommendation lists of leading independent financial advisers. ISIS also successfully launched a new listed investment company, the ISIS Property Trust, which invests directly in UK commercial properties. More recently, the company has signed heads of agreement to acquire an equity stake in Cardinal Capital Partners, which is a new business focused on the rapidly growing sector of alternative investments.

Investment review
Financial

SVB Holdings
valuation: £15.5m; holding: 5.3%
SVB is a Lloyd's insurance business, focusing on longer tail speciality lines, such as financial institutions cover, directors' and officers' liability and professional indemnity, as well as shorter tail property insurance, aviation re-insurance and some marine risks. Its shares are listed on the London Stock Exchange, but have traded at a discount to net tangible assets since the events of 11 September 2001. Premium rates turned up sharply after those losses and SVB has benefited from this.

Before May 2003, Caledonia had no exposure to the insurance underwriting sector, but believed that there were good opportunities available. We agreed to act as a cornerstone investor in SVB's placing and open offer in May 2003, and following a further strengthening of its management team last summer, bought further shares in the market, taking the total cost to £9.1m. In November 2003, we subscribed £4.9m towards its £50m sterling convertible bond issue.

SVB announced its results for 2003 in mid March, which were in line with market expectations, in spite of making substantial further additions to underwriting reserves for 2001 and prior years. Caledonia has had board representation since January 2004.

Marketform
valuation: £15.1m; holding: 26.8%
Established in the 1980s, Marketform is an unquoted Lloyd's insurance business with substantial management ownership. It specialises in medical malpractice and other specialist classes of liability underwriting business for clients outside the USA. Marketform manages the business of a consortium of medical malpractice underwriters on a fee and profit commission basis and participates in the consortium through Syndicate 2468, for which it is also the managing agent. Premium rates for Marketform's classes of business hardened after 11 September 2001.

In autumn 2003, Caledonia became a minority shareholder through an investment of £15m in equity and loan capital designed to enable Marketform to take additional underwriting capacity in advantageous market conditions. Caledonia has two representatives on the board. Results for 2003 have been in line with expectations and the outlook for premium rates remains attractive.

Polar Capital
valuation: £6.1m (£28.0m including funds); holding: 24.6%
In January 2001, Caledonia co-founded Polar Capital with three highly respected fund managers. Our ability to help them in formulating the Polar Capital structure, obtaining FSA approvals and recruitment of its key personnel, illustrates well our ability to play a constructive role in the formation of a business that has shown impressive growth. Funds under management have grown substantially over the year and totalled US$2.2bn at the year end.

Polar Capital is a research driven fund management company, providing a highly entrepreneurial environment for talented managers within a structure that offers a level of marketing, administrative and operational support normally only found in much larger organisations. With 29 investment professionals on the staff, Polar Capital manages US$0.7bn in hedge funds and the balance in long-only funds. Polar Capital's funds under management can be broken down as follows: US$1.0bn in technology funds, US$0.8bn in the Japanese portfolio and US$0.4bn in various European and UK products.

Caledonia owns 24.6% of the company, with the staff owning the balance, and is represented on the board of the management company and the boards of its funds. As a result of the success and profitability of the business, the value of our investment increased from £3.6m to £6.1m during the year. The cost of our investment in Polar Capital was £2.4m.

Investment review
Financial

Oval
valuation: £4.5m; holding: 34.0%
UK commercial insurance broking is a fragmented industry with many participants. Oval is a company formed to bring together the best of these, buying regional broking businesses for a mixture of cash and its own shares, whilst retaining the value of local relationships. A growing market share should enable the group to benefit from economies of scale and better terms of trade from insurers.

RP Hodson, a substantial commercial broking and financial services business based in Wakefield, was Oval's first acquisition, completed in October 2003. Oval's second acquisition, signed in April 2004, is Bland Bankart, a leading commercial broker with offices in Leicester, Nottingham, Birmingham, Luton and London.

Caledonia has participated in Oval by subscribing a total of £15m for ordinary shares and convertible loan stock, 30% of which was called up at 31 March 2004. Caledonia has two representatives on the Oval board.

Eddington Capital
valuation: £0.7m (£17.7m including funds); holding: 50.0%
Eddington Capital was established in 2003 and is another example of Caledonia co-founding a business in the fund management arena. As a specialist in high return fund of hedge funds, Eddington Capital launched its flagship Triple Alpha Fund on 1 September 2003, which Caledonia seeded with £15m. So far, the performance of the Triple Alpha Fund has been promising, increasing by 13.5%, net of all fees, in the first seven months.

Eddington Capital, based in London, is a joint venture between its management and Caledonia. Caledonia is represented on its board.

Investment review
Leisure and media

Caledonia has experience of the leisure and media sector through its involvement in the hospitality, print and broadcasting industries. Our confidence in the long term prospects of this sector has led to a weighting greater than the FTSE All-Share index, at 20% compared with 12%. Over the year, our holdings have increased in value by 49%, compared with an increase in the leisure and media companies in the FTSE All-Share index of 40%.

Kerzner International
valuation: £143.9m; holding: 20.2%
Kerzner International ('KI') is a leading developer, owner and operator of luxury resort hotels worldwide. Caledonia backed the management team when Sun International Hotels (now KI) was founded in 1994. Over the year, the shares have risen by 95% in dollar terms and, during the year, we have offset some of the negative impact of a weaker dollar by partially hedging our exposure. Caledonia has had board representation since the outset.

KI recently reported a strong set of results for the year ended 31 December 2003. Adjusted earnings per share were US$2.36, an increase of 15% over the previous year, due primarily to Paradise Island, Mohegan Sun and a lower interest expense. At Paradise Island in the Bahamas, the company's flagship operation, KI achieved record gross revenue and EBITDA for the second consecutive year.

KI owns 50% of Trading Cove Associates, which receives a 5% participation in the gross revenues of the recently expanded Mohegan Sun Casino complex in Connecticut, USA, owned by the Mohegan Tribe. Gross revenues grew strongly in 2003, rising by 14%. KI's share of the fees was US$35.7m.

In February 2004, KI announced the official opening of the One&Only Palmilla, which is its latest addition to the One&Only brand. The company has transformed one of the best-known properties in the Los Cabos region of Mexico into an unparalleled six-star destination.

In addition to good trading results with continued growth shown by the first quarter's figures, KI has a number of important developments in the pipeline. A further US$800m expansion is planned for Paradise Island and in Dubai, where the One&Only Royal Mirage management contract continues to perform well, a new Atlantis, The Palm, Jumeirah, is planned in conjunction with a local partner. This new Atlantis would comprise a 1,000 room hotel together with an extensive water theme park.

In the UK, KI was recently granted a gaming licence to enable it to move forward with its first casino, in Northampton. It also holds a 37.5% interest in the BLB consortium which has bid for Wembley plc.

Investment review
Leisure and media

A G Barr
valuation: £12.0m; holding: 9.4%
A G Barr is a Scottish-based manufacturer, marketer and distributor of soft drinks, which includes well known brands such as Irn-Bru, Tizer and Orangina. Profits for its year to 31 January 2004 improved by a satisfactory 13% to £13.8m, due to the good summer and tighter cost control. Earnings per share rose by 14.0% to 49.9p and the dividend increased by 10.4% to 25.5p. Cash increased substantially to £25m during the year, reflecting not only excellent trading, but lower investment than usual, although the company anticipates increasing capital expenditure to provide efficiencies for the future. The share price rose 34% over our year to 31 March.

Caledonia has a long association with the management, where a number of changes have recently taken place. Robin Barr, chairman and chief executive for 26 years, has divided these roles, remaining chairman and appointing a new chief executive.

Radio Investments
valuation: £11.3m; holding: 39.5%
Caledonia has been a cornerstone investor in Radio Investments since 1989 and throughout this period has had board representation. Caledonia currently provides Radio Investments' non-executive chairman. Investing in Radio Investments provided Caledonia with an indirect interest in Capital Radio, the UK's largest commercial radio operation. In 1998, Radio Investments placed its stake in Capital Radio, realising a profit on cost of over £40m, part of which was distributed to shareholders.

Radio Investments currently has interests in 22 smaller radio stations and has become a market leader in the independent local radio sector. Recent trading has been healthy with Radio Investments returning to profitability in the 18 month period to March 2004. This was driven by a combination of cost containment and good revenue growth in an improving advertising environment. In the near term, Radio Investments should benefit from further increases in advertising spending and it is well positioned to take part in any consolidation in the radio sector.

Since the year end, the sale of Radio Investments has been announced, by means of an accelerated IPO. Following completion, Caledonia expects to receive about £13.6m, net of costs, for its shareholding in the company.

The Sloane Club
valuation: £9.3m; holding: 100%
The Sloane Club is a residential members club, based in the heart of Chelsea. Caledonia bought the Club in 1993 on a long lease, both as a property investment and because of its trading potential. It has been enlarged and modernised and currently has a membership of around 3,750. In January of this year, a £1m programme to upgrade the rooms and install air conditioning was commenced, with completion planned for the summer season. Caledonia provides the chairman of The Sloane Club and is actively involved in its management.

Towards the end of the year, the financing structure of The Sloane Club was changed, with the Club taking on bank borrowing of £14.0m and returning funds to Caledonia, thereby reducing our equity value by this amount. In addition, there was a small reduction in valuation reflecting the downturn in activity.

Whilst membership has remained stable, profitability has been adversely affected by a slowdown in the number of overseas visitors. In common with many clubs, The Sloane Club has reciprocal arrangements with overseas clubs, however, their members are being deterred from visiting London by a combination of the strength of sterling and the perceived risk of terrorist activity.

Investment review
Industrial and services

Caledonia's experience in the industrial and services sector dates back many decades, giving us the expertise to work closely with management teams. Despite this, good opportunities in this sector have been difficult to find and, as a result, only 15% of our investments are in this sector, compared with 21% for the FTSE All-Share index. However, we have made follow-on investments in activities where we see value opportunities. Over the year, our holdings have increased in value by 12%, compared with an increase in the industrial and services companies in the FTSE All-Share index of 22%.

Paladin Resources
valuation: £37.4m; holding: 11.1%
Paladin is an independent oil and gas producer with assets in the UK, Norwegian and Danish sectors of the North Sea, Indonesia and Tunisia. Caledonia developed an association with the management of Paladin in the early 1990s when they successfully developed, and eventually sold, Clyde Petroleum.

The management have set demanding targets for both production and reserves and have strategically positioned the company as the natural partner for oil majors wanting to dispose of assets. A targeted exploration programme supplements this strategy.

Paladin completed another highly successful year with pre-tax profit rising from £66.0m to £84.8m. This translated into a 15% rise in earnings per share to 8.92p. Caledonia took the opportunity to increase its shareholding to 11.1%, by participating in Paladin's placing and open offer in January 2004, the proceeds of which contributed towards the US$153m purchase of a package of North Sea interests from BP and Amerada Hess.

Paladin's share price has risen by 46% during our year to 31 March 2004 and the company recently increased its full year dividend by 5% to 1.575p per share for its financial year ended 31 December 2003.

Offshore Logistics/Bristow
valuation: £20.9m; holding: 5.8%
Offshore Logistics/Bristow is the world's largest provider of helicopter transportation services to the oil and gas industry. Caledonia has been connected with this industry for many years, initially through Bristow Helicopters, which, since 1996, has been associated with Offshore Logistics, the NYSE listed helicopter operator. During the year to 31 March 2004, the company's shares rose by 28%. Caledonia has board representation.

In February this year, Offshore Logistics reported diluted earnings per share of US$0.86 for the three quarters to 31 December 2003, compared with US$1.39 for the comparative period, after charging US$0.28 per share of reorganisation and recapitalisation costs and after US dollar weakness on non-dollar denominated revenues. In an extremely competitive industry, with powerful and demanding customers, the company is taking further steps to maintain its pre-eminent position through new fleet introductions, customer and safety orientated initiatives and a drive for increased efficiencies.

During the year, loan stock of £6.5m was repaid and we received a further £6.4m following a capital reorganisation of Bristow. These repayments reduced the net carrying value of our investment.

Investment review
Industrial and services

Amber Industrial
valuation: £12.8m; holding: 100%
Amber is a specialty chemicals business, traditionally focusing on silicone compounding, aerosol products and specialist industrial consumables. However, Amber is currently in discussions to sell its aerosol division and this sale should be concluded by the early part of the summer. There has also been further expansion within the silicone division, with the acquisition of Engineered Polymers Inc, and the building of a new facility in Richmond, Virginia.

Trading profits were down by 40%, however this included some significant one-off costs related to stock write-offs, the expansion of the silicones division and the potential sale of the aerosol division. As a result, Amber's valuation has been reduced to £12.8m.

Wallem
valuation: £10.7m; holding: 74.4%
Wallem is a leading diversified shipping services business based in Hong Kong. Its activities encompass ship and cargo broking, ship management and ship agency services. Caledonia's investment in Wallem was made in 1992, following a long association with the Wallem management. The valuation of this investment has risen by over £3m during the year, reflecting its strong operating performance in buoyant markets.

Wallem is geographically well positioned to take advantage of the rapid growth in Chinese trade. The company produced good results in its last financial year ended 30 September 2003 and against a background of a very active shipping sector, it is producing strong results in its current financial year. The continued global economic recovery, coupled with Wallem's long standing presence in Asia, augurs well for the company.

Easybox
valuation: £10.6m; holding: 99.2%
Easybox is a self storage business currently operating in Italy and Spain, which was established by Caledonia in 2000 with a 49.6% joint venture partner. The management team had previously successfully developed Abacus Self Storage, a Caledonia subsidiary which was sold in 1998 for a substantial profit. During the year, Caledonia bought out the joint venture partner.

Whilst individual sites are trading well, Easybox itself has yet to reach critical mass and is seeking further sites, which is continuing to prove difficult. During the year, it added one site in Milan, taking the total number of facilities to six, and is currently appraising a further site in Rome.

Sterling Industries
valuation: £10.0m; holding: 100%
Sterling Industries is the holding company for three core businesses. Sterling Hydraulics is a manufacturer of hydraulic valves primarily used in construction and off-road machinery, Process Combustion Corporation is a specialist thermal engineering company providing thermal solutions for pollution control and Bloom Burners is a manufacturer of burners for the iron, steel and aluminium industries.

Trading has been stronger at Sterling Hydraulics with the beginnings of a recovery in demand. Process Combustion has also had a successful year, incorporating two small but strategic acquisitions and winning further projects for the current year. Bloom has had a difficult year with the steel industry starting off in a very depressed state, but now with strong steel prices, mills are working flat out, which bodes well for the current year. The investment in a new facility in China is on course and Bloom China recently won its first local order.

Melrose Resources
valuation: £9.7m; holding: 6.7%
During the year, we have built up a shareholding in this oil and gas exploration and production company. Melrose operates principally in Bulgaria and Egypt, but also owns stakes in US oil fields.

Over the past 12 months, Melrose announced significant exploration successes in Egypt, which have been rapidly brought on stream. An aggressive drilling programme is in place for 2004 to take advantage of these successes and expand the Egyptian operations. In Bulgaria, where the company has interests in three 100% owned concessions, work has recently finished on a pipeline and onshore process plant, with first production expected in April 2004. Further exploration will be undertaken in Bulgaria throughout the year. In the US, Melrose is concentrating on developing its working interests, with an eye to a step change in production over the next two to three years.

For 2003, Melrose announced a small profit on turnover of £7m and earnings per share of 6.3p, compared with a loss of 13.6p in 2002. Production during the year increased 127% to 2,600 barrels of oil equivalent per day at year end and there was a 46% increase in reserves to 42m barrels of oil equivalent.

Investment review
Property

Caledonia's history of property investment has gained us valuable knowledge of this sector. We invest in both property assets and in property management teams. Our weighting in property companies is 9%, compared with 5% in the FTSE All-Share index, which represents quoted property companies only and not properties held through unquoted vehicles. Over the year, our holdings have increased in value by 40%, compared with an increase in the property companies in the FTSE All-Share index of 56%.

Quintain Estates & Development
valuation: £38.3m; holding: 7.0%
Quintain is a property investment and development company with a proven track record. It specialises in commercial properties with challenging financial characteristics. The shares have performed strongly during the year, rising by 87% and outperforming both the FTSE All-Share index and the FTSE property sector index.

Two of Quintain's special projects are at the Greenwich Peninsula and Wembley, which, combined, make one of the largest urban regeneration programmes in the UK. At Wembley, Quintain owns 55 acres surrounding, but not including, the new National Stadium and at the Greenwich Peninsula it owns 18.5 acres of land as well as a 49% stake in Meridian Delta, which has rights to develop the 190 acre site.

Edinmore
valuation: £12.7m; holding: 100%
Edinmore is a wholly owned property trading company with a profit sharing arrangement with the management. Edinmore has established an excellent reputation, which brings opportunities not always available to others. Caledonia provides loan funding and is actively involved in investment decisions.

During the year, Edinmore bought £19m of new properties and resold £18m which, net of costs and management fees, generated a pre-tax return to Caledonia of £1.6m. The bulk of the remaining trading stock is expected to be sold in the second half of the current year.

Investment review
Property

Savills

valuation: £10.0m; holding: 3.8%

Savills is a property agency and advisory company. Recognising the strength and calibre of the management team, and the potential for value creation, Caledonia built up its stake mainly in early 2003. During our financial year, the shares performed very strongly, rising by 213%.

Savills' results for its financial year to 31 December 2003 showed a strong growth in the business, with operating profits of £36.5m up 25% on the previous year.

One of Caledonia's directors is a non-executive director of Savills.

Buckingham Gate

valuation: £9.3m; holding: 100%

Caledonia acquired 30 Buckingham Gate in 2001 for its headquarters as the scale of our activities had outgrown the former City office. The property is a seven floor office building and is in a prime West End location. Caledonia occupies four floors, with the remaining space let out. As well as being our head office, this allows us to let space, and thereby provide easy access, to some of our investee companies.

During the year, external loan finance of £6.5m was put in place for this investment, to repay a loan from Caledonia, thereby reducing the valuation of our investment. In addition, an external valuation of the building caused a further small reduction in value.

Investment review
Managed general funds

Caledonia has particular expertise in identifying, supporting and encouraging asset management teams, which we often back with an investment in the management company as well as in the managed fund. Our weighting of 21% in managed general funds is greater than the 2% of investment companies that make up the FTSE All-Share index, as a substantial proportion of our interests in managed funds are structured as limited partnerships or offshore investment funds. Over the year, our holdings have increased in value by 53%, compared with an increase in the managed general funds companies in the FTSE All-Share index of 40%.

British Empire Securities
valuation: £76.6m; holding: 19.7%
British Empire Securities is a UK investment trust whose objective is to achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying asset value. Caledonia has actively backed British Empire Securities and its management since 1991, when we took a significant stake in the company. Since that date we have had board representation.

British Empire Securities is the best performing investment trust over five years, in terms of share price total return, in the AITC global growth sector. The trust trades on a very low discount to its net asset value, which at the end of March 2004 was 4.8% compared with 15.2% for the global growth sector as a whole. The net asset value of British Empire Securities rose by 50.8% and its total shareholder return was 61.3% for the year ended 31 March 2004. This compared with a total shareholder return of 31.0% for the FTSE All-Share index.

The company recently announced that it had won two industry awards. It achieved first place in Investment Week's Investment Trust of the Year Awards – Global including US category and it also achieved first place in the Global category of the Moneywise investment trust awards 2004.

Aberforth Partnership fund
valuation: £32.9m; holding: 25.5%
This limited partnership has a remit to acquire significant shareholdings in smaller UK listed companies and to work with boards and managements to release latent value. At launch in March 2001, Caledonia committed £25m to this £163m geared fund and the full commitment was drawn down by 31 March 2003. The net cost of our original investment was reduced to £19m by March 2004 as a result of realisations by the partnership and distributions to the limited partners.

As at 31 March 2004, the fund had investments in twelve companies and, based on realised and unrealised gains, had generated an IRR of some 26% since launch, significantly outperforming the FTSE All-Share index. Caledonia is represented on the advisory committee.

Investment review
Managed general funds

Polar Capital funds
valuation: £21.9m (£28.0m including holding in manager)
Caledonia has an investment in both Polar Capital and a number of its investment funds. Our investment in the management *company is described on page 14 and our investments in the* Polar Capital funds are described below.

The majority of our Polar Capital fund investments are in hedge funds, which aim to generate a positive return substantially above the market risk free rate, irrespective of market conditions. These funds have performed well, returning between 12% and 24% over the year. During the year, and in anticipation of a weakening dollar, we have moved out of US dollar and into sterling denominated funds. We also invested an additional £2.7m in the new European hedge fund.

We also hold a £5.9m investment in the long-only Global Technology Fund, which increased in value by 106% over the year, substantially outperforming the NASDAQ 100.

Eddington Capital fund

valuation: £17.0m (£17.7m including holding in manager)
Caledonia has an investment in both Eddington Capital and in its Triple Alpha Fund. Our investment in the management company is described on page 15 and our £15.0m investment in the Triple Alpha Fund is described below.

The Eddington Capital Triple Alpha Fund uses a multi-strategy fund of hedge funds approach and seeks to return 20% per annum net to investors. Fund selection is both qualitative and quantitative and aims to combine exceptional fund managers with intelligent portfolio construction.

The performance of the Triple Alpha Fund has been promising, increasing net asset value by 13.5%, net of all fees, in the first seven months.

Financial review

As at 1 April 2003, Caledonia had completed the substantial restructuring needed to enable the company to be managed in accordance with the requirements for authorised investment trust status. However, as with all investment trusts, compliance can only be confirmed by the Inland Revenue after the end of each financial year. In order to provide financial information that is comparable with other investment trusts, presentation and accounting policy changes have been made. Some of these changes took effect in the last annual report, and some appear this year for the first time.

For the reasons discussed below, we believe that the company statement of total return and company balance sheet are the most relevant statements for reporting our performance as an investment trust company. Therefore, this review discusses the financial results of the company as well as summarising the performance of the group.

Presentation of the financial statements
Caledonia is an investment trust company, but we are relatively unusual among our peers because we hold trading subsidiaries as part of our investment portfolio. Our ownership of subsidiaries requires us to prepare consolidated financial statements, but the accounting rules prevent us from including subsidiaries in those statements at valuation. The consolidated balance sheet would not, therefore, give a presentation of our investment portfolio consistent with other investment trusts. However, the company balance sheet does allow us to show the entire portfolio (including subsidiaries) at valuation and is, therefore, considered to be the most relevant statement in presenting our financial position. Actual proceeds from the disposal of any individual investment will inevitably depend on market and economic conditions prevailing at the time.

The company statement of total return is presented as part of the audited financial statements for the first time. Comparatives for the year to 31 March 2003 have been presented, but on a pro forma basis only, as Caledonia was not an investment trust company during 2003. The comparatives show the position had Caledonia been an investment trust company during that period, but exclude the effect of the restructuring.

A further change in presentation has been made this year. In previous years, Caledonia, as a trading and investment company, took the view that entities over which it exercised significant influence were associated undertakings and were accounted for using the equity method. On its conversion to an investment trust company on 1 April 2003, we reviewed this treatment. Only those entities through which the company carries out its own business and over which the company exercises significant influence are regarded as associated undertakings. Caledonia now views all other entities that were previously classed as associated undertakings as part of the investment portfolio. As required by FRS 9, these investments are not accounted for by the equity method, but held at valuation.

Financial review

Company total return
Company total return for the year was £282.8m, or 391.5p per share, compared with a pro forma loss of £183.2m, or –254.0p per share, last year.

Realised capital profits of £20.1m included profits of £21.0m and £8.2m on the sale of ICAP and of Meinl European Land respectively. This was offset by losses of £5.1m and £3.5m on the sale of London Forfaiting and the Ionian fund investments, as the portfolio was rationalised following the strategic review that took place in 2002. Unrealised capital gains of £254.2m reflected substantial rises in the value of investments. Of particular note, the valuation of Close Brothers rose by £79.4m and Kerzner International by £60.5m, the latter after taking account of US$150m of forward currency contracts. These were taken out to enable us to the hedge part of our US dollar investment in Kerzner International against the expected weakening of the US dollar.

Income from investments of £21.5m rose marginally from last year's figure of £20.0m. This reflected maintained or increased dividends from our principal investments.

Management costs rose to £9.1m from £8.3m last year. This movement included increased bonuses, reflecting the company's substantial outperformance.

Other corporate costs of £2.5m comprised the costs incurred in relation to the liquidation proposals promoted by a minority of shareholders in The Cayzer Trust Company, which were subsequently withdrawn, and also the costs of a proposed elective special dividend, details of which are contained in a circular sent to shareholders. These matters are referred to in the chairman's statement and under the heading of 'Settlement proposals' below.

Interest payable of £1.0m compared with £0.2m last year, principally due to interest on a loan from a subsidiary undertaking.

The total taxation charge (revenue and capital) for the year amounted to £0.4m, compared with a £14.0m credit last year. Last year's credit included the release of the provision against unrecognised losses amounting to £17.9m and a £5.5m charge associated with the restructuring.

Group profit and loss and other gains and losses
Overall, profit before tax for the year to 31 March 2004 totalled £6.1m, compared with £23.6m reported last year. The main component of this difference is the reclassification of associated undertakings to portfolio investments and the consequent replacement of the equity accounted share of income from associates with dividend and interest income.

The group operating loss for the year was £11.5m, compared with £9.4m last year. The main factors were a reduced profit at Amber of £0.4m, compared with £1.9m last year, and a £1.3m loss from Easybox, which included business development costs and which became a subsidiary during the year. Against these losses was the saving of last year's restructuring costs of £4.0m, offset by costs of the liquidation and settlement proposals, referred to above, of £2.5m.

There was no profit on the sale of operations, compared with £4.9m last year – principally on the dilution of interests in associates.

Income from investments of £17.3m were double last year's figure of £8.7m, as dividend and interest income from former associates, amounting to £8.6m this year, is now included under this heading. Interest receivable is £1.1m, substantially down on last year's number as the group was more fully invested in the 2004 financial year than in 2003. Interest payable of £0.8m was substantially down on last year's figure of £9.5m, but last year's figure included £9.3m of interest payable by former associates.

Group realised and unrealised gains and losses mirror those of the company except for small differences where the company figures include realised and unrealised gains and losses on subsidiaries.

The total taxation charge (revenue and capital) for the year amounted to £2.6m, compared with a £2.8m credit last year. Last year's tax credit included the release of a provision against unrecognised losses of £17.9m, a £5.5m charge associated with the restructuring, share of associates tax of £4.5m and tax on investment sales of £3.9m, which were not a feature of the 2004 tax charge.

Dividend
An interim dividend of 8.4p per share has been paid and the directors have recommended a final dividend of 18.6p per share, making a total of 27.0p per share for the year at a cost of £19.4m. This is a 3.8% increase over the total dividend for 2003 of 26.0p per share. The final dividend will be payable to all shareholders on all of their shares, whether or not they elect to receive the special dividend referred to below.

Cash flow and balance sheet
The difference between company and group net funds reflects the net funds held by trading subsidiaries and intra-group transactions.

The company's net funds at the year end were £34.0m compared with £26.9m at the start of the year, an increase of £7.1m. Significant outflows were incurred in respect of investment purchases totalling £107.3m and dividend payments of £19.1m. Investment purchases included £15.8m in Eddington Capital and its Triple Alpha hedge fund, £15.1m in Marketform and £14.0m in SVB Holdings. Significant inflows arose from investment sales of £105.3m, including £26.4m from ICAP, £14.1m from Meinl European Land and £12.9m from Offshore Logistics/Bristow, and capital distributions of £20.5m.

The group's net funds at the year end were £8.2m compared with £43.2m at the start of the year, a decrease of £35.0m. Most of the cash flows were similar to those of the company. However, the principal difference is due to new bank financing of £14.0m for The Sloane Club and £6.5m for Buckingham Gate and the addition of £10.4m of bank loans with the acquisition of Easybox.

Financial review

Settlement proposals

On 15 March 2004, the company announced outline proposals for a return of funds to ordinary shareholders. On 19 May 2004, a circular was sent to all shareholders detailing the proposals. Subject to a number of conditions being met, all Caledonia ordinary shareholders will be offered the opportunity to receive a special dividend on terms that they give up part of their shareholdings. The special dividend will be set at a fixed discount of 18% to Caledonia's net asset value calculated on the date and according to the methodology set out in the circular. Those who elect to receive the special dividend, which may be on a maximum of up to two out of every nine ordinary shares, will have those shares on which they have elected to receive the special dividend cancelled for nil consideration. Further details are given in note 34 to the financial statements, on page 74.

Treasury management

The function of group treasury is to manage the group's overall cash position and the risk arising from the uncertainty of financial exposures, and to provide treasury services to group companies.

The group's treasury operations and risk management are governed by formal treasury policies, approved by the board. The activities of group treasury are routinely reported to the board.

Credit risk

The group's objective is to limit the risk of loss arising from default by counterparties. This is achieved by limiting exposure to single entities and by spreading risk across a number of counterparties. Group treasury may only create exposures with counterparties meeting predetermined standards, within financial limits. These standards are arrived at by reference to the major credit rating agencies, and the board formally approves both the standards and financial limits.

Interest rate risk

Interest rate risk arises on the fluctuations in value of financial instruments because of changes in market interest rates. In respect of treasury assets and liabilities, group treasury manages the exposure to changes in interest rates, principally by using a balance of term deposits, certificates of deposit and other instruments, together with fixed term borrowings to agreed levels of gearing, all of varying maturity. Interest rate derivatives are only used to hedge specific liabilities, such as loans to finance property investments or where specifically required in agreed borrowing arrangements. These are considered on a case by case basis and can only be undertaken with the approval of the executive management committee.

Liquidity risk

The group's objective is to ensure that funding is available to meet its requirements, whilst minimising borrowing costs and securing an advantageous return on liquid funds. This is facilitated by the central co-ordination of treasury transactions through the group's bankers and an internal set-off arrangement of individual company overdrafts with other group liquidity. The management of liquid funds is undertaken within internal guidelines stipulated for the maintenance of the company's investment trust status. It includes the placing of short term deposits and the purchase of certificates of deposit and other instruments.

At the year end, the group held net cash and short term deposits of £54.8m (2003 – £48.5m) and had committed undrawn facilities of £214.7m (2003 – £50.0m), together with undrawn overdraft facilities of £12.7m (2003 – £12.0m). Short term borrowings totalled £4.3m (2003 – £0.4m).

Of the £215.6m of committed undrawn facilities at the year end, £150.0m was arranged during the year in anticipation of the settlement proposals, to ensure that Caledonia is well positioned to meet its obligations under the proposals, if agreed by shareholders.

Foreign currency risk

The group's exposure to foreign currency risk arises primarily from holding investments and treasury assets and liabilities denominated in foreign currencies. Although the group is based in the UK, it is a significant and long term investor in US dollar assets and has investments in Europe, the Far East and other parts of the world. There is also exposure through UK investments that invest abroad. The group's net assets will reflect the impact of currency movements on individual investments, unless specifically hedged.

The executive management committee has overall responsibility for the management of the group's foreign exchange risk. Actual currency exposures, measured as percentages of net asset value on a regular basis, must not exceed limits formally approved by the board.

Group treasury is responsible for managing the foreign exchange risk arising on treasury assets and liabilities. Where possible, it arranges to net exposures within the group and to minimise the net external exposure. Group treasury does not undertake speculative transactions. It does not enter into forward contracts or purchase or sell derivatives without there being an asset or liability to hedge and without the prior approval of the executive management committee.

The group also has a small amount of transactional currency exposure. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. Where these are material, it is the group's policy to hedge using forward currency contracts.

Jonathan Cartwright
Finance director

Performance record

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

Years ended 31 March	Share price p/share	Annual dividend p/share	Special dividend p/share	Cumulative performance based on 1994: Share price total return	FTSE All-Share Total Return	Annual dividend	Retail Price Index
1994	663.0	16.2	—	100	100	100	100
1995	640.0	17.0	—	100	103	105	104
1996	750.0	18.0	—	121	129	111	106
1997	770.0	19.0	30.0	127	153	117	109
1998	879.0	20.5	—	158	209	127	113
1999	732.5	22.0	—	135	223	136	115
2000	771.5	23.0	70.0	146	245	142	118
2001	797.5	24.0	—	171	218	148	121
2002	847.5	25.0	—	187	211	154	123
2003	642.5	26.0	—	146	118	161	126
2004	1017.0	27.0	—	238	194	167	130
Compound annual returns							
5 year				12.1	(2.7)	4.2	2.4
10 year				9.1	6.9	5.2	2.6

The following table shows Caledonia's share price, net asset value and discount for each month of the year ended 31 March 2004:

Month	*Net asset* value p/share	*Share* price p/share	FTSE All-Share	*Discount* share price to NAV %	Cumulative performance based on *March 2003*: Net asset value	Share price	FTSE All-Share
Mar 2003	915	642.5	1735.72	29.8	100	100	100
Apr 2003	942	731.5	1891.50	22.3	103	114	109
May 2003	1052	811.5	1968.83	22.9	115	126	113
Jun 2003	1084	841.0	1971.26	22.4	118	131	114
Jul 2003	1115	890.0	2045.82	20.2	122	139	118
Aug 2003	1154	922.0	2064.74	20.1	126	144	119
Sep 2003	1161	912.5	2027.72	21.4	127	142	117
Oct 2003	1192	921.5	2125.37	22.7	130	143	122
Nov 2003	1186	964.0	2146.72	18.7	130	150	124
Dec 2003	1200	948.0	2207.38	21.0	131	148	127
Jan 2004	1243	998.0	2187.10	19.7	136	155	126
Feb 2004	1272	1066.0	2243.41	16.2	139	166	129
Mar 2004	1278	1017.0	2196.97	20.4	140	158	127

The board

Peter Buckley – *chairman*
A member of the Institute of Chartered Accountants of Scotland, he became a director of Caledonia in 1976, held the position of chief executive from 1987 to 2002 and was appointed chairman in 1994. He is a non-executive director of Close Brothers Group, Offshore Logistics and Kerzner International. Age 61.

Tim Ingram – chief executive
After an early career in international banking, he was finance director and later chief executive of First National Finance Corporation from 1992 and a managing director of Abbey National from 1996 to 2002. He was appointed chief executive of Caledonia in 2002. He is also a non-executive director of Sage Group and Savills. Age 56.

Jonathan Cartwright – finance director
After qualifying as a chartered accountant with KPMG, he worked for Hanson, serving as group financial controller and finance director of Imperial Foods and other Hanson subsidiaries. He joined Caledonia in 1989 and was appointed finance director in 1991. He is a non-executive director of Offshore Logistics. Age 50.

Charles Cayzer – *executive director*
Having gained experience of merchant banking, commercial banking and corporate and project finance with Baring Brothers, Cayzer Irvine & Co and Cayzer Ltd, he was appointed a director of Caledonia in 1985. He is also chairman of The Sloane Club, Easybox and Edinmore. Age 47.

John May – executive director
Appointed an executive director in September 2003, he worked for the Hambros Group for over 20 years until 1999, where he was an executive director of Hambros Bank and joint managing director of Hambro Countrywide. He then ran his own private equity investment and consultancy business. He is a non-executive director of British Empire Securities, Oval and Marketform. Age 49.

The board

James Loudon – non-executive deputy chairman
Appointed a non-executive director of Caledonia in 1995 and non-executive deputy chairman in 2001, he was group finance director of Blue Circle Industries from 1987 to 2001. He is a non-executive director of James Hardie Industries NV and Lafarge Malayan Cement Berhad. He is also a director of Lafarge UK Pension Trustees and is a governor of the University of Greenwich. Age 61.

Charles Allen-Jones – senior independent non-executive director
Appointed a non-executive director of Caledonia in 2001, he was a partner of Linklaters, the international law firm, for 33 years, including 5 years as senior partner until his retirement in 2001. He is also a non-executive director of Hongkong Land Holdings Limited and a Trustee of the British Museum. Age 64.

Mark Davies – non-executive director
Appointed a non-executive director of Caledonia in May 2002, he founded Inter Commodities in 1972, became chief executive of Gerrard Group in 1995 and was an executive director of Old Mutual Financial Services (UK) from 2000 until his retirement in 2001. He is a director of Fleming Family & Partners and chairman of FF&P Asset Management and chairman of Thornhill Acquisitions. Age 55.

Sir David Kinloch – non-executive director
A member of the Institute of Chartered Accountants of Scotland, he joined Caledonia as a director in 1988 and held the position of deputy chief executive from 1994 until his retirement as an executive director in January 2004. He is also non-executive chairman of ISIS Asset Management and the Wallem Group. Age 62.

David Thompson – non-executive director
Appointed a non-executive director of Caledonia in 2003, he is chairman of The Wolverhampton & Dudley Breweries, having served as its managing director from 1986 to 2001. He is also a non-executive director of The JP Morgan Fleming Smaller Companies Investment Trust, Persimmon, The Income & Growth Trust and Tribal Group. Age 49.

Michael Wyatt – non-executive director
After a career in the Army from 1955 to 1969, he was a director of British & Commonwealth Holdings from 1981 to 1987. Appointed an executive director of Caledonia in 1975, he served as deputy chairman from 1994 until 2001, and became a non-executive director in 2002. Age 66.

Associate directors

01 Tony Carter
He joined Caledonia in 1989 after working for Westminster Bank, British & Commonwealth Holdings and the Bricom Group. He was appointed an associate director in 1998 and has overall responsibility for group tax matters. Age 54.

02 Jamie Cayzer-Colvin
After a short service commission in the Army, he worked for Whitbread and GEC. He joined Caledonia in 1995, working at Amber before becoming an investment executive in 1999. He was appointed an associate director in 2002 and is chairman of Amber Industrial and a non-executive director of Rathbone Brothers, Polar Capital Partners and The Sloane Club. Age 39.

03 Graeme Denison
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 43.

04 Jonathan Hale
After qualifying as a chartered accountant with Arthur Andersen & Co, he worked for National Telecom and Alcatel before joining Caledonia in 1990. Responsible for group treasury and VAT, he was appointed an associate director in 2002. Age 41.

05 Tony Hambro
After a 17 year banking career at Samuel Montagu and Grindlays Bank, in 1984 he set up his own corporate finance consultancy, mainly involved in post-Big-Bang stockbroking consolidation. From 1994 to 2002, he was an executive director of Ockham Holdings. He joined Caledonia as an associate director in July 2003, having provided consultancy services to the company since November 2002. Age 56.

06 Paul Whiteley
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. Age 45.

07 Will Wyatt
After holding a regular commission in the Army, he worked for Close Brothers Corporate Finance for three years before joining Caledonia in 1998 as a project manager for Sterling Industries. He became an investment executive in 2000 and was appointed an associate director in 2002. He is a non-executive director of Amber Industrial, Sterling Industries and MORI. Age 35.

Directors' report

The directors present their report and accounts for the year ended 31 March 2004. This report should be read in conjunction with the directors' remuneration report and the corporate governance report.

Principal activities and results
Caledonia is an investment trust company. A review of the activities of the company and its operating subsidiaries, together with the results for the year, is given in the chairman's statement, the chief executive's report, the investment review and the financial review, which should be regarded as part of this report.

With effect from 1 April 2003, the company has been managing its affairs, so as to enable it to comply with the requirements for approval as an authorised investment trust. Approval as an investment trust is granted retrospectively by the Inland Revenue for each financial year of a company for which such status is sought. An application for approval for the year ended 31 March 2004 will be made subsequent to the approval of these accounts by members of the company.

Annual general meeting
The notice of the annual general meeting to be held on 14 July 2004 set out on page 75 contains three items of special business.

Resolution 2 seeks shareholders' approval of the directors' remuneration report in compliance with the Directors' Remuneration Report Regulations 2002. The directors' remuneration report, which is set out on pages 34 to 41, explains the company's overall policy on directors' remuneration and provides details of the remuneration paid to directors for the year ended 31 March 2004.

Resolution 9 will be proposed, as in previous years, to renew the authority last granted on 18 July 2003 to allot unissued ordinary shares in the capital 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 £1,210,224, representing approximately 33.33% of the company's issued ordinary share capital as at 19 May 2004. The authority, if granted, will last until the next annual general meeting.

Resolution 10 seeks to renew the directors' ability to issue ordinary shares for cash in connection with a rights issue or other than pro rata to existing shareholders. In the case of an issue of ordinary shares other than pro rata to existing shareholders, the authority will be limited to a nominal amount of £181,533, which represents approximately 5% of the issued ordinary share capital as at 19 May 2004. The authority, if granted, will last until the next annual general meeting.

Extraordinary general meeting
The company is seeking shareholders' approval at an extraordinary general meeting convened for 11 June 2004 ('EGM') for an authority to make market purchases of up to 7,260,000 of its own ordinary shares, being approximately 10% of the company's issued ordinary share capital, at a price per ordinary share not more than 5% greater than the average of the middle market quotations for such shares during the five business days preceding any such purchase, nor less than 5 pence, being the nominal value of an ordinary share. The company has stated that it will not make market purchases of its own shares where to do so would result in the voting rights of the concert party that is deemed to exist by virtue of the Cayzer family interests in the company ('Concert Party') exceeding 49.9%. At 19 May 2004, being the date of this report, the total voting rights of the Concert Party stood at 48.62%. The company is also seeking shareholders' approval at the EGM of a waiver by the Panel on Takeovers and Mergers of the obligation that could arise on the Concert Party under the City Code on Takeovers and Mergers to make a general offer for the company following an increase in the voting rights of the Concert Party as a result of the company making market purchases of its own shares. If granted, this waiver will enable the company to make market purchases of its shares provided that such purchases do not increase the total voting rights of the Concert Party to over 49.9%. Without this waiver, the company will only be able to use the power to make market purchases of its own ordinary shares provided that any such purchases do not increase the percentage voting rights of the Concert Party either to above its highest percentage in the previous 12 months or by more than 1% over the previous 12 months, after taking into account any purchases made by the Concert Party during that period.

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

The authority to make market purchases, if granted at the EGM, will expire on 1 January 2006 or, if earlier, at the conclusion of the next annual general meeting following the annual general meeting to be held on 14 July 2004.

Since 1 December 2003, the company has been able to hold shares acquired by way of market purchases as treasury shares rather than having to cancel them. However, the company does not currently have the requisite power in its articles of association to reissue any shares held in treasury on a non pre-emptive basis. In order to be able to take full advantage of the flexibility offered by treasury shares, the company is seeking shareholders' approval at the EGM to a minor amendment to its articles of association such that the provisions which enable the board to allot shares on a non pre-emptive basis, subject to shareholder approval, will also apply to the reissue of treasury shares. If this amendment is approved, the authority granted by resolution 10 to issue shares on a non pre-emptive basis will also apply to the reissue of shares held in treasury.

In accordance with the guidelines issued by the Investment Committees of the Association of British Insurers and National Association of Pension Funds Ltd, the directors confirm their intention that no more than 7.5% of the issued ordinary share capital should be allotted for cash or, if the shareholder approval referred to above is granted, reissued from treasury, on a non pre-emptive basis during any rolling three year period.

Directors' report

Directors and their interests
The directors of the company are shown on page 77. All of the directors served throughout the year, with the exception of Mr J M May, who was appointed on 1 September 2003. Sir David Kinloch will retire from the board at the conclusion of the annual general meeting on 14 July 2004.

Mr C M Allen-Jones, The Hon C W Cayzer and Mr T C W Ingram retire by rotation at the annual general meeting and, being eligible, offer themselves for re-election. From 30 June 2004, Mr J R H Loudon will have served as a director for over nine years. Accordingly, he will also retire at the annual general meeting in accordance with the recommendations of the revised Combined Code published in July 2003 and, being eligible, offers himself for re-election. Neither The Hon C W Cayzer, nor Mr T C W Ingram, has a contract of service that cannot be determined within one year. Neither Mr C M Allen-Jones, nor Mr J R H Loudon, both of whom are non-executive directors, has any entitlement to compensation in the event of their ceasing to be directors.

Following formal individual performance evaluation and a review of the structure, size and composition of the board as a whole, the Nomination Committee confirms that the non-executive directors proposed for re-election each continue to demonstrate strong commitment to their roles and that through their knowledge, skills and experience, as evidenced by their biographies that appear on page 29, they continue to provide an effective contribution to the functioning of the board and its committees. The Nomination Committee therefore believes that both of the non-executive directors proposed for re-election should be re-elected.

The interests of the directors and their families in the ordinary share capital of the company at 31 March 2004 were as follows:

	Beneficial		Non-beneficial	
	2004 No	2003 No	2004 No	2003 No
P N Buckley	582,325	562,325	265,198	236,107
T C W Ingram	50,981	37,000	—	—
J H Cartwright	12,810	6,810	—	—
The Hon C W Cayzer	107,737	107,737	—	—
J M May	2,600	—	—	—
J R H Loudon	9,442	9,442	9,930	14,330
C M Allen-Jones	7,500	7,500	—	—
M E T Davies	—	—	—	—
Sir David Kinloch	15,334	3,334	—	—
D G F Thompson	2,000	2,000	—	—
M G Wyatt	276,500	276,500	—	—

Comparative figures are at 31 March 2003 or at date of appointment if later.

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 2004, the trust held 524,150 shares (2003 – 542,150 shares).

Details of the directors' options to acquire ordinary shares in the company at 31 March 2004 are set out in the directors' remuneration report on pages 38 and 39. There have been no changes in directors' interests shown above notified up to the date of approval of these accounts.

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

Substantial interests
The company has been notified of the following interests amounting to 3% or more of the issued ordinary share capital as at 19 May 2004:

	Number of ordinary shares	% of class issued
The Cayzer Trust Company Ltd	27,661,762	38.1
BriTel Fund Trustees Ltd	5,379,641	7.4

The interest of The Cayzer Trust Company Ltd ('Cayzer Trust') comprised a direct holding of 27,417,126 shares (37.8%) and an interest in a further 244,636 shares (0.3%) arising by virtue of voting and pre-emption arrangements entered into between Cayzer Trust and a minority group of its shareholders.

The interest of BriTel Fund Trustees Ltd ('BriTel') included 5,021,468 shares (6.9%) in which Hermes Focus Asset Management Ltd ('Hermes') is interested as general partner of various partnerships managed by Hermes SLP Ltd and Lens Investors (UK) LLC. Hermes and Hermes SLP Ltd are both subsidiaries of Hermes Pensions Management Ltd, which is ultimately owned by BriTel, a company controlled by the trustees of the BT Pension Scheme.

Directors' report

The following have also notified the company of common interests in its shares arising by virtue of their interests in partnerships managed by Hermes. These interests are all included in the 5,021,468 shares in which Hermes is interested, as referred to above:

	Number of ordinary shares	% of class issued
Bradford Metropolitan District Council	2,438,114	3.4
Devon County Council	4,042,843	5.6
Essex County Council	2,435,114	3.4
Merseyside Pension Fund	2,438,114	3.4
Ontario Municipal Employees Retirement System	2,438,114	3.4

In addition to the above, Merseyside Pension Fund has notified the company of a direct holding of 195,000 shares (0.3%).

Cayzer Trust, certain directors of Caledonia, the Caledonia Investments plc Employee Share Trust and other members of the wider Cayzer family are deemed to form a concert party for the purposes of the City Code. At 19 May 2004, this concert party was interested in 35,306,734 shares, representing 48.62% of the issued ordinary share capital of the company.

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

The group gives full and fair consideration to applications for employment from disabled persons, having regard to their aptitudes and abilities, and group companies make every effort to treat disabled persons equally with others. Where existing employees become disabled, it is the group's policy to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

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

Charitable donations
Group companies support chosen community and charitable causes local to their areas of operation. Overall, the group made charitable donations during the year amounting to £102,000.

Auditors
A resolution will be proposed at the annual general meeting to reappoint KPMG Audit Plc as auditors of the company. A description of how the Audit Committee ensures the objectivity and independence of the auditors is set out on page 43.

By order of the board
G P Denison
Secretary
19 May 2004

Directors' remuneration report

This report has been prepared to comply with the Directors' Remuneration Report Regulations 2002 (the 'Regulations'). The tables included in the statements below on directors' remuneration, pensions and share options have been audited.

The Remuneration Committee
The Remuneration Committee is a standing committee of the board consisting solely of independent non-executive directors. Its current membership comprises Mr M E T Davies (chairman), Mr C M Allen-Jones and Mr J R H Loudon. Mr P N Buckley, Mr T C W Ingram, Mr D G F Thompson and Major M G Wyatt also attended certain meetings of the Committee by invitation, although none were present when their own remuneration was discussed.

The Committee, whose written terms of reference are published on the company's website and are available on request from the company secretary, has been established for the following purposes:

1. to determine and agree with the board the framework and broad policy for the remuneration of the executive directors and such other members of the executive management as it is requested by the board to consider and to review the on-going appropriateness and relevance of the remuneration policy;

2. to approve the design of, and determine targets for, any performance related pay schemes operated by the company and to approve the total annual payments made under such schemes;

3. to review the design of all share incentive plans for approval by the board and shareholders and, for any such plans, to determine each year whether awards will be made and, if so, the overall amount of such awards, the individual awards to executive directors and other senior executives and the performance targets to be used;

4. within the terms of the agreed policy, to determine the total individual remuneration packages of each executive director (and if requested by the board, other senior executives) including, where appropriate, bonuses, incentive payments, share options and other awards;

5. to determine the policy for and scope of pension arrangements, service agreements, termination payments and compensation commitments for executive directors and, if requested by the board, other senior executives; and

6. to review and assess annually the remuneration trends across the company.

References to executive directors also include the chairman.

In determining such policies and individual remuneration packages, the Committee has given full consideration to the provisions of section 1.B.1 of the Combined Code published in 1998.

During the year, the Committee received advice from Hay Group, a firm of independent remuneration consultants appointed by the company, assessing the comparability of the company's remuneration policies and individual remuneration packages with the marketplace and from Freshfields Bruckhaus Deringer in relation to directors' service contracts. Hay Group only advised in relation to the remuneration of executive directors and senior management and Freshfields Bruckhaus Deringer are the company's main legal advisers. The Committee also consulted with the chairman and chief executive in relation to the remuneration of all of the executive directors other than their own. Internal support was provided to the Committee by the company secretary.

Remuneration policy for executive directors
The company's policy on executive directors' remuneration is to provide remuneration packages which are sufficiently competitive to attract, retain and motivate executive directors of the quality needed to manage and grow the company successfully, and in particular to deliver the company's financial aim of achieving consistently over the longer term, using five and ten year measurements, a total shareholder return in excess of the FTSE All-Share Total Return. The company's objective for the year to 31 March 2005 and subsequent financial years is to continue to weight total remuneration more towards performance related elements, with proportionately lower basic salaries, but with potential for higher performance related awards subject to more demanding performance criteria. In this way, the company believes that the remuneration of its executive directors will be further aligned with the performance of the company and therefore with the interests of shareholders.

The Regulations require that the directors' remuneration report contains a statement on the company's policy on directors' remuneration for the following financial year and for financial years subsequent to that. Whilst it is intended that the policy statement set out in this report should continue to apply for the year to 31 March 2005 and for subsequent years, and the Committee is able to state its remuneration policy for the year to 31 March 2005 with reasonable certainty, it is less certain that this policy will continue without amendment in subsequent financial years. This is because the Remuneration Committee considers that an effective remuneration policy needs to be sufficiently flexible to take account of future changes in the company's business environment and in remuneration practice. Any changes in policy for financial years after 31 March 2005 will be described in future directors' remuneration reports, which will continue to be subject to shareholder approval. All statements in this report in relation to remuneration policy for years after 31 March 2005 should be read in this light.

Directors' remuneration report

Policy on individual components of executive directors' remuneration

Basic salary and benefits

Basic salary is determined by the Remuneration Committee by reference to the experience and responsibilities of the director concerned and taking into account external market research. The company's policy is to pay salaries and other benefits which are competitive, but not excessive, in relation to the marketplace. The company provides a range of benefits, such as company cars, life insurance, permanent health insurance, and private medical cover. Company cars are however being phased out and replaced by cash alternatives.

Bonus

The company operates a discretionary annual bonus scheme for executive directors, which takes into account both the performance of individual directors and of the company over the short and medium term. The policy for the year ended 31 March 2004 was that bonuses of up to a maximum of 60% of basic salary may be awarded, dependent on the level of the outperformance of Caledonia's net asset value per share (with dividends added back) over the FTSE All-Share Total Return index, measured over 1 and 3 years, and on the individual director's performance. Any such awards are subject to the overriding discretion of the Remuneration Committee.

The Remuneration Committee may also award bonuses outside the terms of the company's annual bonus scheme. No bonus payments are pensionable.

Pensions

The company's policy on pension provision is to provide a means whereby executive directors either receive a pension at retirement age from the company, or are funded to operate their own money purchase pension plans or other arrangements. The executive directors, other than Mr T C W Ingram and Mr J M May, participate in the Caledonia Pension Scheme, which is a defined benefits scheme and is contributory for employees who joined the company after 1 April 1988, but which is now closed to new members. The scheme provides a pension of up to two-thirds of final pensionable salary on retirement dependent on length of service and also provides for dependants' pensions and lump sums on death-in-service. All of the executive directors participating in the scheme, other than Mr J H Cartwright, transferred into the scheme from The Union-Castle Line Superannuation Scheme which was non-contributory, and this status has been preserved. Mr Ingram and Mr May do not participate in any company pension scheme, but instead a fixed percentage of basic salary is paid into personal pension arrangements or as a cash supplement, which is inclusive of associated income tax and national insurance costs. The percentage of basic salary is 25% for Mr Ingram and 10% for Mr May.

It is the company's policy that any future executive directors recruited from outside the company will be funded to operate their own pension arrangements and that the company will not offer participation in any defined benefits arrangements.

Share options

A key objective of the company's remuneration policy is to motivate executive directors to deliver long term shareholder value. The Remuneration Committee believes that this is best achieved through the grant of share options in addition to annual salary and bonus, as these provide the opportunity to build a meaningful shareholding in the company and link individual reward with corporate performance over the longer term.

It is the policy of the Remuneration Committee to grant options to directors and other senior employees at a level commensurate with their individual duties and responsibilities. The maximum exercise price of options that can be granted to any executive under the company's share option schemes is equal to four times total annual emoluments. Option grants are phased and no options are granted at a discount. The Remuneration Committee may establish special arrangements for individual executive directors where it considers it necessary to do so to secure their appointment. Special option terms were agreed with Mr T C W Ingram and Mr J M May in connection with their recruitment to the company, as described on page 40.

Directors' remuneration report

Policy on executive directors' service contracts
It is the policy of the company that no executive director should be offered a service contract that cannot be determined within one year or which contains provision for predetermined compensation in excess of one year's total emoluments. All existing directors' service contracts comply with this policy.

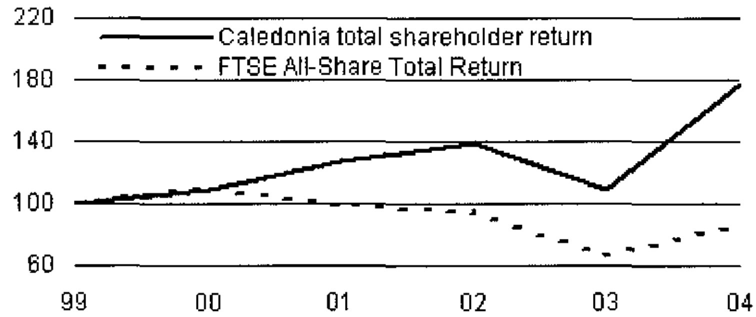
Policy on external non-executive directorships held by executive directors
It is the company's policy to allow executive directors to hold external non-executive directorships unrelated to the company's business, provided that the time commitment required is not material. Normally the company will retain any fees arising from such non-executive directorships, but may permit the executive director to retain fees in certain circumstances. Details of any such fees retained by executive directors are disclosed on page 37.

Policy on non-executive directors' remuneration and terms of appointment
It is the company's policy that non-executive directors should be appointed for fixed periods of no more than three years (from the next general meeting following their initial appointment in the case of new non-executive directors) and that re-appointment at the end of such periods should not be automatic. Non-executive directors are paid an annual fee determined by the board as a whole within the overall limit contained in the articles of association, but do not receive any other benefits for their service as non-executive directors from the company. The basic fee for non-executive directors was £26,000 (2003 – £25,000) and fees of £3,000 per annum (2003 – £nil) were paid for the chairmanships of the Audit and Remuneration Committees. Non-executive directors may also be paid additional fees agreed by the board where they have performed services that, in the opinion of the board, are over and above their normal duties.

The company is entitled to terminate a non-executive directors' appointment at any time without compensation.

Performance graph
The graph below shows the company's total shareholder return ('TSR') against that of the FTSE All-Share Total Return index for the five financial periods ending on 31 March 2004 and has been prepared in accordance with the Regulations. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. The FTSE All-Share Total Return index has been chosen as it is the benchmark by which the company measures its delivery of shareholder value over the longer term.

Total shareholder return



Source: FTSE/Datastream

Directors' remuneration report

Statement on directors' remuneration (audited)
Total emoluments of the directors were as follows:

	2004 £'000	2003 £'000
Fees	145	118
Salaries	1,436	1,303
Benefits	124	107
Performance related bonuses	921	563
	2,626	2,091
Gains on exercise of share options	100	90
	2,726	2,181

The emoluments of individual directors were as follows:

	Fees and salaries £'000	Benefits £'000	Bonuses £'000	Total 2004 £'000	Total 2003 £'000
Executive					
P N Buckley	276	27	166	469	511
T C W Ingram	335	19	201	555	398
Sir David Kinloch [1]	275	18	224	517	467
J H Cartwright	234	25	140	399	348
The Hon C W Cayzer	162	25	97	284	249
J M May [2]	154	10	93	257	—
Non-executive					
J R H Loudon	26	—	—	26	25
C M Allen-Jones	34	—	—	34	25
M E T Davies [3]	29	—	—	29	21
Sir David Kinloch [1]	4	—	—	4	—
D G F Thompson [4]	26	—	—	26	2
M G Wyatt	26	—	—	26	25
J Burnett-Stuart [5]	—	—	—	—	19
L A W Evans [6]	—	—	—	—	1
	1,581	124	921	2,626	2,091

1. Became a non-executive director with effect from 1 February 2004.
2. Appointed on 1 September 2003.
3. Appointed on 27 May 2002.
4. Appointed on 3 March 2003.
5. Retired on 31 December 2002.
6. Died on 14 April 2002.

Benefits mainly comprised cars or cash alternatives, fuel for private mileage and private medical cover. The fees in respect of Mr L A W Evans for 2003 were paid to Lazard & Co Services Ltd. Included in the 2004 bonus for Sir David Kinloch was an amount of £58,875 paid outside the terms of the company's annual bonus scheme. This was an award made to Sir David by the Remuneration Committee in recognition of his stewardship of the company's interest in ISIS Asset Management and his contribution to the development of that company's business.

In addition to the amounts shown above, Mr T C W Ingram was paid an amount of £42,265, before tax, in lieu of contributions to his personal money purchase pension arrangements as described in the statement on directors' pensions below. Certain executive directors also hold external non-executive directorships unrelated to the company's business, where it has been agreed that they may retain the fees arising therefrom. Mr T C W Ingram is a non-executive director of Sage Group, for which he receives an annual fee of £30,000. Mr Ingram was appointed to the board of Sage Group before he joined Caledonia. Sir David Kinloch was receiving an annual fee of £11,000 as a non-executive director of JPMorgan Fleming Chinese Investment Trust at the time he ceased to be an executive director of Caledonia on 1 February 2004. He has since retired from the board of this investment trust. Mr J M May is chairman of Covenant Healthcare, which pays a fee of £20,000 per annum for his services to a private company owned by Mr May and his wife. Mr May was appointed to this position prior to his joining Caledonia.

Directors' remuneration report

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

Name	Accrued pension at 31.03.04 (1) £ pa	Increase in accrued pension *during the year* (2) £ pa	Increase in accrued pension during the year, *net of inflation* (3) £ pa	Transfer value of increase in accrued pension over the year, net of director's *contributions* (4) £	Transfer value of accrued pension *at 31.03.04* (5) £	Transfer value of accrued pension *at 31.03.03* (6) £	Change in transfer value over the year, net of director's *contributions* (7) £
P N Buckley	225,649	11,023	5,443	92,379	3,829,722	3,566,839	262,883
J H Cartwright	86,770	9,156	7,138	75,603	1,032,844	709,210	314,274
The Hon C W Cayzer	64,166	4,813	3,270	36,126	708,894	504,051	204,843
Sir David Kinloch	218,611	14,327	10,693	182,628	3,733,705	3,481,561	252,144

1. Except for Sir David Kinloch, the accrued pensions were the amounts that would be paid at normal retirement age, ignoring any revaluation, if the director left service at the relevant date. Sir David Kinloch retired on 31 January 2004 and his pension has been calculated as at that date.
2. The increase in accrued pension, net of inflation, in column (3) is calculated by subtracting the pension accrued to 31 March 2003, multiplied by the increase in the Retail Prices Index for the year to 31 March 2004, or earlier date of retirement, from the accrued pension to 31 March 2004, or earlier date of retirement.
3. The transfer value shown in column (4) represented the value of the increase in accrued pension during the year, as set out in column (3), minus director's contributions.
4. The change in transfer value over the year shown in column (7) (calculated as column (5) less column (6) and any directors' contributions) reflected the impact on transfer values of factors beyond the control of the company and the directors, such as movements in stock markets. These can cause transfer values at different points in time to fluctuate significantly. Disclosed changes in value may therefore be subject to a large degree of volatility and may even be negative.
5. The transfer values have been calculated in accordance with the guidance note 'GN11', published by the Institute of Actuaries and Faculty of Actuaries.

During the year, the company made contributions to a money purchase personal pension plan for the benefit of Mr T C W Ingram of £29,700, being the maximum amount permitted for this tax year under Inland Revenue limits. In accordance with his service contract, Mr Ingram elected to receive the balance of his agreed pension entitlement by way of cash payment of £42,265, before tax, in lieu of pension contribution. The company also made contributions to a money purchase pension plan for the benefit of Mr J M May of £15,606, in respect of the period from the date of his appointment on 1 September 2003.

Statement on directors' share options (audited)
The directors' options to acquire ordinary shares in the company as at 31 March 2004 were as follows:

	Number of options								
Grant date	Opening balance	Granted	Exercised	Lapsed	Closing balance	Exercise price	Market price at exercise	Exercisable from date	Expiry date
P N Buckley									
31.07.96	7,000	—	—	—	7,000	745.0p	—	31.07.99	31.07.06
16.07.97	6,000	—	—	—	6,000	677.5p	—	16.07.00	16.07.07
02.09.98	100,000	—	—	—	100,000	740.0p	—	02.09.01	02.09.08
26.07.99	9,000	—	—	—	9,000	757.5p	—	26.07.02	26.07.09
19.07.00	8,500	—	—	—	8,500	722.5p	—	19.07.03	19.07.10
24.07.01	12,500	—	—	—	12,500	810.0p	—	24.07.04	24.07.11
	143,000	—	—	—	143,000				
T C W Ingram									
05.07.02	166,000	—	—	—	166,000	782.5p	—	05.07.05	05.07.12
20.11.03	—	35,400	—	—	35,400	945.0p	—	20.11.06	20.11.13
	166,000	35,400	—	—	201,400				
Sir David Kinloch									
29.07.93	12,000	—	(12,000)	—	—	495.0p	877.5p		
19.07.94	15,000	—	—	—	15,000	693.0p	—	19.07.97	19.07.04
22.06.95	3,000	—	—	—	3,000	653.0p	—	22.06.98	22.06.05
18.04.96	79,000	—	—	—	79,000	781.0p	—	18.04.99	18.04.06
31.07.96	5,000	—	—	—	5,000	745.0p	—	31.07.99	31.07.06
16.07.97	6,000	—	—	—	6,000	677.5p	—	16.07.00	16.07.07
02.09.98	8,000	—	—	—	8,000	740.0p	—	02.09.01	02.09.08
26.07.99	8,000	—	—	—	8,000	757.5p	—	26.07.02	26.07.09
19.07.00	17,500	—	—	—	17,500	722.5p	—	19.07.03	19.07.10
	153,500	—	(12,000)	—	141,500				

Directors' remuneration report

Grant date	Opening balance	Granted	Exercised	Lapsed	Closing balance	Exercise price	Market price at exercise	Exercisable from date	Expiry date
	Number of options								
J H Cartwright									
29.07.93	6,000	—	(6,000)	—	—	495.0p	877.5p		
19.07.94	5,000	—	—	—	5,000	693.0p	—	19.07.97	19.07.04
22.06.95	3,000	—	—	—	3,000	653.0p	—	22.06.98	22.06.05
18.04.96	31,500	—	—	—	31,500	781.0p	—	18.04.99	18.04.06
31.07.96	10,000	—	—	—	10,000	745.0p	—	31.07.99	31.07.06
16.07.97	12,000	—	—	—	12,000	677.5p	—	16.07.00	16.07.07
02.09.98	8,000	—	—	—	8,000	740.0p	—	02.09.01	02.09.08
26.07.99	8,500	—	—	—	8,500	757.5p	—	26.07.02	26.07.09
19.07.00	10,500	—	—	—	10,500	722.5p	—	19.07.03	19.07.10
24.07.01	24,000	—	—	—	24,000	810.0p	—	24.07.04	24.07.11
05.07.02	3,500	—	—	—	3,500	782.5p	—	05.07.05	05.07.12
20.11.03	—	24,800	—	—	24,800	945.0p	—	20.11.06	20.11.13
	122,000	24,800	(6,000)	—	140,800				
The Hon C W Cayzer									
29.07.93	8,100	—	(8,100)	—	—	495.0p	877.5p		
19.07.94	1,500	—	—	—	1,500	693.0p	—	19.07.97	19.07.04
22.06.95	3,000	—	—	—	3,000	653.0p	—	22.06.98	22.06.05
18.04.96	35,500	—	—	—	35,500	781.0p	—	18.04.99	18.04.06
31.07.96	3,500	—	—	—	3,500	745.0p	—	31.07.99	31.07.06
16.07.97	6,000	—	—	—	6,000	677.5p	—	16.07.00	16.07.07
02.09.98	5,000	—	—	—	5,000	740.0p	—	02.09.01	02.09.08
26.07.99	5,500	—	—	—	5,500	757.5p	—	26.07.02	26.07.09
19.07.00	6,000	—	—	—	6,000	722.5p	—	19.07.03	19.07.10
24.07.01	8,500	—	—	—	8,500	810.0p	—	24.07.04	24.07.11
05.07.02	2,500	—	—	—	2,500	782.5p	—	05.07.05	05.07.12
20.11.03	—	17,100	—	—	17,100	945.0p	—	20.11.06	20.11.13
	85,100	17,100	(8,100)	—	94,100				
J M May									
20.11.03	—	56,000	—	—	56,000	945.0p	—	20.11.06	20.11.13
	—	56,000	—	—	56,000				
M G Wyatt									
18.04.96	17,900	—	—	—	17,900	781.0p	—	18.04.99	18.04.06
31.07.96	1,500	—	—	—	1,500	745.0p	—	31.07.99	31.07.06
16.07.97	3,000	—	—	—	3,000	677.5p	—	16.07.00	16.07.07
02.09.98	6,000	—	—	(6,000)	—	740.0p			
26.07.99	6,000	—	—	(6,000)	—	757.5p			
	34,400	—	—	(12,000)	22,400				

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

Directors' remuneration report

Statement on directors' share options (unaudited)
The company has two executive share option schemes – an original scheme established in 1988 and which expired in April 1998 for the purposes of new option grants, and a 1998 scheme approved by shareholders in July 1998, under which option grants commenced in September 1998.

Under the terms of both schemes, options may be exercised between three and ten years after the date of grant, although only one third of the shares comprised in an option may be exercised after three years from grant, with the remaining two thirds becoming exercisable six years after grant. Options may only be exercised if a performance target is met.

All targets for options granted under the original scheme, which related to the company's earnings per share growth or the performance of its adjusted net asset value per share against external benchmarks, have now been achieved. For options granted from 1998 to 2001 under the 1998 scheme, the target requires the company's adjusted net asset value per share to outperform either the Retail Price Index by 3% per annum, or the average of the increases in the FTSE 250 and the FT Investment Companies indices, over a consecutive three year period prior to exercise. For options granted in 2002 and 2003, the performance target is as above, except that the FTSE All-Share index is used as the reference index rather than the FTSE 250 and FT Investment Companies indices.

Since the year end, the Remuneration Committee has resolved to apply more demanding performance targets for future option grants under the 1998 scheme. These will require that 50% of the shares comprised in an option will vest if the company's net asset value per share outperforms the Retail Price Index by 3% per annum over the relevant measurement period, with the other 50% vesting if the company's net asset value per share outperforms the FTSE All-Share index over the relevant measurement period. The performance measure has to be achieved either over the first three years, or over the first four years, after the date of grant. If the performance measure is not achieved four years after the date of grant, the options will lapse.

The performance targets have been met for all options granted under the 1998 scheme from 1998 to 2001. The Remuneration Committee has selected the targets referred to above because it believes they provide an appropriate benchmark of the company's longer term performance.

Included in Mr Ingram's options granted on 5 July 2002 are options over 83,000 shares granted outside the 1998 scheme and on the following special performance-related terms. As in the case of options granted under the 1998 scheme, only one third of the shares under these special options are exercisable three years after grant, with the remaining two thirds becoming exercisable six years after grant. The special options are subject to a stretching performance condition requiring Caledonia's total shareholder return (share price growth plus the value of reinvested dividends – 'TSR') to outperform the FTSE All-Share Total Return index ('Index') over the measurement period, which commenced on the date of grant. A tranche will vest in full if Caledonia's TSR exceeds that of the Index by an average of at least 2% per annum over the relevant measurement period. If Caledonia's TSR equals that of the Index, none of that tranche will be exercisable and there will be proportionate vesting of a tranche if Caledonia's TSR exceeds that of the Index by an average of between zero and 2% per annum. For the one third tranche, the performance measure will be first applied three years after grant, with two re-test opportunities four and five years after grant. For the two thirds tranche, the performance measure will be first applied five years after grant, with two re-test opportunities six and seven years after grant. If Mr Ingram remains in service until retirement at age 62, the option will remain exercisable until ten years from grant if the performance conditions are met. Otherwise, Mr Ingram must normally be in employment to be able to exercise the options. The shares required to satisfy Mr Ingram's special options will be transferred from the Caledonia Investments plc Employee Share Trust. The remaining terms of the special options are based on the rules of the 1998 scheme, and include provisions that any benefits obtained from the special options will not be pensionable and that the terms of the special options will not normally be capable of amendment to the advantage of the option holder without the prior approval of shareholders in general meeting.

Mr May joined the company on 1 September 2003. In accordance with the terms of his recruitment, there are included in Mr May's options granted on 20 November 2003 options over 28,000 shares granted outside the 1998 scheme. The performance conditions and other terms of these options are the same as those set out above for Mr Ingram (save that Mr May's options are not subject to preservation on retirement in the manner described above for Mr Ingram). These options were in addition to options over 28,000 shares granted to Mr May on the same date under the 1998 scheme. The Remuneration Committee is satisfied that this special option arrangement, which is subject to more stringent performance conditions than those which apply to the 1998 scheme, is appropriate and aligns Mr May's interests with those of shareholders. As this was a special arrangement to facilitate, in unusual circumstances, Mr May's recruitment as an executive director, shareholders' approval was not required by virtue of paragraph 13.13A of the Listing Rules. The circumstances were unusual because the Remuneration Committee considered it essential to secure Mr May's services by providing him with a performance-related option package on these special terms. The Remuneration Committee also considered it appropriate that Mr Ingram and Mr May should be subject to similar long-term incentive arrangements.

At 31 March 2004, the market price of the company's shares was 1017.0p (2003 – 642.5p) and the range during the year was 642.5p to 1081.0p.

Directors' remuneration report

Statement on directors' service contracts and non-executive directors' letters of appointment
Executive directors have service contracts with Caledonia Group Services Ltd, a wholly-owned subsidiary of the company, details of which are summarised below:

Name	Date of contract	Notice period	Unexpired term
P N Buckley	11.06.02	12 months	Rolling 12 months
T C W Ingram	11.06.02	12 months	Rolling 12 months
J H Cartwright	11.06.02	12 months	Rolling 12 months
The Hon C W Cayzer	11.06.02	12 months	Rolling 12 months
J M May	01.09.03	12 months	Rolling 12 months

During the year, Sir David Kinloch was also employed by Caledonia Group Services Ltd under a service contract dated 11 June 2002, which terminated on his retirement from full time employment on 31 January 2004.

Directors' service contracts contain provisions whereby the company may in its discretion terminate the contract without notice and make a payment in lieu of notice to the director and whereby a liquidated sum is payable by the company in the event of termination within one year following a change of control. Any such payment in lieu of notice or liquidated sum would be equivalent to no more than one year's total emoluments.

The service contracts of the directors, other than Mr Ingram's and Mr May's, also contain provisions whereby, in the event of a payment in lieu of notice or payment of a liquidated sum on termination, the director concerned would also be entitled to an increase in his pensionable service equivalent to the unexpired period of notice under his contract.

Non-executive directors do not have service contracts, but are appointed under letters of appointment which provide for termination without notice or compensation.

The directors' remuneration report was approved by the board on 19 May 2004 and signed on its behalf by:

M E T Davies
Chairman of the Remuneration Committee

Corporate governance report

The board recognises the importance of good corporate governance and this report describes how the company has applied the principles of good corporate governance as set out in the Combined Code issued in 1998 ('Combined Code').

The company has complied throughout the year with the provisions set out in section 1 of the Combined Code.

On 23 July 2003, the Financial Reporting Council published a revised Combined Code ('Revised Code'), which is applicable to the company's financial year which commenced on 1 April 2004. Caledonia is not formally required to report on how it has applied the principles of the Revised Code, or complied with its provisions, until the company's 2005 annual report, however, where steps have already been taken to achieve compliance, these are described in this report.

The company is also a member of the Association of Investment Trust Companies ('AITC'), which has published its own Code of Corporate Governance. The provisions of the AITC Code differ in certain respects from those of the Revised Code, which the company regards as its corporate governance benchmark, however the board believes that the company complies with the broad principles set out in the AITC Code, to the extent that they are applicable to a self-managed trust.

The board

Overall responsibility and operation

The board as a whole is responsible for the group's objectives and policies and the management of its resources. It has eleven scheduled meetings a year, but also convenes at additional times when required. The board has adopted a Schedule of Authorities which sets out matters specifically reserved to it for decision, which include strategy, material capital and revenue transactions and changes in business activities, treasury policies, risk management and internal policy limits relating to the company's investment activities. The Schedule of Authorities also sets out the authorities that are delegated to board committees and to executive management.

All directors receive appropriate and timely information to ensure that they are properly briefed in advance of board meetings and have unlimited access to the company secretary and other senior management should further information be required. Non-executive directors have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors.

Appointment, induction and training

All new directors appointed by the board are required to seek election by shareholders at the next general meeting of the company following their appointment and subsequently all directors are required to retire by rotation at least every three years. Any non-executive director who has served on the board for over nine years is subject to annual re-election. On appointment, new directors are offered induction and training considered appropriate by the board and subsequently as necessary. The company secretary provides details of, and where requested arranges attendance at, external courses to assist in directors' professional development.

Board composition

At the date of this report, the board comprised 11 directors, although Sir David Kinloch will retire from the board at the conclusion of annual general meeting on 14 July 2004. Excluding the chairman, four of the directors were executive and six non-executive. The non-executive directors considered by the board to be independent were Messrs C M Allen-Jones, M E T Davies, J R H Loudon and D G F Thompson. Sir David Kinloch and Major M G Wyatt, who were both previously executive directors, were not considered to be independent. On 30 June 2004, Mr J R H Loudon will have served on the board for over nine years and as a result will no longer meet the Revised Code's definition of independence. For this reason, the board will cease to consider him as independent from that date, although the board does not regard his length of tenure, or his genealogical ties with the wider Cayzer family, as in any way affecting his ability to exercise independent judgement in his contribution and commitment to the board and its committees. Collectively, the directors bring a wide range of experience, skills and expertise to the stewardship of the company, as evidenced by their individual biographies, which appear on pages 28 and 29.

The board is led by the chairman, Mr P N Buckley, whose responsibilities have been agreed and set out in writing in the Schedule of Authorities adopted by the board. The chairman's primary role is to ensure that the board and individual directors are able to operate efficiently by setting the agenda, style and tone of board discussions to promote constructive debate and effective decision making. He has overall responsibility for monitoring the development needs of the board as a whole and of individual directors and for ensuring that the performance of the board, its committees and individual directors are evaluated at least once a year. In conjunction with the chief executive, the chairman is also responsible for ensuring effective communication with shareholders and that board members develop an understanding of the views of major investors. The latter is achieved by providing the board with briefings following meetings with major shareholders and through feedback reports from the company's financial and public relations advisers and brokers following results presentations, road shows and meetings with institutional shareholders and private client stockbrokers.

The chief executive, Mr T C W Ingram, heads the executive management team and is primarily responsible for the implementation of the board's policies and strategies and for managing the activities of the company other than in relation to those matters specifically reserved to the board or delegated to its committees. His responsibilities have also been agreed and set out in writing in the Schedule of Authorities adopted by the board. Except where the board gives specific direction otherwise, the chief executive may delegate any of these matters to other members of the executive management team or to executive committees, but ultimately he is accountable to the board for the overall performance of the company.

Corporate governance report

A strong independent non-executive representation on the board is headed by the senior independent non-executive director, Mr C M Allen-Jones. The role of the non-executive directors, as set out in their letters of appointment, is to challenge constructively, and contribute to, the development of strategy, to scrutinise the performance of management in meeting agreed goals and objectives and monitor their performance, to satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible, to determine appropriate levels of remuneration for executive directors and to have a prime role in senior management appointments and succession planning.

A division of power and authority at board level is achieved through the balance of executive and non-executive directors described above. In addition, a Governance Committee, comprising the senior independent non-executive director and two other independent non-executive directors, has been formally established to review corporate governance and conflict of interest issues relating to the company and the board. The Governance Committee has authority to recommend that any director abstains from participation in any decision of the board or any of its committees where it believes that a conflict of interest could, or could be perceived to, arise. Through this structure the board safeguards against any individual or small group of individuals being able to dominate the board's decision taking.

Board committees
The board has delegated certain specific areas of responsibility to the following standing committees, the terms of reference of which are published on the company's website and are available from the company secretary on written request. The current membership of these committees is noted on page 77.

The Nomination Committee, chaired by Mr P N Buckley, is responsible for the regular review of the structure, size and composition (including the skills, knowledge and experience) of the board and for giving consideration to succession planning for executive directors and, if requested by the board, for other senior executives. It is responsible for identifying and nominating, using external search consultants where necessary, candidates to fill board vacancies as and when they arise and for keeping under review the leadership needs of the company, both executive and non-executive. It reviews annually the time required of non-executive directors and ensures that they receive formal letters of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings.

The Remuneration Committee, chaired by Mr M E T Davies, is responsible for the review of executive remuneration policy, further details of which are included in the directors' remuneration report set out on pages 34 to 41. Within that policy, the Committee determines the remuneration packages of executive directors and reviews those of other senior executive management. It is also responsible for the design and grant of awards under the company's share incentive schemes and for the determination of the policy for and scope of pension arrangements, service agreements, termination payments and compensation commitments for executive directors and, if requested by the board, for other senior executives.

The Audit Committee, chaired by Mr C M Allen-Jones, is responsible for the monitoring of the integrity of the financial statements of the company and any announcements relating to the company's financial performance and for reviewing any significant financial reporting judgements contained in them. It also reviews the company's systems of internal financial control and considers annually whether an internal audit function is required. The Audit Committee believes that, in the context of the company's business as an investment trust, the key issues on which it has to satisfy itself are the integrity of the application of the company's policy for the valuation of its investments, particularly those which are unquoted, and the robustness of the group's internal financial controls. The valuations of the company's unquoted investments are subject to formal six monthly reviews by an internal challenge committee independent of the investment executives and observed by the external auditors, and a formal report on the effectiveness of the group's internal financial control is prepared annually for the board by the group financial controller. It is the Audit Committee's current opinion that, in view of these control processes, the size of the entities controlled by Caledonia and the relatively straightforward control considerations in relation to other investments, a separate internal audit function is not necessary.

It is also the Audit Committee's responsibility to review and monitor the independence and objectivity of the external auditors and the effectiveness of the audit process and to develop and implement policy on the engagement of the external auditor to supply non-audit services. On an annual basis, the Committee considers and makes a recommendation to the board as to the appointment, re-appointment or removal of the external auditors. The Committee has reviewed the independence and objectivity of the external auditors, including their system of quality controls, and has satisfied itself that there are no issues of concern in relation thereto. The Committee has also approved a schedule of specific non-audit activities which may not be undertaken by the external auditors, within the broad principles that the external auditors should not audit their own work, should not make management decisions on behalf of the company, should not be put into the role of advocate for the company and that no mutuality of interest should be created between the company and the external auditors.

The Revised Code recommends that at least one member of the Audit Committee should have recent and relevant financial experience. The Audit Committee considers that Mr J R H Loudon, who was formerly group finance director of Blue Circle Industries plc, has such financial experience.

The Governance Committee, chaired by Mr C M Allen-Jones, keeps under review corporate governance issues relating to the company and is responsible for the monitoring and review of the ability of each director to act in the interests of shareholders as a whole and to exercise independence of judgement free from relationships or circumstances which are likely to, or could appear to, affect his judgement. Where it concludes that such criteria are not satisfied with regard to any director, it may make such recommendations to the board as it may think fit, including that the director abstains from participating in any decision of the board or any of its committees on the matter concerned.

Corporate governance report

Attendance at meetings

The following table identifies the number of board and committee meetings held in the year to 31 March 2004 and the attendance record of individual directors.

	Board	Nomination Committee	Remuneration Committee	Audit Committee	Governance Committee[1]
Number of meetings in the year	11[2]	2	5	2	2
Attendances by					
P N Buckley	11	2	—	—	—
J R H Loudon	10	2	5	2	—
T C W Ingram	11	—	—	—	—
J H Cartwright	11	—	—	—	—
The Hon C W Cayzer	11	—	—	—	—
J M May	6[3]	—	—	—	—
C M Allen-Jones	11	2	5	2	2
M E T Davies	10	2	5	—	2
Sir David Kinloch	10	—	—	—	—
D G F Thompson	11	2	—	1	2
M G Wyatt	11	—	—	—	—

1. Established on 12 November 2003.
2. Scheduled board meetings.
3. Appointed on 1 September 2003 and therefore could have attended a maximum of seven scheduled board meetings.

Board evaluation

Since the year end, procedures for the annual evaluation of the effectiveness of the board and its committees and of the performance of individual directors have been implemented. The evaluation of the board as a whole and of its committees is led by the chairman and conducted by seeking individual board member's responses to a preset list of questions. The evaluation of the performance of the chairman is led by the senior independent non-executive director and involves discussion with other members of the board of their views on his performance. The evaluation of the performance of the chief executive is undertaken by the chairman and the non-executive directors. The performance of the non-executive directors is reviewed by the chairman, the chief executive and the senior independent non-executive director, with the senior independent non-executive director absent in respect of his own performance appraisal. The performance of the executive directors, other than the chief executive, is undertaken by the Remuneration Committee as part of the annual salary review process.

The results of the evaluation of the board as a whole and of its committees for the year ended 31 March 2004 were presented in a report to the Nomination Committee and the board. The Nomination Committee reviewed the size, structure and composition of the board in the light of this report.

Corporate governance report

Internal control

The board has overall responsibility for the group's system of internal control, although the review of internal financial controls is delegated to the Audit Committee. The group's system of internal control is designed to manage, rather than eliminate, risk. It is recognised that such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss. The board confirms that the system of internal control operated by the group accords with the guidance issued in September 1999 by the Institute of Chartered Accountants of England and Wales (the Turnbull Committee guidelines) and has been in place throughout the year and up to the date of approval of these accounts.

Major business risks facing group companies, including social, ethical and environmental issues, are identified in conjunction with operating management and procedures agreed to control these as appropriate. Risks facing the group's material investments are identified and evaluated through board representation or regular contact.

Key risks identified are regularly monitored at group level by members of the executive management committee, who have clear mandates to assess and report on risk in their particular areas of responsibility. From these assessments, an ongoing risk profile of the group's activities is updated half-yearly and reviewed by the board. The board is also provided quarterly with a list of the key risk issues identified by executive management at that particular time. All of the company's larger investments are reviewed at least annually by the board and the smaller portfolio holdings reviewed at least annually by an executive investment committee.

Specific control procedures are in place to ensure that the company continually monitors and complies with the requirements for investment trust status. The board receives monthly compliance reports evidencing that the company is meeting the various tests for investment trust status and also confirming that the investment activities undertaken by executive management are within the overall policy limits set by the board. A compliance committee comprising the company secretary (chairman), the finance director and three associate directors has been established, which meets weekly to review the company's investment trust status and to monitor and approve all investment activity from an investment trust compliance perspective. The group financial controller also attends such meetings.

Financial performance is continuously measured by comparing total shareholder returns and net asset value movements against the FTSE All-Share index. Performance statistics are reported monthly to the board. Income and expenses are monitored by the board against an approved annual budget and regularly updated forecasts. Valuations of unquoted investments are subject to a rigorous six monthly review process undertaken by a challenge committee independent of the investment executives and observed by the external auditors.

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

Going concern

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

Relations with shareholders

The company welcomes dialogue with institutional shareholders in order to achieve a mutual understanding of objectives. The chief executive and the finance director seek meetings with larger institutional shareholders and private client stockbrokers after the announcement of year end and interim results. The annual general meeting also provides a forum for investors to meet the directors, both formally and informally.

The chairmen of the Audit and Remuneration Committees will be available to answer questions at the annual general meeting of the company.

Directors' responsibilities statement

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

Independent auditors' report

to the members of Caledonia Investments plc

We have audited the financial statements on pages 48 to 74. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the annual report and the directors' remuneration report. As described on page 46, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the parts of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, 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 regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on page 42 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

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 financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the parts of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the parts of the directors' remuneration report to be audited.

Opinion
In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2004 and of the profit of the group for the year then ended; and
- the financial statements and the parts of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

KPMG Audit Plc

19 May 2004

Company statement of total return

at 31 March 2004

	Note	Revenue 2004 £m	Capital 2004 £m	Total 2004 £m	Pro forma Revenue 2003 £m	Pro forma Capital 2003 £m	Pro forma Total 2003 £m
Gains/(losses) on investments							
Realised		—	20.1	20.1	—	17.1	17.1
Unrealised		—	254.2	254.2	—	(221.8)	(221.8)
		—	274.3	274.3	—	(204.7)	(204.7)
Income	01	21.5	—	21.5	20.0	—	20.0
Administrative expenses	02	(9.1)	—	(9.1)	(8.3)	—	(8.3)
Costs of liquidation and settlement proposals	05	(2.5)	—	(2.5)	—	—	—
Restructuring costs	05	—	—	—	(4.0)	—	(4.0)
Return before finance costs and tax		9.9	274.3	284.2	7.7	(204.7)	(197.0)
Interest payable	07	(1.0)	—	(1.0)	(0.2)	—	(0.2)
Return before tax		8.9	274.3	283.2	7.5	(204.7)	(197.2)
Tax on ordinary activities	*08*	—	*(0.4)*	*(0.4)*	*1.5*	*12.5*	*14.0*
Return attributable to shareholders		8.9	273.9	282.8	9.0	(192.2)	(183.2)
Return per ordinary share	10						
Basic		12.3p	379.2p	391.5p	12.5p	-266.5p	-254.0p
Diluted		12.3p	378.4p	390.7p	12.5p	-266.5p	-254.0p

Company reconciliation of movement in shareholders' funds

	Note	2004 £m	2003 £m
Revenue return		8.9	9.0
Capital return		273.9	(192.2)
Total return		282.8	(183.2)
Dividends	09	(19.4)	(18.8)
Purchase of own shares		—	(3.4)
Movement in the year		263.4	(205.4)
Opening balance		651.2	856.6
Closing balance		914.6	651.2
Dividends per ordinary share	09	27.0p	26.0p

Th he accounting policies and notes on pages 53 to 74 form part of these financial statements.

Company balance sheet

at 31 March 2004

	Note	2004 £m	2003 £m
Fixed assets			
Investments	13	896.9	656.4
Current assets			
Debtors	15	12.4	5.5
Short term deposits		32.8	38.9
Cash at bank and in hand		6.0	1.4
		51.2	45.8
Creditors falling due within one year			
Short term borrowings	16	—	(8.6)
Other creditors	17	(18.5)	(28.1)
		(18.5)	(36.7)
Net current assets		32.7	9.1
Total assets less current liabilities		929.6	665.5
Creditors falling due after more than one year			
Long term borrowings	16	(4.8)	(4.8)
Amounts due to subsidiary undertaking		(10.2)	(9.5)
		(15.0)	(14.3)
Net assets		914.6	651.2
Capital and reserves			
Called up share capital	20	4.0	4.0
Share premium account	20	1.3	1.3
Non-distributable reserves	21	458.0	184.1
Distributable reserves	21	451.3	461.8
Total shareholders' funds		914.6	651.2
Net asset value per ordinary share	22		
After accrued final dividend		1260p	897p
Before accrued final dividend		1278p	915p

The financial statements on pages 48 to 74 were approved by the board on 19 May 2004 and were signed on its behalf by:

Jonathan Cartwright

Tim Ingram
Chief executive

Jonathan Cartwright
Finance director

The accounting policies and notes on pages 53 to 74 form part of these financial statements.

Consolidated profit and loss account

for the year ended 31 March 2004

	Note	2004 £m	2003 £m
Turnover		125.8	132.1
Operating loss	03	(11.5)	(9.4)
Share of operating profit of associates		—	26.1
Amortisation of goodwill on acquisition of associates		—	(0.4)
Total operating loss		(11.5)	16.3
Profit on sale of operations	06	—	4.9
Loss on ordinary activities before investment income		(11.5)	21.2
Income from investments	01	17.3	8.7
Interest receivable	01	1.1	3.2
Interest payable	07	(0.8)	(9.5)
Profit on ordinary activities before tax		6.1	23.6
Tax on profit on ordinary activities	08	(2.2)	(5.7)
Profit on ordinary activities after tax		3.9	17.9
Minority interests (equity)		(0.1)	(0.4)
Profit for the financial year		3.8	17.5
Dividends	*09*	*(19.4)*	*(18.8)*
Loss charged for the financial year	21	(15.6)	(1.3)
Earnings per ordinary share	*10*		
Basic		5.3p	24.2p
Diluted		5.3p	24.2p
Dividends per ordinary share	09	27.0p	26.0p

Consolidated statement of total recognised gains and losses

for the year ended 31 March 2004

	Note	2004 £m	2003 £m
Gains/(losses) on investments			
Realised		21.3	17.1
Unrealised		270.4	(75.7)
Revaluation of former associates transferred to investments		(21.3)	—
Exchange differences		(3.7)	(15.9)
Share of results of associates		—	(13.7)
Tax on sales of investments	08	(0.4)	8.5
Minority interests (equity)		(0.1)	0.1
Other recognised gains and losses		266.2	(79.6)
Profit for the financial year		3.8	17.5
Total recognised gains and losses		270.0	(62.1)

The accounting policies and notes on pages 53 to 74 form part of these financial statements.

Consolidated balance sheet

at 31 March 2004

	Note	2004 £m	2003 £m
Fixed assets			
Intangible assets	11	4.9	5.3
Tangible assets	12	84.1	59.4
Investments in associates	13	—	288.5
Investments other	13	834.9	255.5
		923.9	608.7
Current assets			
Stocks	14	26.4	20.4
Debtors	15	36.6	32.7
Short term deposits		40.2	43.9
Cash at bank and in hand		14.6	4.6
		117.8	101.6
Creditors falling due within one year			
Short term borrowings	16	(4.3)	(0.4)
Other creditors	17	(50.0)	(47.2)
		(54.3)	(47.6)
Net current assets		63.5	54.0
Total assets less current liabilities		987.4	662.7
Creditors falling due after more than one year			
Long term borrowings	16	(42.3)	(4.9)
Provision for liabilities and charges			
Deferred taxation	18	(1.5)	(1.4)
		943.6	656.4
Minority interests			
Equity		(0.8)	(0.6)
Non-equity		(0.3)	(0.3)
		942.5	655.5
Capital and reserves			
Called up share capital	20	4.0	4.0
Share premium account	20	1.3	1.3
Capital redemption reserve	21	1.2	1.2
Revaluation reserve	21	270.7	21.2
Profit and loss account	21	665.3	627.8
Total shareholders' funds		942.5	655.5

The financial statements on pages 48 to 74 were approved by the board on 19 May 2004 and were signed on its behalf by:

Tim Ingram
Chief executive

Jonathan Cartwright
Finance director

The accounting policies and notes on pages 53 to 74 form part of these financial statements.

Company and consolidated cash flows

for the year ended 31 March 2004

	Note	Company 2004 £m	Company 2003 £m	Group 2004 £m	Group 2003 £m
Net cash inflow from operating activities	25	3.1	34.5	(0.2)	12.4
Dividends from associates		—	—	—	9.2
Servicing of finance					
Interest paid		(1.0)	(5.3)	(0.7)	(0.2)
Dividends paid to minority shareholders		—	—	(0.1)	(0.2)
		(1.0)	(5.3)	(0.8)	(0.4)
Taxation					
UK tax paid		(1.3)	(1.8)	(1.3)	(5.8)
Overseas tax paid		—	—	(0.5)	(0.8)
		(1.3)	(1.8)	(1.8)	(6.6)
Capital expenditure and financial investment					
Purchase of investments		(107.3)	(27.3)	(96.7)	(47.7)
Sale of investments		125.8	2.6	109.2	35.4
Liquidation of subsidiary undertakings		6.9	15.9	—	—
Purchase of tangible fixed assets		—	—	(6.6)	(3.3)
Sale of tangible fixed assets		—	—	0.4	0.3
		25.4	(8.8)	6.3	(15.3)
Acquisitions and disposals					
Purchase of subsidiary undertakings		—	—	(9.2)	(0.2)
Cash acquired with subsidiary undertakings		—	—	0.6	—
Sale of subsidiary undertakings		—	—	—	7.0
Acquisition of associated undertakings		—	—	—	(12.4)
Sale of associated undertakings		—	—	—	1.1
		—	—	(8.6)	(4.5)
Equity dividends paid		(19.1)	(18.1)	(19.1)	(18.1)
Net cash inflow before management of liquid resources and financing		7.1	0.5	(24.2)	(23.3)
Management of liquid resources	26	6.1	18.0	3.7	21.5
Financing					
Repayment of short term loans		—	—	(0.3)	—
Repayment of long term loans		—	—	—	(0.4)
Issue of long term loans		—	—	27.4	—
Purchase of own shares		—	(3.4)	—	(3.4)
Issue of shares by subsidiary undertakings		—	—	0.1	0.3
		—	(3.4)	27.2	(3.5)
Increase in cash in the year		13.2	15.1	6.7	(5.3)

Reconciliation of net cash flows to movement in net funds

	Note	Company 2004 £m	Company 2003 £m	Group 2004 £m	Group 2003 £m
Increase in cash in the year		13.2	15.1	6.7	(5.3)
Cash inflow from increase in debt		—	—	(27.1)	0.4
Cash inflow from decrease in deposits		(6.1)	(18.0)	(3.7)	(21.5)
Change in net funds resulting from cash flows	27	7.1	(2.9)	(24.1)	(26.4)
Acquisitions		—	—	(10.4)	4.6
Exchange differences		—	—	(0.5)	(2.1)
Movement in net funds in the year		7.1	(2.9)	(35.0)	(23.9)
Opening balance of net funds		26.9	29.8	43.2	67.1
Closing balance of net funds		34.0	26.9	8.2	43.2

The accounting policies and notes on pages 53 to 74 form part of these financial statements.

Accounting policies

Basis of preparation
The accounts have been prepared under the historical cost convention, modified to include the revaluation of investments, and in accordance with applicable accounting standards.

Investment trust companies generally report under the Statement of Recommended Practice – Financial Statements of Investment Trust Companies ('IT SORP'), dated January 2003 and published by the Association of Investment Trust Companies. The IT SORP assumes, however, that an investment trust is also an investment company and can take advantage of the special provisions given to investment companies under company law and accounting standards. Caledonia is not an investment company and, in these circumstances, the IT SORP states that an investment trust company should prepare its financial statements in accordance with the normal rules contained in Schedule 4 to the Companies Act 1985 and accounting standards.

Caledonia recognises, however, that presenting information that is comparable with other investment trusts is important to investors. It therefore augments its financial statements with the information and disclosures required by the IT SORP in respect of the performance of the holding company. This is because the holding company balance sheet (unlike that of the group) can reflect full net asset value, and the movement in this figure is a key measure of Caledonia's performance. A statement of total return on an IT SORP basis is also presented to explain this movement.

The company converted to an investment trust company on 1 April 2003. The comparative figures in the company's statement of total return have been prepared on a pro forma basis to reflect the estimated results of the company had it been an investment trust company throughout the previous year. These are derived from a combination of the company profit and loss account and the company statement of total recognised gains and losses, adjusted to reflect the estimated position if the company had been an investment trust company throughout the previous year. In particular, investments that were held by subsidiary undertakings for most of the year and transferred to the company before the year end (or would have been so transferred if they had not been realised during the year) are imputed to the company for the whole of the previous year (or up to the date of sale). Therefore, any investment income arising from those investments and movements in valuation have been imputed to the company. Likewise, any costs incurred by subsidiary investment holding companies, which were no longer operating as such at the previous year end, have been imputed to the company. The effect of the reorganisation carried out during the previous year in order to enable the company to achieve investment trust status has been eliminated, except for the net costs associated with undertaking the reorganisation.

On its conversion to an investment trust company on 1 April 2003, the company reviewed the treatment of investments over which it had significant influence or joint control. Only those entities through which the group carried out its own business were regarded as associated undertakings or joint ventures. Where investments were held as part of a portfolio, the value of which was through their marketable value as part of a basket of investments, they were not regarded as associated undertakings or joint ventures, but were stated in accordance with all other investments at valuation. On 1 April 2003, therefore, former associated undertakings that were no longer regarded as associated undertakings were transferred to other investments, based on the share of net assets retained, including any related goodwill, and revalued to market value at that date.

Basis of consolidation
The consolidated financial statements consolidate the results of the company and all of its subsidiary undertakings drawn up to 31 March each year. The results of subsidiary undertakings acquired or sold during the year are included in the financial statements from the date of acquisition or to the date of sale. As permitted by section 230 of the Companies Act 1985, the profit and loss account of the company has not been included in these financial statements.

In the company financial statements, investments in subsidiary undertakings are stated in accordance with the 'valuation of investments' and 'income' policies outlined below. Subsidiary undertakings include equity and loan interest elements.

Joint ventures and associated undertakings
Entities through which the group carries out its own business, in which the holdings are intended to be held for the long term and over whose operating and financial policies it exerts significant influence, are treated as joint ventures or associated undertakings and accounted for using the gross equity method or equity method as appropriate.

Investments in which the group has a long term interest and over whose operating and financial policies it exerts significant influence, but which are held as part of an investment portfolio, the value of which is through their marketable value as part of a basket of investments, are not regarded as joint ventures or associated undertakings. The directors believe that equity accounting for such investments, that may come within the Companies Act definition of associated undertakings, would not give a true and fair view of the income from investment activities of the group, since this is better measured by the inclusion of dividends and interest income. It is impracticable to quantify the effects of this departure. The treatment adopted is in accordance with FRS 9: Associates and Joint Ventures.

Accounting policies

Valuation of investments

Investments are included according to the following guidelines, which have been drawn up having regard to the British Venture Capital Association ('BVCA') guidelines.

Quoted investments, for which an active market exists, are valued at mid-market price.

Unquoted equity investments are valued by the directors on a number of bases depending on the nature of each investment. Early-stage investments will generally be valued at cost, less a provision if performance is substantially below expectations, for one year or until the investment starts to earn significant maintainable profits. Investments earning significant maintainable profits are generally valued using an earnings multiple, based on current year profit after tax and an earnings multiple for a comparable quoted company or sector average. A discount will be applied to recognise the absence of a ready market on which the holding can be sold. The liquidity discount will normally be 30%, but may be reduced to 10% if an initial public offering or realisation is imminent. For some asset-backed businesses, such as where there is a significant property element, the earnings multiple method of valuation is inappropriate, and a net realisable asset basis is applied. It may also be appropriate to use the net realisable asset basis of valuation if this results in a higher valuation than the earnings method, or the company is incurring losses. A third party valuation, such as an independent valuation report or a material arm's length transaction, will provide prima facie evidence of fair value and will usually take precedence over other methods.

Unquoted fixed income shares and loan investments are valued at the lower of cost or recoverable amount. Investments in unquoted funds are valued at the net asset value of the fund, with an appropriate adjustment where the net asset value has not been calculated in accordance with BVCA guidelines.

Realised surpluses or deficits on the disposal of investments are taken to the realised capital reserve of the company, and unrealised surpluses and deficits on the revaluation of investments are taken to the unrealised capital reserve as explained further below.

Income

Dividends receivable from equity shares are brought into account on the ex-dividend date or, where no ex-dividend date is quoted, when the company's right to receive payment is established. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the shares and debt securities. Other returns are recognised when the right to the return is established.

Expenses

Expenses are accounted for on an accruals basis and are charged to the revenue account except that expenses which are incidental to the acquisition or disposal of an investment are included within the cost of the investment or deducted from the disposal proceeds of the investment.

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. Any charge for taxation on the disposal of investments is dealt with in the capital reserve.

Deferred taxation is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. In particular, FRS 19 does not allow deferred tax to be provided in respect of investment revaluations. No discounting is applied.

Foreign currency

In the company financial statements, transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the date of the transaction or, where appropriate, at the rate of exchange in a related forward exchange contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, where appropriate, at the rate of exchange in a related forward exchange contact. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or in the revenue account depending on whether the gain or loss is of a capital or revenue nature respectively.

In the consolidated financial statements, assets, liabilities and results of subsidiaries accounting in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. The exchange differences arising on retranslating opening net assets are 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.

Accounting policies

Capital reserves

The following are accounted for in the realised capital reserve of the company:

- gains and losses on the realisation of investments
- realised exchange differences of a capital nature
- expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with the above policies
- realised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

The following are accounted for in the unrealised capital reserve of the company:

- increases and decreases in the valuation of investments held at the year end
- unrealised exchange differences of a capital nature
- unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

Goodwill

Goodwill arising on acquisitions is capitalised and amortised over its estimated useful economic life. Negative goodwill arising on acquisitions is capitalised and written back through the profit and loss account in the period in which the non-monetary assets acquired are recovered.

Up to 31 March 1998, depending on the circumstances of each acquisition, goodwill arising on acquisitions 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 was not reinstated on implementation of FRS 10.

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.

Payments received on account are deducted from work in progress. Where such receipts exceed the valuation, the excess is taken to creditors.

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 UK and USA. Contributions to the schemes 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 and other arrangements, which are charged to the profit and loss account when payable. The transition rules of FRS 17 have been applied in drawing up these financial statements.

Long term contracts

Profit on long term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit is calculated on a prudent basis to reflect the proportion of the work completed at the year end and full provision is made for all foreseeable losses.

Turnover

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.

Notes to the financial statements

01 Income

	Company 2004 £m	Company Pro forma 2003 £m	Group 2004 £m	Group 2003 £m
Income from investments				
UK listed investments				
Dividends	11.9	13.1	12.1	5.9
Overseas listed investments				
Interest	0.2	0.4	0.2	0.4
Unlisted investments				
Dividends	1.6	0.7	2.8	0.5
Interest	1.1	0.9	1.2	0.9
Other	0.3	0.5	0.3	0.5
Income from group undertakings				
Dividends	3.7	1.2	—	—
Interest	1.0	1.0	—	—
Private equity partnerships	0.7	0.5	0.7	0.5
	20.5	18.3	17.3	8.7
Interest income				
Interest on bank deposits	0.9	1.7	1.0	2.6
Exchange gains	0.1	—	0.1	0.6
	1.0	1.7	1.1	3.2
Total income	21.5	20.0	18.4	11.9

02 Administrative expenses

	Company 2004 £m	Company Pro forma 2003 £m
Management charge from Caledonia Group Services		
Staff costs (note 4)	5.5	4.5
Other administrative expenses	2.5	3.3
Depreciation	0.3	0.3
	8.3	8.1
Irrecoverable VAT	0.6	—
Other	0.2	0.2
	9.1	8.3

Caledonia Group Services, a wholly owned subsidiary undertaking, provided management services to the company.

Notes to the financial statements

03 Operating loss

	Group 2004 £m	Group 2003 £m
Turnover	125.8	132.1
Changes in stocks and in work in progress	(14.9)	(0.4)
Other operating income	2.2	2.0
Raw materials	(41.4)	(32.5)
Staff costs	(42.2)	(42.8)
Depreciation and amortisation	(7.4)	(7.1)
Other operating charges before exceptional items	(31.1)	(56.7)
Exceptional items (note 5)	(2.5)	(4.0)
Operating loss	(11.5)	(9.4)

Results for both the current and prior years are from continuing operations. There were no material acquisitions or discontinued operations during the year.

Operating loss was stated after charging/(crediting) the following:

	Group 2004 £m	Group 2003 £m
Auditors' remuneration		
Audit services	0.4	0.4
Non-audit services		
Taxation	0.1	—
Due diligence	0.2	0.2
Other	0.1	0.1
Depreciation of owned assets	5.6	5.1
Amortisation and impairment of goodwill	1.8	2.0
Operating lease rentals		
Plant and machinery	0.6	0.3
Other (mainly properties)	0.7	0.8
Exchange losses	0.5	—
Net rental income from land	(0.1)	(0.2)
Exchange gains	—	(0.6)

04 Staff costs

	Company 2004 £m	Company Pro forma 2003 £m	Group 2004 £m	Group 2003 £m
Wages and salaries	4.4	3.6	34.8	36.2
Social security costs	0.7	0.4	4.9	4.6
Other pension costs	0.4	0.5	2.5	2.0
	5.5	4.5	42.2	42.8
Average number of employees (including executive directors)	41	39	1,582	1,720

The staff costs shown for the company represent those costs incurred by Caledonia Group Services and charged to the company.

The above figures include director's emoluments, details of which are shown in the directors' remuneration report on page 37.

Notes to the financial statements

05 Exceptional items

The exceptional item in 2004 comprised £2.5m of costs relating to the review of a proposal to liquidate the company, which was subsequently withdrawn, and the formulation of proposals for the return of funds to shareholders. This is described in more detail in note 34 – Post balance sheet events

The exceptional item in 2003 comprised £4.0m of costs associated with the restructuring of the group undertaken during the year in order for Caledonia to achieve investment trust status as from 1 April 2003.

06 Profit on sale of operations

	Group	
	2004	*2003*
	£m	£m
Group profit on sale of operations	—	6.3
Provision against loans to associates	—	(1.4)
	—	4.9

07 Interest payable

	Company		Group	
		Pro forma		
	2004	2003	2004	2003
	£m	£m	£m	£m
Bank loans and overdrafts	—	—	0.6	—
Loan notes	0.2	0.2	0.2	0.2
Subsidiary undertakings	0.8	—	—	—
Share of associates' interest payable	—	—	—	9.3
	1.0	0.2	0.8	9.5

08 Taxation

Company

	Revenue 2004 £m	Capital 2004 £m	Total 2004 £m	Pro forma Revenue 2003 £m	Pro forma Capital 2003 £m	Pro forma Total 2003 £m
UK corporation tax						
Current tax on profits of the period	(1.3)	0.6	(0.7)	(1.5)	(0.1)	(1.6)
Restructuring costs relating to conversion	—	—	—	—	5.5	5.5
Adjustments in respect of previous periods	1.3	(0.2)	1.1	—	—	—
	—	0.4	0.4	(1.5)	5.4	3.9
Deferred tax						
Release of provision against unrealised losses	—	—	—	—	(17.9)	(17.9)
Tax on profit on ordinary activities	—	0.4	0.4	(1.5)	(12.5)	(14.0)

Notes to the financial statements

Group

	Profit and loss account 2004 £m	Other gains and losses 2004 £m	Total 2004 £m	Profit and loss account 2003 £m	Other gains and losses 2003 £m	Total 2003 £m
UK corporation tax						
Current tax on profits of the period	0.3	0.6	0.9	2.1	3.9	6.0
Restructuring costs relating to conversion	—	—	—	—	5.5	5.5
Adjustments in respect of previous periods	1.2	(0.2)	1.0	(0.4)	—	(0.4)
	1.5	0.4	1.9	1.7	9.4	11.1
Foreign tax						
Current tax on profits of the period	0.6	—	0.6	0.6	—	0.6
Adjustments in respect of previous periods	—	—	—	(0.1)	—	(0.1)
	0.6	—	0.6	0.5	—	0.5
Total current tax	2.1	0.4	2.5	2.2	9.4	11.6
Deferred tax						
Origination and reversal of timing differences	0.1	—	0.1	(1.0)	—	(1.0)
Release of provision against unrealised losses	—	—	—	—	(17.9)	(17.9)
	0.1	—	0.1	(1.0)	(17.9)	(18.9)
	2.2	0.4	2.6	1.2	(8.5)	(7.3)
Share of associates' taxation	—	—	—	4.5	—	4.5
Tax on profit on ordinary activities	2.2	0.4	2.6	5.7	(8.5)	(2.8)

Factors affecting the revenue tax charge for the period
The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30%. The difference is explained as follows:

	Company 2004 £m	Company Pro forma 2003 £m	Group 2004 £m	Group 2003 £m
Profit on ordinary activities before taxation	8.9	7.5	6.1	23.6
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2003 – 30%)	2.7	2.2	1.8	7.1
Effects of				
Expenses not deductible for tax purposes	0.1	1.2	0.6	1.3
Utilisation of tax losses	—	—	(0.1)	(0.1)
Higher tax rates on overseas earnings	—	—	0.1	0.3
Allocation of group relief at a reduced rate	0.2	—	—	—
Other timing differences	—	—	(0.1)	0.1
Losses for the year unrelieved	0.7	—	2.0	0.3
Non-allowable depreciation and amortisation	—	—	0.8	1.0
Non-taxable proportion of capital gains and losses	—	—	—	(1.3)
Non-taxable UK dividend income	(5.0)	(4.9)	(4.2)	(1.5)
Adjustments in respect of previous periods	1.3	—	1.2	(0.5)
Share of profits before tax of associates	—	—	—	(4.5)
Current tax charge for the year	—	(1.5)	2.1	2.2

Factors that may affect future tax charges
No unprovided deferred tax has been disclosed for 2004 (2003 – £nil) as the company expects to be able to conduct its affairs so as to meet the requirements for investment trust status, thereby not being liable to tax on capital gains. Deferred tax on revaluations is not permitted, in accordance with FRS 19.

Exceptional items
The tax effect in the profit and loss account relating to the exceptional items, described in note 5, was a credit of £0.3m (2003 – £nil).

Notes to the financial statements

09 Dividends

	2004 pence	2003 pence	2004 £m	2003 £m
Interim paid	8.4	8.0	6.0	5.7
Final proposed	18.6	18.0	13.4	13.1
	27.0	26.0	19.4	18.8

The proposed final dividend will be paid on 29 July 2004 to shareholders on the register at the close of business on 25 June 2004.

10 Returns per ordinary share

The calculation of returns per ordinary share was based on the following:

	Company		Group	
		Pro forma		
	2004 £m	2003 £m	2004 £m	2003 £m
Revenue return	8.9	9.0	3.8	17.5
Capital return	273.9	(192.2)		
Net assets (after final dividend accrual)	914.6	651.2		
Net assets (before final dividend accrual)	928.0	664.3		
	'000	'000	'000	'000
Weighted average number of ordinary shares				
Basic	72,235	72,134	72,235	72,134
Diluted	72,379	72,144	72,379	72,144

The weighted average number of ordinary shares in issue during the year excluded shares held during the year by the Caledonia Investments plc Employee Share Trust.

The difference between the basic and diluted number of ordinary shares was the potential dilutive effect of share options.

11 Intangible fixed assets

Group

	Purchased goodwill £m
Opening balance	5.3
Exchange differences	(0.5)
Acquisition of operations (note 13)	1.9
Charge for the year	(0.4)
Provision for impairment	(1.4)
Closing balance	4.9

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

Notes to the financial statements

12 Tangible fixed assets

Group

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost				
Opening balance	55.8	18.4	11.2	85.4
Exchange differences	(0.6)	(0.6)	(0.3)	(1.5)
Additions	1.8	2.3	2.7	6.8
Disposals	(0.1)	(0.4)	(0.6)	(1.1)
Acquisition of operations	23.1	0.9	0.5	24.5
Closing balance	80.0	20.6	13.5	114.1
Depreciation				
Opening balance	8.5	10.0	7.5	26.0
Exchange differences	(0.2)	(0.4)	(0.2)	(0.8)
Charge for the year	2.0	2.1	1.5	5.6
Disposals	—	(0.3)	(0.5)	(0.8)
Closing balance	10.3	11.4	8.3	30.0
Net book value				
Closing balance	69.7	9.2	5.2	84.1
Opening balance	47.3	8.4	3.7	59.4

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

	2004 £m	2003 £m
Freehold	53.2	30.4
Long leasehold	15.0	15.3
Short leasehold	1.5	1.6
	69.7	47.3

13 Investments

Company

	Subsidiary *undertakings* £m	Participating *interests* £m	UK listed *investments* £m	Other listed *investments* £m	Other *investments* £m	Own *shares* £m	*Total* £m
Opening cost	122.8	281.0	126.9	21.6	83.8	4.2	640.3
Opening unrealised gains	19.2	12.2	(14.8)	(0.8)	1.0	(0.7)	16.1
Opening valuation	142.0	293.2	112.1	20.8	84.8	3.5	656.4
Restatement of cost	30.4	(132.4)	(15.4)	23.3	18.0	—	(76.1)
Restatement of provision	(33.6)	—	(15.0)	(26.4)	(12.6)	(0.3)	(87.9)
Restatement of unrealised gains	2.5	134.6	30.0	7.5	(10.9)	0.3	164.0
	(0.7)	2.2	(0.4)	4.4	(5.5)	—	—
Transfer of former associates to investments and debtors	—	(295.4)	171.7	83.4	40.1	—	(0.2)
Additions	10.7	—	33.3	—	63.8	0.6	108.4
Disposals							
Proceeds	(0.9)	—	(46.8)	(7.8)	(49.2)	(0.6)	(105.3)
Realised gains	0.3	—	13.4	0.4	6.0	—	20.1
Group reorganisation	(39.4)	—	22.5	—	—	—	(16.9)
Capital distributions	(20.5)	—	—	—	—	—	(20.5)
Movement in unrealised gains	(9.8)	—	179.3	60.3	24.7	0.4	254.9
Closing valuation	81.7	—	485.1	161.5	164.7	3.9	896.9
Closing cost	143.5	—	199.4	80.6	162.2	4.2	589.9
Closing provision	(33.6)	—	(15.0)	(26.4)	(12.6)	(0.3)	(87.9)
Closing unrealised gains	(28.2)	—	300.7	107.3	15.1	—	394.9
Closing valuation	81.7	—	485.1	161.5	164.7	3.9	896.9

Notes to the financial statements

The restatement of cost, provisions and unrealised gains adjust the opening position to remove the effect of intra-group transfers made before the company became an investment trust company and to align the cost of investments in the company with the original cost to the group.

Included in subsidiary undertakings are loans of £15.7m (2003 – £19.6m).

The group reorganisation represents the distribution of assets from the Caledonia Investments plc No 1 Settlement Trust to a subsidiary undertaking and the liquidation of that subsidiary undertaking.

Group

	Associated undertakings £m	UK listed investments £m	Other listed investments £m	Other investments £m	Own shares £m	Total £m
Opening cost	288.5	138.2	55.7	120.1	5.6	608.1
Opening provision	—	(15.0)	(26.4)	(15.9)	(1.3)	(58.6)
Opening unrealised gains	—	11.3	(6.2)	(10.1)	(0.5)	(5.5)
Opening valuation	288.5	134.5	23.1	94.1	3.8	544.0
Transfer of former associates to investments	(288.5)	173.4	83.5	46.7	—	15.1
Exchange differences	—	—	(1.0)	0.3	—	(0.7)
Additions	—	33.3	—	63.9	0.6	97.8
Disposals						
Proceeds	—	(46.8)	(7.8)	(49.2)	(0.6)	(104.4)
Realised gains	—	13.4	0.4	7.5	—	21.3
Reclassifications	—	(0.3)	4.4	(3.8)	—	0.3
Movement in unrealised gains	—	177.9	63.4	28.8	0.1	270.2
Transfer to operations	—	—	—	(8.7)	—	(8.7)
Closing valuation	—	485.4	166.0	179.6	3.9	834.9
Closing cost	—	298.2	171.6	197.7	4.2	671.7
Closing provision	—	(15.0)	(26.4)	(12.6)	(0.3)	(54.3)
Closing unrealised gains	—	202.2	20.8	(5.5)	—	217.5
Closing valuation	—	485.4	166.0	179.6	3.9	834.9

The transfer of former associates to investments, on 1 April 2003, included the write back of £36.4m of goodwill on acquisition previously written off directly to reserves and a reduction of £21.3m to restate the carrying value of former associated undertakings to market value.

Own shares
The company's investment in own shares was in respect of shares held by the trustee of the Caledonia Investments plc Employee Share Trust. The trustee has purchased shares with money lent interest free by the company to source options exercised under the company's executive share option schemes and special option arrangements. If options are exercised, shares held by the trustee may be transferred to participating employees on receipt of the option exercise consideration. 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 2004, the market value of the 524,150 shares held by the trustee was £5.3m. Dividends on the shares held by the trustee have been waived. The outstanding loan to the trust at 31 March 2004 was £6.4m (2003 – £5.9m).

Notes to the financial statements

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

The following table lists subsidiary undertakings and other investments under the country of registration (or incorporation) which is also the country of operation, except for The Edinburgh Crystal Glass Company Ltd, whose operations are in Scotland and Easybox SCA, whose operations are in Spain and Italy:

Name	Country	Type of holding	Group share %	Activity
Subsidiary undertakings				
Amber Industrial Holdings PLC	England	Ordinary	100	Specialty chemicals
		Preference	100	
Caledonia Group Services Ltd	England	Ordinary	100[1]	Management services
Easybox SCA	*Luxembourg*		*99.2*	*Self storage*
The Edinburgh Crystal Glass Company Ltd	England	Ordinary	92.9[1]	Crystal glass manufacture
		Preference	100[1]	
Edinmore Holdings Ltd	England	Ordinary	100	Property trading
St Lawrence Properties Ltd	England	Ordinary	75.0[1]	Property
The Sloane Club Group Ltd	England	Ordinary	100	Residential club
Sterling Industries PLC	England	Ordinary	100	Engineering
		Preference	79.8	
Other significant holdings				
Close Brothers Group plc	England	Ordinary	17.6[1]	Merchant banking
Kerzner International Ltd	Bahamas	Ordinary	20.2[1]	Resort owner/operator

1. Held directly by the company.

Acquisitions
On 24 April 2003, the group acquired 49.6% of Easybox SCA for £7.2m. Also during the year, the Amber and Sterling groups spent £2.0m *on a number of small acquisitions. These purchases were accounted for using the acquisition method. An adjustment of £5.9m was made* to increase the book value of freehold property within Easybox SCA in order to reflect the fair value. There were no other differences between the book values and fair values of assets acquired. The fair values, attributable to the net tangible assets on acquisition were as follows:

	Easybox £m	Others £m	Total £m
Fixed assets	24.4	0.1	24.5
Stocks	—	0.2	0.2
Debtors	3.5	0.2	3.7
Short term deposits	0.6	—	0.6
Creditors	(1.1)	(0.4)	(1.5)
Long term borrowings	(10.4)	—	(10.4)
Net assets acquired	15.0	0.1	15.1
Minority interest	0.1	—	0.1
Exchange differences	*(1.2)*	—	*(1.2)*
Goodwill arising on acquisitions	—	1.9	1.9
Consideration	15.9	2.0	17.9

The consideration was discharged by cash of £9.2m and a transfer from investments of £8.7m.

Notes to the financial statements

14 Stocks

	Group	
	2004	2003
	£m	£m
Raw materials and consumables	4.1	4.1
Work in progress	2.1	2.2
Finished goods and goods for resale	7.9	7.1
Property and other assets held for resale	12.3	7.0
	26.4	20.4

Work in progress is shown net of payments on account of £0.6m (2003 – £0.2m).

15 Debtors

	Company		Group	
	2004	2003	2004	2003
	£m	£m	£m	£m
Trade debtors	0.5	—	21.7	18.5
Amounts owed by subsidiary undertakings	2.3	1.0	—	—
Amounts owed by associate undertakings	—	2.3	—	2.3
Investments sold	0.8	—	0.8	5.6
Overseas tax recoverable	—	—	0.3	0.4
Corporation tax recoverable	2.8	—	3.8	—
Group relief receivable	1.3	—	—	—
Other taxes and social security costs	—	0.8	0.9	1.0
Other debtors	—	—	2.1	1.0
Pension prepayments	—	—	0.1	0.1
Other prepayments and accrued income	4.7	1.4	6.9	3.8
	12.4	5.5	36.6	32.7

Included in the group's other debtors is an amount of £1.4m (2003 – £nil) which is due after more than one year.

16 Borrowings

	Company		Group	
	2004	2003	2004	2003
	£m	£m	£m	£m
Due within one year				
Bank overdrafts	—	8.6	4.1	0.3
Bank loans	—	—	0.2	0.1
	—	8.6	4.3	0.4
Due after more than one year				
Bank loans	—	—	37.5	0.1
Variable rate unsecured loan notes 2010	4.8	4.8	4.8	4.8
	4.8	4.8	42.3	4.9
Total borrowings	4.8	13.4	46.6	5.3
Borrowings are repayable				
Within one year	—	8.6	4.3	0.4
Between one and two years	—	—	2.2	—
Between two and five years	—	—	35.3	0.1
After five years	4.8	4.8	4.8	4.8
	4.8	13.4	46.6	5.3

The variable rate unsecured loan notes 2010 are repayable on 1 April 2010. The interest payable is 0.5% below LIBOR.

Bank loans of £36.8m (2003 – £0.2m) were secured by charges over group properties and other assets.

Notes to the financial statements

17 Other creditors falling due within one year

	Company 2004 £m	Company 2003 £m	Group 2004 £m	Group 2003 £m
Contract payments on account	—	—	0.5	0.6
Trade creditors	—	—	9.0	8.3
Amounts owed to subsidiary undertakings	2.8	3.7	—	—
Investments purchased	1.5	0.4	1.5	0.4
Corporation tax	0.6	5.4	10.5	6.1
Overseas tax	—	—	0.1	0.1
Other taxes and social security costs	—	—	1.1	2.3
Other creditors	—	5.5	0.8	6.4
Other accruals and deferred income	0.2	—	13.1	9.9
Dividends payable	13.4	13.1	13.4	13.1
	18.5	28.1	50.0	47.2

18 Deferred taxation

	Company 2004 £m	Company 2003 £m	Group 2004 £m	Group 2003 £m
Accelerated capital allowances	—	—	1.4	1.3
Other timing differences	—	—	0.1	0.1
	—	—	1.5	1.4
Movement in deferred taxation				
Opening balance	—	27.1	1.4	29.0
Charged to the profit and loss account	—	—	0.1	(1.0)
Charged to other recognised gains and losses	—	(17.9)	—	(17.9)
Tax losses utilised	—	—	—	0.5
Transfer to creditors	—	(9.2)	—	(9.2)
Closing balance	—	—	1.5	1.4

19 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 page 26.

Interest rate risk profile

The interest rate profile of the financial liabilities of the group was as follows:

	Floating rate financial liabilities £m	Fixed rate financial liabilities: Amount £m	Fixed rate financial liabilities: Weighted average interest rate %	Fixed rate financial liabilities: Weighted average time rate is fixed Years	Total £m
2004					
Sterling	45.5	0.2	13.0	3.8	45.7
US dollar	—	0.7	6.8	1.6	0.7
Euro	0.1	0.1	4.8	4.8	0.2
	45.6	1.0	8.0	1.8	46.6
2003					
Sterling	4.9	—	—	—	4.9
Australian dollar	0.2	—	—	—	0.2
Euro	0.1	0.1	5.1	4.9	0.2
	5.2	0.1	5.1	4.9	5.3

Notes to the financial statements

The interest rate profile of the financial assets of the group was as follows:

	Floating rate financial assets £m	Fixed rate financial assets Amount £m	Weighted average interest rate %	Weighted average time rate is fixed Years	No interest financial assets £m	Total £m
2004						
Sterling	50.4	11.6	8.6	2.9	712.3	774.3
US dollar	3.0	—	—	—	88.5	91.5
Hong Kong dollar	—	—	—	—	10.7	10.7
Euro	1.4	—	—	—	4.7	6.1
Canadian dollar	—	—	—	—	3.1	3.1
Other	—	—	—	—	4.0	4.0
	54.8	11.6	8.6	2.9	823.3	889.7
2003						
Sterling	1.7	50.7	4.9	1.4	194.0	246.4
US dollar	1.5	6.4	6.0	1.7	35.8	43.7
Hong Kong dollar	0.3	—	—	—	7.3	7.6
Canadian dollar	—	—	—	—	4.6	4.6
Euro	1.1	0.5	2.8	1.0	—	1.6
Other	0.1	—	—	—	—	0.1
	4.7	57.6	5.0	1.4	241.7	304.0

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 in the operating currency of the reporting units involved.

Functional currency of group operation	Net foreign currency monetary net assets Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
2004					
Sterling	—	1.9	1.5	0.2	3.6
US dollar	1.0	—	15.6	—	16.6
	1.0	1.9	17.1	0.2	20.2
2003					
Sterling	—	1.7	2.2	0.1	4.0
Australian dollar	—	1.1	0.2	—	1.3
	—	2.8	2.4	0.1	5.3

During the year, the company took out forward currency contracts to sell US\$100m for sterling in December 2004 and US\$50m for sterling in January 2005 as a hedge against part of its US dollar investment in Kerzner International. At the year end, the value of the contracts was £3.7m, which has been added to the valuation of the Kerzner International investment.

Notes to the financial statements

Liquidity risk profile
The maturity profile of the group's financial liabilities, other than short term creditors, was as follows:

	2004 £m	2003 £m
In one year or less or on demand	4.3	0.4
In more than two years but not more than five years	37.5	0.1
In more than five years	4.8	4.8
	46.6	5.3

The group had undrawn committed facilities available at the year end in respect of which all conditions precedent had been met as follows:

	2004 £m	2003 £m
Expiring in one year or less	70.0	20.0
Expiring in more than two years but not more than five years	144.7	30.0
	214.7	50.0

Fair values
The table below compares the book values and fair values of the group's financial assets and financial liabilities:

	Book values 2004 £m	Fair values 2004 £m	Book values 2003 £m	Fair values 2003 £m
Investments	834.9	834.9	255.5	255.5
Cash and deposits	*54.8*	*54.8*	*48.5*	48.5
Short term borrowings and current portion of long term borrowings	(4.3)	(4.3)	(0.4)	(0.4)
Long term borrowings	(42.3)	(42.3)	(4.9)	(4.9)

20 Share capital and premium

	Share capital £m	Share premium account £m
Opening and closing balance	4.0	1.3

The authorised and issued and fully paid amounts of share capital were as follows:

	Number		*Nominal value*	
	2004 000's	2003 000's	2004 £m	2003 £m
Authorised				
Ordinary shares of 5p each	121,000	121,000	6.1	6.1
Deferred ordinary shares of 5p each	8,000	8,000	0.4	0.4
			6.5	6.5
Allotted, issued and fully paid				
Ordinary shares of 5p each	72,613	72,613	3.6	3.6
Deferred ordinary shares of 5p each	8,000	8,000	0.4	0.4
			4.0	4.0

The deferred ordinary shares carry no voting rights. The deferred ordinary shares carry the right to a fixed cumulative preference dividend of 1% per annum (exclusive of any associated tax credit) of the nominal value of such deferred ordinary shares, being 0.05p per share or £4,000 in aggregate for all such shares currently in issue. On a winding-up or other return of capital, the deferred ordinary shares carry the right to the payment of the amount paid up on such shares only after holders of the ordinary shares have received the sum of £100,000 in respect of each such ordinary share. All of the deferred shares are held by Sterling Industries PLC, a wholly owned subsidiary undertaking of Caledonia.

Notes to the financial statements

Authority to purchase own shares
On 18 July 2003, the company obtained shareholders' approval for the authority to purchase up to 7,260,000 of its own ordinary shares, being approximately 10% of the ordinary share capital then in issue, at a price not more than 5% greater than the average of the middle market quotations for such ordinary shares during the five business days preceding any such purchase. At an extraordinary general meeting of the company convened for 11 June 2004, shareholders are being asked to revoke this authority and to approve a new authority for the company to purchase up to 7,260,000 of its own ordinary shares, being approximately 10% of the ordinary share 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. If approved, the authority will expire on 1 January 2006 or, if earlier, at the conclusion of the next annual general meeting following the annual general meeting to be held on 14 July 2004.

Options
The company has share option schemes and special option arrangements 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 2004 were as follows:

Date of grant	Number *of options*	Exercise *price*
19 Jul 1994	26,667	693.0p
22 Jun 1995	15,500	653.0p
18 Apr 1996	181,234	781.0p
31 Jul 1996	46,001	745.0p
16 Jul 1997	33,000	677.5p
18 Jul 1997	50,001	657.0p
2 Sep 1998	190,000	740.0p
26 Jul 1999	63,500	757.5p
19 Jul 2000	99,400	722.5p
24 Jul 2001	124,500	810.0p
5 Jul 2002	205,500	782.5p
20 Nov 2003	198,700	945.0p

21 Reserves

Company

	2004 £m	2003 £m
Non-distributable reserves		
Capital redemption reserve	1.2	1.2
Capital reserve – realised	61.9	13.2
Capital reserve – unrealised	394.9	169.7
	458.0	184.1
Distributable reserves		
Special reserve	379.5	390.0
Revenue reserve	71.8	71.8
	451.3	461.8

Notes to the financial statements

The movement in the reserves was as follows:

	Capital redemption reserve £m	Capital reserve realised £m	Capital reserve unrealised £m	Special reserve £m	Revenue reserve £m
Opening balance	1.2	13.2	169.7	390.0	71.8
Liquidation and reduction of subsidiary undertakings	—	29.0	(29.0)	—	—
Realised gains on sale of investments	—	20.1	(20.1)	—	—
Tax on sale of investments	—	(0.4)	—	—	—
Revaluation of investments	—	—	274.3	—	—
Profit for the financial year	—	—	—	—	8.9
Dividends	—	—	—	(10.5)	(8.9)
Closing balance	1.2	61.9	394.9	379.5	71.8

The special reserve arose as a result of a capitalisation issue and subsequent Court approved reduction of capital undertaken in 2003.

The profit for the year dealt with in the financial statements of Caledonia Investments plc was £8.9m (2003 – £9.6m loss).

Group

	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m
Opening balance	1.2	21.2	627.8
Exchange differences	—	0.5	(4.2)
Realised gains on sale of investments	—	(21.3)	21.3
Revaluation of investments	—	291.6	—
Revaluation of former associates transferred to investments	—	(21.3)	—
Tax on sale of investments	—	—	(0.4)
Goodwill written back on the transfer of associates to investments	—	—	36.4
Retained loss for the year	—	—	(15.6)
Closing balance	1.2	270.7	665.3

The cumulative amount of positive goodwill written off at 31 March 2004 was £6.0m (2003 – £52.3m), of which £6.0m (2003 – £6.0m) related to subsidiary undertakings.

22 Net asset value per ordinary share

The company's net asset value per ordinary share is based on the 72,613,000 ordinary shares in issue at 31 March 2004 (2003 – 72,613,000). *Net asset value per share has been calculated both before and after deducting the accrual for the proposed final dividend.*

23 Reconciliation of shareholders' funds

Group

	2004 £m	2003 £m
Total recognised gains and losses for the financial year	270.0	(62.1)
Dividends	(19.4)	(18.8)
	250.6	(80.9)
Purchase of own shares	—	(3.4)
Goodwill written back on transfer of associates to investments	36.4	—
Goodwill on disposals written back	—	1.9
Net movement in shareholders' funds	287.0	(82.4)
Opening balance of shareholders' funds	655.5	737.9
Closing balance of shareholders' funds	942.5	655.5

Notes to the financial statements

24 Segmental analysis

By geographical area

	Turnover by destination £m	Turnover by origin £m	Profit before tax £m	Net assets £m	Share of associates Profit before tax £m	Share of associates Net assets £m
2004						
United Kingdom	62.3	69.0	7.7	690.0	—	—
Continental Europe	26.2	21.7	(1.1)	44.1	—	—
North America	26.4	27.9	(1.8)	190.5	—	—
Rest of the world	10.9	7.2	1.3	19.0	—	—
	125.8	125.8	6.1	943.6	—	—
2003						
United Kingdom	62.0	74.7	6.9	265.4	10.4	174.9
Continental Europe	31.5	21.5	0.8	30.3	(0.6)	12.6
North America	26.2	27.6	(0.9)	62.6	6.6	101.0
Rest of the world	12.4	8.3	0.4	9.6	—	—
	132.1	132.1	7.2	367.9	16.4	288.5
Share of associates			16.4	288.5		
	132.1	132.1	23.6	656.4	16.4	288.5

By activity

The group has investment and trading operations. The investment segment had profits of £4.9m (2003 – £4.3m loss) and net assets of £814.2m (2003 – £251.7m) and the trading segment had profits of £1.2m (2003 – £27.9m including associates) and net assets of £129.4m (2003 – £404.7m including associates).

25 Reconciliation of operating profit to operating cash flows

	Company 2004 £m	Company Pro forma 2003 £m	Group 2004 £m	Group 2003 £m
Operating profit	9.9	7.7	(11.5)	(9.4)
Reorganisation to convert to investment trust status	—	(8.0)	—	—
Income from investments	—	—	17.3	8.7
Interest receivable	—	—	1.1	3.2
Depreciation and amortisation	—	—	7.4	7.1
Profit on sale of fixed assets	—	—	—	(0.2)
Investment income and interest accruals increase	(1.0)	21.8	(0.9)	0.1
Stocks increase	—	—	(6.1)	0.5
Debtors increase	0.3	(0.6)	(1.2)	1.0
Creditors decrease	(6.1)	13.6	(6.3)	1.4
Net cash inflow from operating activities	3.1	34.5	(0.2)	12.4

The company cash flow statement for 2003 was based on the actual cash flows, whereas the company operating profit for 2003 was on a pro forma basis, excluding the effects of the reorganisation carried out to enable the company to achieve investment trust status. The 'reorganisation to convert to investment trust status' above is the difference between the pro forma operating profit for the year and the actual operating loss.

Easybox SCA absorbed £0.8m of the group's net operating cash flows, paid £0.5m of interest, utilised £3.9m for capital expenditure and borrowed £2.9m to finance its activities.

Notes to the financial statements

26 Management of liquid resources

In the current and prior years, liquid resources comprised term deposits with a maturity of less than one year.

27 Analysis of changes in net funds

Company

	Opening balance £m	Cash flow £m	Closing balance £m
Cash at bank and in hand	1.4	4.6	6.0
Bank overdrafts	(8.6)	8.6	—
	(7.2)	13.2	6.0
Short term deposits	38.9	(6.1)	32.8
Debt due after more than one year	(4.8)	—	(4.8)
	26.9	7.1	34.0

Group

	Opening balance £m	Cash flow £m	Acquisitions £m	Exchange differences £m	Closing balance £m
Cash at bank and in hand	4.6	10.5	—	(0.5)	14.6
Bank overdrafts	(0.3)	(3.8)	—	—	(4.1)
	4.3	6.7	—	(0.5)	10.5
Short term deposits	43.9	(3.7)	—	—	40.2
Debt due within one year	(0.1)	(0.1)	—	—	(0.2)
Debt due after more than one year	(4.9)	(27.0)	(10.4)	—	(42.3)
	43.2	(24.1)	(10.4)	(0.5)	8.2

28 Capital commitments

	Company		Group	
	2004 £m	2003 £m	2004 £m	2003 £m
Tangible assets				
Contracted but not delivered	—	—	1.6	0.1
Investments				
Contracted but not called	40.4	47.4	40.4	47.4
Conditionally contracted	30.6	15.0	30.6	15.5
	71.0	62.4	72.6	63.0

29 Operating lease commitments

Group

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

	Land and buildings		Other	
	2004 £m	2003 £m	2004 £m	2003 £m
Operating leases which expire				
Within one year	0.1	0.2	0.1	—
Within two to five years	0.4	0.2	0.4	0.3
In over five years	1.8	1.8	—	—
	2.3	2.2	0.5	0.3

30 Contingent liabilities

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

Notes to the financial statements

31 Related party transactions

Transactions with related parties, as defined by FRS 8 are described below.

Administration fees of £0.1m (2003 – £0.1m) were receivable from The Cayzer Trust Company, which held 37.8% of the issued ordinary share capital of the company at 31 March 2004 (2003 – 37.7%). £4.7m of the variable rate unsecured loan notes 2010 is held by The Cayzer Trust Company (2003 – £4.7m). Of the £0.2m of interest payable on the loan notes, £0.2m was paid to The Cayzer Trust Company (2003 – £0.2m). Dividends were payable to Cayzer family members, trusts and controlled companies who, together, held 49.3% of the issued ordinary share capital of Caledonia at 31 March 2004 (2003 – 49.9%).

Included in normal business transactions was a management fee of £0.1m (2003 – £0.1m) payable to Landsdown, which owns 25% of St Lawrence Properties, and in which the group has a 50% interest. In 2003, St Lawrence Properties paid a dividend of £1.0m, of which £0.3m was due to Landsdown.

Normal business transactions with associates in 2003 amounted to £0.4m. Amounts due from associates at 31 March 2003 were £2.3m.

Messrs J M B Cayzer-Colvin and W P Wyatt, relatives of certain directors of the company, are directors of some group companies.

32 Pensions

The group operates a number of pension schemes in the UK, USA and Germany. The principal schemes, based in the UK, are the Caledonia, Sterling, Amber and Edinburgh Crystal pension schemes. 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 personal pension plans.

For the year ended 31 March 2004, the total pension cost for the group was £2.5m (2003 – £2.0m).

Pension cost relating to the principal UK defined benefit schemes is assessed in accordance with the advice of qualified actuaries, using the attained age and projected unit methods. The latest actuarial valuations of the Caledonia, Sterling, Amber and Edinburgh Crystal pension schemes (which are now closed to new members) were at 31 March 2003, 1 October 2002, 6 April 2003 and 31 March 2002 respectively. The main actuarial assumptions made in the valuations were that long term investment returns would be 0.25% to 3.60% per annum higher than the annual increase in pensionable salaries and that 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 for the Caledonia, Sterling, Amber and Edinburgh Crystal schemes totalled £10.5m, £6.9m, £3.1m and £4.6m respectively. The levels of funding for the schemes shown by the valuations, being the actuarial value of assets expressed as a percentage of accrued benefits at the valuation date, allowing for expected future increases in salaries, were 62% for Caledonia, 67% for Sterling, 53% for Amber and 91% for Edinburgh Crystal. Contribution rates have been or will be increased to address these funding shortfalls.

The above actuarial valuations showed an aggregated deficit of £13.0m.

FRS17 disclosures

Although the company continues to account for pension costs in accordance with SSAP 24: Accounting for Pension Costs, the following transitional disclosures are made in accordance with FRS 17: Retirement Benefits.

The group operates a number of defined benefit pension schemes. The principal schemes, based in the UK and USA, are the Caledonia, Amber, Sterling and Edinburgh Crystal pension schemes. Where appropriate, this note presents an aggregation of information for these schemes.

Full actuarial valuations of the Caledonia, Sterling, Amber and Edinburgh Crystal schemes were carried out at 31 March 2003, 1 October 2002, 6 April 2003 and 31 March 2002 respectively. FRS 17 based analyses of the schemes at 31 March 2004 have been prepared by independent qualified actuaries.

All of the principal schemes are now closed to new members. As a consequence, under the projected unit method, the current service costs will increase as the members of the schemes approach retirement.

The major assumptions used by the actuaries in valuing the schemes' liabilities were as follows:

	2004 %	2003 %	2002 %
Rate of increase in salaries	4.5	4.3	4.4
Rate of increase in pensions in payment	3.0	3.0	3.1
Discount rate	5.6	5.6	6.4
Inflation rate	3.0	3.0	3.1

Notes to the financial statements

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were as follows:

	Long term return expected at Mar 04 %	Valuation at Mar 04 £m	Long term return expected at Mar 03 %	Valuation at Mar 03 £m	Long term return expected at Mar 02 %	Valuation at Mar 02 £m
Equities	8.1	30.3	8.2	22.7	7.4	31.8
Bonds	5.0	3.3	4.8	2.7	6.5	4.9
Other	4.4	2.6	6.1	4.3	4.8	2.0
Total market value of assets		36.2		29.7		38.7
Present value of schemes' liabilities		(51.6)		(48.5)		(44.0)
Deficit in the schemes		(15.4)		(18.8)		(5.3)
Related deferred tax asset		4.6		5.6		1.6
Net pension liability		(10.8)		(13.2)		(3.7)

The analysis of movements within the schemes was as follows:

	2004 £m	2003 £m
Analysis of amount charged to operating profit		
Current service cost	1.5	1.6
Total operating charge	1.5	1.6
Analysis of amount credited to other finance income		
Expected return on pension schemes' assets	2.2	3.0
Interest on pension schemes' liabilities	(2.7)	(2.7)
Net return	(0.5)	0.3
Analysis of amount recognised in statement of total recognised gains and losses		
Actual return less expected return on pension schemes' assets	4.4	(11.8)
Experience gains and losses arising on the schemes' liabilities	3.0	3.5
Changes in assumptions underlying the present value of schemes' liabilities	(3.4)	(5.0)
Actuarial gain recognised in statement of total recognised gains and losses	4.0	(13.3)
Movement in deficit during the year		
Deficit in schemes' at beginning of the year	(18.8)	(5.3)
Movement in year		
Current service cost	(1.5)	(1.6)
Contributions	1.4	1.1
Other finance income	(0.5)	0.3
Actuarial surplus	4.0	(13.3)
Deficit in schemes' at end of the year	(15.4)	(18.8)
History of experience gains and losses		
Difference between the expected and actual return on schemes' assets		
Amount	4.4	(11.8)
Percentage of schemes' assets	12%	-40%
Experience gains and losses on schemes' liabilities		
Amount	3.0	3.5
Percentage of the present value of the schemes' liabilities	6%	7%
Total amount recognised in statement of total recognised gains and losses		
Amount	4.0	(13.3)
Percentage of the present value of the schemes' liabilities	8%	-27%

Notes to the financial statements

33 Capital gains tax

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

34 Post balance sheet event

Proposed elective special dividend

On 15 March 2004, the company announced outline proposals for a return of funds to ordinary shareholders. On 19 May 2004, a circular was sent to all shareholders detailing the proposals. Subject to shareholder approval and certain other conditions being met, all Caledonia ordinary shareholders will be offered the opportunity to receive a special dividend on terms that they give up part of their shareholdings. The special dividend will be set at a fixed discount of 18% to Caledonia's net asset value per share, calculated as at a fixed date, expected to be 25 June 2004, and in accordance with the methodology set out in the circular. Shareholders may elect to receive the special dividend on up to a maximum of two out of every nine ordinary shares held. Shares elected for the special dividend will be cancelled for nil consideration.

The Cayzer Trust Company, the holder of 37.8% of the ordinary shares in Caledonia, has undertaken to elect for the special dividend in respect of its full entitlement. Holders of 7.0% of the ordinary shares in Caledonia have irrevocably committed that they will not elect for the special dividend.

Based on Caledonia's published unaudited net asset value per ordinary share of 1301p as at 30 April 2004, adjusted for the final dividend of 18.6p per share for the year ended 31 March 2004, and assuming overall levels of elections from either holders of 37.8% of the issued ordinary shares (being the lowest possible level of elections) or holders of 93.0% of the issued ordinary shares (which, in the light of the irrevocable commitments referred to above, is the highest possible level of elections) the cost of the elective dividend will be in the range of £64.1m to £157.8m. For shareholders who choose not to elect for the special dividend, the net asset value per share attributable to their total shareholdings will increase by between 1.6% and 4.7%, depending upon the level of elections.

Notice of annual general meeting

Notice is hereby given that the seventy-fifth annual general meeting of Caledonia Investments plc will be held at the Crowne Plaza London-St James Hotel, 45-51 Buckingham Gate, London SW1E 6AF, on Wednesday, 14 July 2004 at 11:30 am for the purpose of considering and, if thought fit, passing the following resolutions which, in the case of resolution 10, will be proposed as a special resolution, and, in the case of all the other resolutions, will be proposed as ordinary resolutions:

1. To receive and adopt the directors' report and the accounts for the year ended 31 March 2004, together with the auditors' report to the members.

2. To approve the directors' remuneration report for the year ended 31 March 2004.

3. To declare a final dividend of 18.6 pence per ordinary share.

4. To re-elect Mr C M Allen-Jones as a director.

5. To re-elect The Hon C W Cayzer as a director.

6. To re-elect Mr T C W Ingram as a director.

7. To re-elect Mr J R H Loudon as a director.

8. To reappoint KPMG Audit Plc as auditors and authorise the directors to agree their remuneration.

9. *That the authority conferred on the directors by article 6.1 of the company's articles of association be renewed for a period expiring at* the conclusion of the next annual general meeting of the company after the date on which this resolution is passed and for that period the section 80 amount shall be £1,210,224.

10. That the power conferred on the directors by article 6.2 of the company's articles of association be renewed for a period expiring at the *conclusion of the next annual general meeting of the company after the date on which this resolution is passed and for that period the* section 89 amount is £181,533.

By order of the board
G P Denison
Secretary
19 May 2004

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 valid, forms of proxy must be lodged with the company or its registrars, together with any power of attorney under which it is signed or a notarially certified copy thereof, not less than 48 hours before the meeting. A form of proxy accompanies this document. Completion of a form of proxy does not preclude a member from attending and voting at the meeting.

3. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the company specifies that only those ordinary shareholders entered in the register of members of the company as at 6.00 pm on 12 July 2004 or, in the event that the meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting(s), shall be entitled to attend and/or vote in respect of the number of ordinary shares registered in their names at that time. Changes to the entries on the register of members after 6.00 pm on 12 July 2004 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting(s), shall be disregarded in determining the rights of any person to attend or vote at the meeting(s), notwithstanding any provisions in any enactment, the articles of association of the company or other instrument to the contrary.

4. Biographical details of the directors standing for re-election at the meeting are set out on pages 28 and 29.

Investor information

Key dates
The company publishes a monthly fact sheet shortly after the month end, which includes its net asset value per share. Annual results are announced in late May and interim results are announced in mid November. Annual reports are posted to shareholders in mid June and interim reports in late November.

The company holds its annual general meetings in London in mid July. The interim dividends are paid in early January and final dividends are paid in late July.

Investing in Caledonia
Ordinary shares in Caledonia may be bought or sold directly through a stockbroker, accountant, other independent financial adviser or through a number of banks and building societies. Its shares can be treated as qualifying investments for the purpose of the PEP and ISA rules. In addition, investors may buy shares through the Caledonia Investments Share Savings Plan and the Caledonia Investments Individual Savings Account ('ISA'), further information on which can be found below.

Caledonia Investments Share Savings Plan and Caledonia Investments ISA
The company has made arrangements for a share savings plan and an ISA to be made available to allow investors to purchase Caledonia shares in a flexible manner and, in the case of the ISA, to hold them tax efficiently. The Caledonia Investments Share Savings Plan is operated by Capita IRG Trustees Ltd and the Caledonia Investments ISA by Capita Financial Managers Ltd. Both are designed to allow lump sum and regular savings into the company's shares, offering regular monthly savings from £50, lump sum investments from £500, half yearly statements and automatic dividend reinvestment. Investment in Caledonia Investments ISA is subject to the maximum permitted amounts of £7,000 per annum for a Maxi ISA and £3,000 per annum for a Mini ISA (up to tax year 2006).

For details of the Caledonia Investments Share Savings Plan, please contact Regulated Business at Capita IRG Trustees Ltd, 34 Beckenham Road, Beckenham, Kent BR3 4TU, or telephone on 0870 162 3100. For details of the Caledonia Investments ISA, please contact Capita Financial Managers Ltd at Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0GA or telephone 020 7556 8800. Documentation for both the Share Savings Plan and the ISA are available on Caledonia's website.

Share price and other information
The market price of the company's ordinary shares is published in The Financial Times and other leading newspapers. The share price and details of the company's performance can be found on the company's website at www.caledonia.com. The London Stock Exchange Daily Official List ('SEDOL') code is 0163992.

The company is a member of the Association of Investment Trust Companies ('AITC') and contributes to the AITC's monthly information services.

Executive directors
Peter N Buckley (chairman) [2]
Timothy C W Ingram (chief executive)
Jonathan H Cartwright (finance director)
The Hon Charles W Cayzer
John M May

Non-executive directors
James R H Loudon (deputy chairman) [1,2,3]
Charles M Allen-Jones (senior independent) [1,2,3,4]
Mark E T Davies [2,3,4]
Sir David Kinloch Bt
David G F Thompson [1,2,4]
Michael G Wyatt MBE

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

Associate directors
Anthony J Carter
Jamie M B Cayzer-Colvin
Graeme P Denison
Jonathan R Hale
Anthony E G Hambro
Paul M Whiteley
William P Wyatt

Secretary
Graeme P Denison

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London SW1E 6NN

Registered number
Registered in England no 235481

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Canary Wharf
London E14 5AG

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

Brokers
Cazenove & Co. Ltd
20 Moorgate
London EC2R 6DA

Solicitors
Freshfields Bruckhaus Deringer
65 Fleet Street
London EC4Y 1HS

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

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OF INVESTMENT TRUST COMPANIES

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