Caledonian Trust PLC
30 December 2008

Caledonian Trust PLC

Results for the year ended 30 June 2008

Caledonian Trust PLC, the Edinburgh-based property investment holding and development company, announces its audited results for the year to 30 June 2008.

CHAIRMAN'S STATEMENT

Introduction

This year we report under International Financial Reporting Standards (IFRS's), as opposed to under UK Generally Accepted Accounting Practice as in previous years. The figures for 2007 have been restated to reflect this change.

The Group made a pre-tax loss of £7,875,000 in the year to 30 June 2008 compared with a profit of £398,000 last year. The "operating" loss, excluding property valuation losses was £714,000. The loss per share was 60.25p and the NAV per share was 156.6p compared with 217.1p last year.

Income from rent and service charges was £842,000 compared with £684,085 last year. Gains from the sale of investment properties were nil compared with £16,000 last year. Gains from trading property sales were £105,000 compared with £403,000 last year. Net financing costs were £634,000 compared with £508,000 last year or £310,000 net of the £198,000 net recoverable interest from the Heron Bay development. The weighted average base rate for the year was 5.45% compared to 4.90% last year.

Review of Activities

The Group's property activities have been concentrated on enhancing the value of our development properties with medium-term prospects, principally by working towards or gaining more valuable planning consents.

The Group's Edinburgh New Town investment portfolio is continuing to change. In Young Street, adjacent to Charlotte Square, the tenants exercised their option to determine the lease in August 2008. We agreed a dilapidations payment and are marketing the property for office or residential use. Residential values of New Town properties are generally higher than office values. Accordingly, we have obtained planning and listed building consent to reconvert the vacant ground and first floors of 61 North Castle Street to residential use and to incorporate the Edwardian extension at the rear of 61 North Castle Street into the contiguous office space in Hill Street. The development margin of the conversion is relatively small and the property is currently being marketed. The adjacent building, 57 North Castle Street, was let to the City of Edinburgh Council with a break option in March 2008 which they exercised. The dilapidations claim is being determined by a third-party expert. 57 North Castle Street, together with 61 North Castle Street, are a particularly elegant pair of Georgian buildings and a residential reconversion

is an alternative. In South Charlotte Street the first five-year review of the 4,500 ft^2 restaurant let to La Tasca for twenty-five years was determined by arbitration at £94,850, a 46% increase!

St Margaret's House, London Road, is our largest property in Edinburgh where we are pursuing different short and long-term objectives. In the short term we seek to stabilise the fabric of the building, to reinstate or repair the services, to defray some of the holding costs and to earn short-term income. To achieve this objective we have let the whole building on concessionary short-term leases to two charities, the English Speaking Union and Save the Odeon Limited, conditional upon repair work that is being undertaken. Occupation of the building has kindled interest amongst other potential occupiers and we are now in discussions with potential tenants for small areas on commercial terms. Concurrently we are pursuing our long-term objective for a large-scale redevelopment. Last year our architects produced an Urban Analysis report covering St Margaret's, the adjacent 125,000ft^2 Meadowbank House and small varied properties lying between the A1 and "Smokey Brae" which formed the basis for discussions with City of Edinburgh Council. Subsequently we agreed with the Council to produce an overall Development Brief. The Brief is now well advanced, but completion has been delayed due primarily to the very extensive public consultation required by planning policy. The community consultation involved six meetings over three months followed by detailed assessment allowing the Development Brief to be completed shortly which will guide planning and design principles for the redevelopment of the whole area and will constitute a material planning consideration in planning decision and it will form the basis for an outline planning application for the St Margaret's site only. At present four options are under consideration: a residential scheme with 1,500m^2 of commercial space and either 231 or 258 residential units, or a scheme with an hotel and student residences and 1,500m^2 commercial space and either 81 or 133 residential units. Such a redevelopment would have a long lead-in time which, given the current and prospective market conditions, is not inappropriate.

Delays have also affected our large development sites in Waterloo, London and in Belford Road, Edinburgh. Paradoxically these delays have proved advantageous as we have avoided developing during the current deteriorating market. At Waterloo we continue to negotiate with Lambeth Council either to purchase the contiguous site or to enter into an agreement with them to our mutual benefit in order to realise the very considerable marriage value. If the negotiations fail then we will promote a smaller scheme within our site limits.

At Tradeston, Glasgow, on the south side of the Clyde opposite the Broomielaw, we own 100 West Street, currently a purpose-built car showroom let to the Eastern Western Motor Group. The rent review which fell due in May 2006 has recently been settled at £213,000, an uplift of 21.8%. Tradeston was for long considered a 'run-down' area but has recently benefitted from some major developments and the pace of redevelopment has increased recently with the construction of the extension of the M74 through the district to meet the existing M8 at the Kingston Bridge which is due for completion in 2011. We hold a planning consent for a development of 191 flats, predominantly two and three bedroom, together with associated parking and open space and 10,000ft^2 of commercial space, but market conditions have not been propitious for this development.

Market conditions have also delayed the start of work on our two development sites in or near Edinburgh. After negotiating for five years we obtained consent for eight houses at

a site at Wallyford, which is within 400 yards of the east coast mainline station and near the A1/A720 City Bypass junction, contiguous to development of over 250 houses by two national house builders of which only eleven are still available. In east Edinburgh at Brunstane Farm, adjacent to Brunstane rail station, consents were granted on 13 December 2006 to convert the listed stone-built steading to provide nine houses of various sizes totalling 14,000ft^2. Due to market conditions, apart from some necessary demolitions, no building work has started. However, planning proposals to convert an additional stone building to a detached house of 3,500ft^2 are well advanced. Adjacent to the steading we own five stone-built, two-storey cottages, a further ruined farm building and two-and-a-half acres of scrubland in the Green Belt fringe adjacent to established residential property. The inclusion of this isolated uncultivated area within the Green Belt is anomalous and we have entered an objection in the current local plan review which is at Public Local Inquiry stage. Any abstraction from the Green Belt would be valuable.

The Group owns fifteen separate rural development opportunities, nine in Perthshire, three in Fife, two in Argyll and Bute and one in East Dunbartonshire. One of these, Carnbo in Perthshire, was acquired in October 2007. Carnbo comprises a five-bedroom farmhouse with over an acre of garden ground within the village settlement and a three acre field just beyond it. Several other properties were appraised, but no further acquisitions were made last year, because the price of suitable rural development properties had risen and the economic outlook had deteriorated.

Many of the opportunities within our rural development portfolio are predicated on a change in central planning policy. In 2005 Scottish Planning Policy 15 paragraph 23 states:- "Opportunities to replace run down housing and steadings with designs using new materials should also be embraced". The rate at which central planning is incorporated into Local Plans varies between Local Authorities. One of the earliest and most significant changes was made by Perth and Kinross Council, where most of our portfolio is situated and to which we have given the earliest attention. The great majority of our portfolio lies in accessible locations set in areas of high amenity. Unsurprisingly, any proposal for change meets local opposition, usually vocal in such desirable areas and, due to the new system of proportional representation, such opposition has more political influence. The process of gaining planning consent is becoming even more tortuous and in some cases the scale of development is being restricted. Paradoxically, the more tortuous the process and the more restricted the permission, the more valuable the consents become - at least in any "normal" market.

The delays in the planning process can be starkly illustrated. In Perthshire plans for four of our five steading developments, which were far advanced last year, have still not been resolved. At Ardonachie Farm steading, near Perth, after extensive and detailed discussions with the planning authority, we submitted a planning application for twelve houses of about 20,000ft^2. However, due to policy changes, we have resubmitted an application over £16,429ft^2 for ten houses, including a new "farmhouse". At Tomperran, a smallholding near Comrie, where we submitted an application for twelve houses over 19,047ft^2, we are required to change the proposed layout again, having previously adjusted it to accommodate a cycle path requested by the Council. The smallholding includes two acres zoned for industrial use and about 34 acres adjacent to the settlement, a proportion of which will be promoted for a housing allocation in the now long-overdue Strathearn Local Plan. At Chance Inn, where we had previously registered an application for seventeen houses plus four affordable houses, we expect to re-apply shortly for a scheme containing ten private houses. At Myreside Farm, in the Carse of Gowrie between

Perth and Dundee, we await the decision on the application lodged in September 2007 for eight houses totalling 12,410ft^2 on the steading site adjacent to the attractive listed farmhouse.

Planning permission is being sought on three other sites in Perthshire. At Balnaguard, near Strathtay, we have appealed against the refusal of consent for nine detached houses over 15,719ft^2; at Strathtay we have just submitted proposals for four large detached houses situated within the village envelope; and at Carnbo we have prepared plans for four houses in part of the former garden ground of the farmhouse.

Planning considerations have also been pivotal in the development of our properties at Gartshore and Ardpatrick. Gartshore lies within a designed landscape with a magnificent Georgian *pigeonnier*, a huge walled garden and a 15,000ft^2 Victorian stable block, but, surprisingly, the mainline station near this country property is only seven miles from the centre of Glasgow. Detailed planning studies on possible development have been completed and representations made to the Local Plan. Various consents have been gained at Ardpatrick, a handsome estate looking south east over West Loch Tarbert. However, these are conditional on agreeing servicing and road improvements on both the private and public roads with the Local Authority. The opportunities at Ardpatrick fall into two categories: the first relates to division, restoration and reconstruction of existing properties, residential or otherwise, and the second to "new" houses in areas designated as "Rural Development Opportunities" in the Finalised Local Plan on which the Reporter has recently issued his report. Amongst the Reporter's recommendations was that the "Rural Development Opportunities" should be replaced by other policies. Fortunately the Council have decided not to accept this proposal and are promoting a Post Inquiry Modification retaining the "Rural Development Opportunities", subject to further landscape safeguards. Most of our planned developments in the Rural Development Opportunities will probably meet the proposed tests. Continuing progress is being made in enhancing the value of our properties at Ardpatrick. Many years of neglect have resulted in buildings becoming ruinous, houses falling into some disrepair, ditches and drains becoming blocked, roadways becoming impassable and walls, gates and fences becoming broken or unserviceable, all contributing to a loss of value and amenity and restricting residential and agricultural use. Since purchasing the property seven residential estate houses have been brought back into habitable condition and three outlying cottages sold. A fourth cottage, the Old Post Office, has now been extensively restored and is being marketed. Three outlying buildings whose structural integrity had been impaired have been secured and structural repairs are taking place in Ardpatrick House and essential repairs are taking place to roads, ditches and drains, to restore the agricultural value of the property, to improve amenity and to allow the for enhancement of the sporting potential.

Agricultural values have risen, often considerably, in all our farming properties. We judged that as these are ancillary to our main interests, that as prices had risen considerably and that as the capital could be more profitably deployed elsewhere we should realise them and we have been marketing our farming land at Larennie in Fife, where we will retain the buildings and prospective development land, and at Chance Inn, near Kinross, where we retain the farmhouse, development land and steadings. Interest has been considerable and this arable land is all "under offer" at attractive prices. The land at Ardpatrick, none of which is arable and where the marriage value with the Estate is considerable, is currently being retained and its utility improved.

Economic Prospects

In 1808, two centuries ago, The Reverend Dr Robert Walker died. Raeburn's portrait of him, "Skating on Duddingston Loch", is one of Scotland's most famous. Until last year economic and skating analyses were analogous - the prospects for the ice, that is the economy, its condition, its thickness or thinness, its growth and the risks to that growth, and, as described by Lord Cockburn "the poetry of motion" of Dr Walker's exquisitely elegant pose, "the travelling position", requiring "diligent practice and considerable sophistication". Analogous perhaps to the prudent pose of the accelerating travelling of the UK economy, skating through 63 quarters of uninterrupted growth under the diligent and sophisticated hand of the newly liberated Monetary Policy Committee ("MPC"), one of a trio of regulators, evocative of the Trinity overseeing the Reverend Doctor.

In years of "steady skating", analysis was of the conventional business cycle fluctuating around a trend of rising output based on the growth capacity of the economy adjusted for budget deficits, fiscal prudence and the possibility of outside shocks, particularly through oil prices, as had occurred before, or the faint possibility of a collapse in the faraway USA housing market. Risks to the world economy appeared manageable: oil's importance in relation to output had fallen and the risk of a housing market collapse was minimised as a serious threat because it was a sector responding to low interest rates, and because numerous commentators had cried "wolf" before. Even this year as the present crisis unfolded the banks stated they were well funded, indeed as the Chairman said " allow us to continue on the impressive growth trajectory that has characterised Royal Bank of Scotland …" patently few knew how thin the ice was on which they skated. However, following the initial failure, fractures have radiated and propagated in every direction carrying all the skaters into the deep cold. Samuel Brittan describes these fractures as "apocalyptic", "threatening the very existence of the world monetary systems" and creating a new game where the cliché about "the old rules no longer applying" is for once correct. The relevant analysis now is not about the state of the ice or the fluctuations of the economy about trend, but about how deep and cold the water will be, how long and how deep the UK recession will be and what can and will be changed to get the maximum number of survivors to the shore.

On 6 November 2008 the MPC cut the repo rate by 1.5 percentage points, a cut three times larger than any since the MPC was established in 1997, to 3%, the lowest rate for 54 years. The MPC explained that there was "evidence of a severe contraction in the economy……, and such a dramatic extinction of inflationary pressure that at prevailing rates there is a substantial risk of undershooting the inflation target". Previously the MPC has been restrained from larger cuts because of the threat of increased inflation, an opinion not widely shared, which, according to many economists has resulted in an overdue delay in cutting interest rates. Indeed some economists judged that the 1.50 percentage point cut is "barely adequate and will probably need to be followed by further cuts soon". Martin Wolf, writing in the Financial Times ("FT") following the November cut, says "the risks of doing too little are far greater than those of doing too much: sometimes boldness is caution". Since the November cut there has been what the FT cites as a "further sudden and brutal deterioration in the economic outlook" and on 4 December 2008 the MPC cut the repo rate again, by 1 percentage point on this occasion to 2% equal to, the lowest rate since the Bank of England was founded in 1694. Contemporary cuts were made by the European Central Bank to 2.5%, the US Federal Reserve to 1% and the Bank of Japan to 0.3% and since then the US Federal Reserve and the Bank of Japan have made further cuts to 0.0 to 0.25% and 0.1% respectively. Some commentators still judge the Bank of

England's and the European Central Bank's "measured step-by-step approach" to be an inadequate response when extreme measures similar to the US Federal Reserve's are necessary.

Unfortunately, the effects of the cuts in interest rates may be attenuated. Borrowers are unlikely to obtain a full reduction in rates as the banks' costs are not mechanically linked to official rates but have a high marginal and a rising average cost of capital due to expensive equity, including preference stock, and increased margins over base rate on their inter-bank borrowings. Cheaper money makes spending, including that funded by borrowing, more attractive relative to saving, but the availability of the desired borrowing at "normal" prices may be curtailed as the banks reduce their loans in order to improve their capital ratios. In the past few years the banks increased their external funding to increase turnover and profits, giving lower capital ratios, but recently have suffered substantial equity losses further reducing their capital ratios. Only seven years ago Britain's banks funded lending almost entirely out of customer deposits but by 2008 the funding gap, met by international wholesale money markets, was £740bn. The scale of the total Bank equity losses since early 2007 is estimated by the Bank at £1,700bn equivalent to 85% of the banks' Tier 1 Capital. British banks will have at least a proportionate share of these losses and Morgan Stanley report that European banks alone will need a further £67bn of equity, having already received £94bn this year alone. The total of the rescue plans, - including capital injections, taxpayers' support and government guarantees on wholesale funding - made over the summer, culminating in the US Troubled Assets Relief Program crisis in early October, for the ten largest recipients was an astonishing $3,390bn.

The rescuers have two objectives. The first is to "see off" systemic risk ie the collapse of the banking system and in its wake the whole financial system. The cost of such a collapse was recognised as so immeasurably high and so immediate that all administrations affected set aside all moral, political, administrative and ideological considerations to save the system. The Economist put it "deft policy saw off calamity". The second objective is damage limitation: to minimise one or more of recession, depression or deflation. Fiscal policy is within the control of the Government and measures to stimulate the economy, including the VAT rate reduction, have been announced. Discretion is wide but subject to economic sanction though a collapse in Sterling and from increased borrowing costs, if measures are considered "extreme". However, many Eurozone countries have net debt above 50% of GDP and historically the UK has prospered in spite of increasing debt. Harold MacMillan in his only budget speech noted that debt had risen from £600m in 1914, to £8.4bn in 1939, and to £27bn in 1956 - 27, 133 and 146% respectively of GDP. He put it so: "whatever the temporary difficulties of trying to run too fast, if we stood still, we are lost."

Monetary policy, subject to Government control over inflation targets, is determined by the MPC except insofar as the inflationary target jeopardises "economic stability". Deflation, not inflation, represents the major risk to the MPC's target and monetary policy will be very expansionary. Policy changes do not act directly on the "real" economy but are intermediated via the banking system where the present unusual circumstances limit their efficacy. The higher cost of bank capital referred to above restricts the transmission of lower interest rates to the real economy. However the main restriction is the banks' requirement to improve capital ratios which will be damaged further by increasing write-offs from the gathering recession. Reducing lending would improve ratios more rapidly, but this is contrary to the Government's stated policy that the banks' bailout is conditional

on returning to 2007 levels of lending. Thus the Government's objectives, improving capital ratios and maintaining lending, are mutually exclusive - an unfortunate dilemma.

Another dilemma faced by the banks is described by J M Keynes as the "Paradox of Thrift", in which if each bank does what is prudent for itself, by cutting lending, then such action slows the whole economy and further hurts everyone, including itself. Changes in bank lending have a multiplier effect on the economy, so elegantly simplified as a "game" with his students by Harvard Professor Niall Ferguson. In the game he deposits a $100 Government fee with Student Bank A which deposits $10, the necessary 10% reserve, with the central bank and lends $90 which is deposited in Student Bank B which deposits $9, the 10% reserve, and lends $81. After three rounds the total money is $271 and after an infinite number the sum is $1,000. Then Professor Ferguson springs a surprise on Student Bank A, by asking for his ($100) deposit money back. The process then has to be unravelled and the banking system shrinks not just by the original $100 deposit but by $271, if it has "gone" three rounds. Reductions in credit have a snowball effect on the economy and hence the Government's concern.

Deft policy has indeed "seen off" calamity, but how did the impending calamity arise? Or, as HM the Queen disingenuously enquired of the Director of the London School of Economics Professor Luis Garicano, "If these things were so large how come everyone missed them?". Patently, as the FT surmises, the Queen had not been briefed "from the man who comes weekly to tell her what is going on - not the nice smooth one - he went some time ago. Now it’s the grumpy Scottish one" whose view is that the crisis materialised unannounced as an evil spectre fleeing New York. Professor Garicano reportedly replied that "at every stage someone was relying on somebody else and everyone thought they were doing the right thing". In practice it seems that house buyers bought because, if someone was prepared to lend the money, then it would be ok, lenders reckoned if they securitised the loans they would be ok, financial institutions thought that if the credit rating agencies gave approval they would be ok and the credit agencies thought - so finessing any cerebral activity - that whatever everyone else was doing they better do too and the regulators didn't know, didn't want to know and, if they did know, they certainly did not wish to understand.

However wrong the regulators were, their behaviour was neither random nor inexplicable. Over the past generation the financial system has changed from regulation to de-regulation and the intellectual climate in the Anglo Saxon economies turned in favour of the primacy of the markets and against regulation, a change eventually and reluctantly followed by continental Europe and by Japan. The success of the market economy, latterly including sophisticated financial engineering, facilitated and reinforced by the flood of cheap money from Asia and oil producers' savings, powered the considerable expansion in the world economy. It is self-evident that, given the exceptional returns, there was no potential incentive to question too deeply their origins or dependability. The permissive changes resulted from a combined series of alterations in organisation, procedure, methodology and culture which did not change with a "jump", a saltation in evolutionary terms, but by a gradual process of evolution ultimately yielding the entirely new deregulated "species".

Deregulation has its origins in 1971 when the post-World War Two Bretton Woods system of fixed exchange rates and the convertibility of the dollar to gold were suspended and currencies "floated" like commodities. Agricultural commodities and their derivatives had been traded for over 100 years in Chicago, the "market" town and shipping centre for

US agriculture where in 1972 Leo Melamed, chairman of the Mercantile Exchange, launched futures trading also in currencies, an innovation that extended to Treasury Bills in 1976, Eurodollars in 1981 and stock index futures in 1982 and founded today's varied and complex financial derivatives. Agricultural pricing starkly demonstrates the laws of supply and demand and the clear effects of competition. Such an environment was conducive not only to the transfer of the principle of trading commodity derivatives to trading financial derivatives but also the transfer of the principle of free agricultural markets to free market economics, an intellectual position promoted by the Chicago School headed by the monetarist, Milton Freidman, who argued that markets allocated resources more advantageously than policies more inclined to Keynesian principles which placed more emphasis on central control and allocation.

The intellectual arguments were reinforced by political power when the severe recessions of the 1970s led to the election of the conservative free marketeers, Margaret Thatcher in the UK and Ronald Reagan in the USA. Credit controls were soon abolished and institutional changes made to give easier access to credit, particularly house mortgage credit, a change designed to assist the political ambition of more widespread house ownership, and other liberations followed, including the abolition of exchange controls. Growth, liberation, cross border investment and mergers and acquisitions led to a quantum increase in currencies, money and shares traded and handled largely by a long-established cartel of wholesalers, jobbers, and brokers. Cartelisation reduced competition and the small scale and capital base of most operators hindered large transactions and increased their cost. This structure was swept aside by "Big Bang" in 1986, a similar reform having been carried out in New York a decade earlier.

Big Bang reverberated widely. Competition forced down commissions and higher turnover increased capital requirements - brokers, jobbers, banks and merchant banks aggregated in various combinations to benefit from vertical integration and to use their own capital to finance deals as well as broker or advise on them. In the USA the two activities, merchant/investment banking and commercial banking, were strictly segregated by the Glass Steagall Act, but the distinction became increasingly attenuated until its repeal in 1995. In both the UK and the USA investment houses wanted to be banks to trade on their own behalf, while commercial banks wanted to become investment banks to gain access to high professional and agency fees. From the mid-1980s in the USA and the late 1980s in the UK both economies moved to a low inflation rate and asset prices, bonds, property and equities, rose for most of the subsequent periods (except for short recessions), producing a boom in lending in and against all these asset classes for the liberated commercial banks and the diversified investment banks. The US financial sector rose form 8% of total stock market capitalisation in 1984 to 24% in 2007.

The discovery of a theory of option pricing by two Chicago School economists, Fisher Black and Mervyn Scholes, based on the volatility of the underlying asset, facilitated a further expansion of tradable derivatives. Futures derivatives originally based on agricultural commodities, were joined by options priced through the mathematical formula of Black Scholes and then by swaps, initially between currencies, then between fixed and floating interest rates, and then by credit default swaps, CDS, which in 2008 had $60tr outstanding. Derivatives all share two important characteristics: by definition they are "derived" and in practice they are very highly geared as a small initial equity position, which itself may be geared, gives access to, or responsibility for, a very much larger position. These potentially huge positions change rapidly and, although real risk remained, they were effectively off the balance sheet. Thus they are not easily regulated.

Securitisation, another means of gearing up, often off the balance sheet, originated in the 1970s, but was exploited principally from the mid-1990s, added very considerably to the complexity of the banks' operation, and their regulation. It allowed the banks to sell the cash stream from their mortgagors, keeping the fees and usually some continuing income stream. Asset-backed securities in the USA grew from £300bn in 1995 to £2,500bn in 2007 due to securitisation's magnificent attractions: risk was spread, banks earned fees without encumbering their balance sheets and investors got higher yields from diversified mortgage payers backed by secure assets than they paid on mainly short-term borrowings. A grave weakness of the system was that the originators were rewarded by immediate fees and volumes whereas the purchasers were rewarded by the long-term cash stream from payers of uncertain creditworthiness and asset value: hardly parallel objectives. Professor Ferguson, referring to the $120m losses of three municipalities in the Arctic Circle, encapsulates an extreme position: sub prime mortgages of 100% LTV could be arranged on day one in Detroit, a notorious centre for the scam, 100% NINJA (No Income No Job or Assets) mortgages packaged on day two as CDOs, sold to another bank or intermediary and in no time at all the risk was floating up a Norwegian fjord!

Until the credit crunch deregulation, reliance on market forces and financial engineering appeared beneficial facilitating cheaper and more accessible credit, higher home ownership, higher consumption and higher profits and universally rising asset prices. Little wonder no one tampered with this goose, a particularly fecund and fickle one, whose golden eggs came from a nest of intricate and elaborate camouflage. Equally sacrosanct was the plentiful and nourishing elixir fed to this goose, a steady stream of savings produced, surprisingly, a long way away in China. In 2005 Chinese savings were 45% of Gross National Income - in the USA they were under 2% - of which a large portion flooded into the USA and this supply of savings resulted in global real interest rates falling to 67% of their previous fifteen-year average. While cheap credit was of great benefit it also provided the feed-stock on which financial engineering flourished, a success story as inscrutable as its oriental association and one certainly unscrutinised - to our present great distress. The subsequent losses in financial markets are prodigious. The Bank's currently misnamed Financial Stability Report estimates that UK losses since 1 January 2007 on securitised credit investments and corporate bonds are £1,700bn, more than the UK's annual GDP or 85% of the bank's Tier 1 capital before the crisis.

Britain, the USA, the Euro zone and Japan are already in a recession that for some threatens to be the worst for a quarter of a century and possibly since the Depression. How bad will the recession be? On 16 October 1929 Professor Irving Fischer of Yale University declared that US stocks had "reached what looks like a permanently high plateau", but by 29 October the market had fallen by 25% and over three years lost 89% of its value. The US Stockmarket crash that turned into the Great US Depression lasted four years in which GDP and employment fell 30%. The crash was preceded by a "bubble" in stockmarket prices with hi-tech stocks like RCA rising nearly 1000% to a PE of 73. A credit boom fuelled the rise in stock prices, often bought on margin, a leverage similar to the use of derivatives now, and the boom facilitated a rise in consumption, based on instalment credit, and a fall in savings, all eerily similar to the current rise in debt-based consumption.

In 1963 Milton Friedman argued that the Federal Reserve System bore the primary responsibility for turning the crisis of 1929 into the Great Depression as it did not expand credit and at times caused its contraction. Prior to the crash a small number of banks had

suspended payments and this growing tendency reached a critical mass in 1930 when 608 banks failed with losses of $550m ($6.8bn now, inflated by the CPI) of which nearly $200m related to the large Bank of United States whose possible merger with a "white knight" the Fed failed to secure. In the following credit contraction the Fed permitted banks to sell assets and bonds for gold further restricting credit and increasing bond yields and interest rates. Bond yields were increased again when the UK abandoned the gold standard in 1931 and the Fed raised the discount rate to prevent a $ depreciation. Finally, expecting a $ devaluation from the Roosevelt administration in 1933 that was famously later to promote a "New Deal", the Fed once again raised the discount rate. Two days after his inauguration on 4 March 1933 Roosevelt proclaimed a nationwide bank holiday from which 2,000 banks never returned. Due to the credit contraction about 10,000 banks failed and, although surviving banks increased their reserves, commercial banks decreased deposits by 37% and loans by 47%. In this great contraction public cash increased by $1.2bn but bank deposits decreased by $15.6bn and loans by $19.6bn, equivalent to 19% of GDP. The lessons of the great crash are, firstly, that, following a sharp decline in asset values, unless monetary policies are permissive with low interest rates and supporting credit, a correction can gradually fall into a recession and a recession into a depression and, secondly, that the benefits of exchange rate stability do not outweigh the benefits of avoiding deflation.

Analysis of the great crash shows that the Bank of England's reaction is the crucial variable in determining the extent of the current UK recession. The scene was set early when there was a run on Northern Rock and a proposal to link it with Lloyds TSB was not supported and the Bank seemed to be preoccupied with moral hazard, or, more generously, with the study of conflagration rather than the suppression of the engulfing flames. As recently as August 2008 escalating inflation was identified as the key risk and economic output was projected to be "flat", but in that quarter the UK entered recession with interest rates at 5%. By November 2008 the greater concern was deflation and the Bank then forecast a peak-to-trough decline in GDP of about 1.9% with the recession lasting into late 2009. In another volte face the Governor reversed his opposition to a fiscal stimulus, saying the "transmission mechanism" of monetary policy had become impaired through the banking crisis. In accordance with this damascene change the Bank cut interest rates to 3% in November, and stressed that fiscal policy was likely to be relaxed and that MPC would be able to take further action to lower interest rates in the months to come, a commitment delivered by the cut to 2% in December, equal to the lowest level since 1694. By way of some reassurance the Governor said the expected recession would not be like Japan's "lost decade", 1996 to 2005, and milder like Sweden's in the early 1990s: a recession that lasted from 1990 to 1993 with a contraction of almost 5%. At least he did not compare it to the great US depression.

Contractions in economic growth have occurred in every decade since World War One. A vast inflation followed the First World War succeeded by a savage deflation. The 1920s, including 1926, the year of the General Strike, brought a 4½% contraction and the 5% recession in 1930 occurred as the Sterling left the gold standard. After World War Two contractions of up to 6% occurred in each year from 1944 to 1947, and there were small recessions in the late 1950s and early 1960s. The recessions in 1973-74 and 1980-81, both lasting about six quarters, related to the shocks delivered to the world economy by the very rapid increase in oil prices and the economy contracted 3.5% and 6.1% respectively from peak to trough. The most recent recession in 1990-91, following the stock market crash of 1987 and the high inflation of the late 1980s, saw a peak to trough fall of 2.5%.

Forecasts for the UK recession have been getting steadily more pessimistic. In October the IMF predicted GDP would fall 0.1% in 2009, but in early November the European Commission predicted a 1% fall, the biggest drop amongst the 15 "old" states in the EU. The Economist poll of forecasters in October predicted 0.1% growth in 2009 but revised it to a 0.1% contraction in November. Currently even the Bank of England has moved from "flat" in August to -1.9% in the November report. The CBI forecast a peak to trough of 2.5% with the trough occurring late in 2009.

There is no common cause of recessions over the decades, but re-occurring themes have been wars, external shocks, particularly oil prices, asset booms - finance, property, commercial and domestic, and stocks - and inflation. The current recession is clearly not as a result of conflict, nor an external shock from a sudden sustained rise in oil price. Nor is it a result of inflation, which at its recent peak was well below that in earlier episodes and was principally related to short-term rises in food and energy prices. Nor does it seem directly related to stock exchange or equity over-pricing, unlike the 1920s or even the dot-com boom: the main underlying cause is related to credit. Asset prices rose as a result of the huge credit surpluses recycled to the Western economies whose distribution was facilitated by benign and largely unregulated intermediaries, including principally what were regarded as the most sophisticated banking systems the world has known. This credit bubble burst as it was discovered the assets were not there, "the emperor had no house" and the contraction of credit, due to solvency and liquidity, and liquidity and solvency, each reinforcing the other, is resulting in the current huge contraction. Failing a direct comparison the current recession is nearer in cause to that of the 1920s than to any other decade. Fortunately, this view is now being embraced by both the monetary and fiscal authorities and the mistakes of the 1930s are not now being repeated. However, with a different cause than recent recessions, it is misplaced to gauge the length and depth of the current recession by reference to them. Capital Economics state "this is the worst financial crisis since the 1930s" and forecast a further contraction of over 3.5%. In view of the unique cause of this, downturn, of the continuing deterioration of the survey results and of their progressive downgrading by subsequent forecasts, I consider that the outturn will be towards the worst levels forecast.

Property Prospects

The CBRE All Property Yield Index fell steadily from a peak of 7.4% in November 2001 to a trough of 4.8% in May 2007, was 5.1% in August 2007 and has continued to rise each quarter to reach 6.5% in August 2008. If there had been no other change in the last fifteen months, then the value of the underlying property would have fallen 26.2%.

In August The All Property yield of 6.5% was two percentage points higher than Gilts but is now three percentage points higher than the current Gilts yield. In May 2007, with property yields at their recent low of 4.8%, they were 0.6% points below Gilts - a "reverse yield" gap of 0.6%. The All Property Rent Index fell 0.8% in the quarter to August 08, primarily as a result of a 2.2% fall in Office rents, where Docklands and City rents fell 5.9% and 4.0% respectively, and 0.1% in the year to August 2008 when Docklands and City rents fell 12.2% and 9.7%.

Unsurprisingly returns to property investment have been truly awful. In the year to 30 September 2008 the IPD All Property Index returned minus 18.1%, only marginally better than equities, minus 22.3%, but the 5-15 year Gilts Index returned plus 8.8%. The fall in

the IPD Index in September was 2.4%, but this was exceeded in October by an even larger fall of 3.8%. The Total return in the IPD twelve month rolling index has fallen every month for the last twelve months from 5% in 2007 to the minus -24.5% in October 2008. Over the same period projections of future returns, as measured by the IPF forecast survey, have also continued to fall. In October 2007 the All Property returns were forecast as 2008 0.9%; 2009 5.7%; and 2007-11 4.9%; but the current November 2008 forecasts are 2008-16.8%; 2009 -5.3%; 2010 +6.2% and 2008-12 1.7%. The forecasts made by Cluttons and Colliers CRE both exhibit the same pattern of losses in 2008 and 2009 but return to profit in 2010. All forecasters expect the office sector to be the worst performing, particularly London's West End and City offices, where IPF forecast a 15.4% loss in 2009.

The IPD All Property Index forms the basis for "swaps". Over the year the estimated future returns based on this swap have also declined markedly and currently show negative returns until 2010 (-1.71%). The swaps market indicated the extent of the current downturn more quickly than other surveys and forecasts but, as the Tullett Prebon November review says, "At such times, derivatives markets often over-shoot the underlying market …. and it could be argued that such a situation exists now in property ... ". Currently the swaps market implies a peak-to-trough capital return of over -50% and yields of 9.0%.

Last year I expected yields to rise to 6.50%± 0.50% and obligingly the CBRE All Property average yield in August 2008 was 6.50%! Previous property "crashes" occurred between 1972 and 1974 and between 1988 and 1991 when yields peaked at 8.7% and 8.6% respectively, 2.7% points and 2.2% points higher than the lows immediately preceding them, implying a fall in property values of 31.0% and 25.6% respectively. If the past yield rises, 2.7 and 2.2% points, are applied in the current downturn, yields would rise to 7.5% or 7.0% respectively. Conversely, if past falls in property values of 31.0% and 25.6% occurred from a current "low" of 4.8%, yields would rise to 6.95% and 6.45% respectively. Patently 6.45% is too low an estimate, having already been exceeded.

The property crashes of the early 1970s and the late 1980s were primarily the result of, but not the cause of, these severe economic dislocations. The present position is antithetical as property, primarily the loss in value of residential property, has precipitated the severe dislocation. The two previous dislocations occurred during times of high inflation (12.5% and 6.5%) and high interest rates and were triggered by the oil shock or by exchange rate difficulties. Currently inflation is low, there is no oil shock - and the fall in Sterling, assisting exports and import substitution, is probably very favourable, given low commodity prices. This recession is characterised by low inflation and by a threat of deflation. Repo rate is now 2% and, based on BBA REPO forward rates will average *c*1.50% in 2009, and future markets are pricing a 1.4% point fall in Libor rates by September 2009. Such low interest rates should provide excellent returns on well let investment property. For illustrative purposes say interest margins rise to 175 basis points, LTV falls to 65% and Libor rates are 3.0% (repo rate is ≤ 2%) and investment yields rise to 7% from the current 6.5%, then on these assumptions income return to equity is 11.2%, probably about 10% in real terms with excellent prospects of capital growth. Unless the forthcoming recession is similar to those occurring in the post-war periods or in the 1920s, I think the persistence of investment yields above 7.0% is very unlikely.

"Is this the end of the house price boom?" - so John Kay wrote in the FT as long ago as 12 October 2004. He carefully distinguished the house price boom from bubbles such as dotcom stocks, Victorian Railways, the South Sea Company and the tulip mania of the

1630s. He asserts that the "assets" in bubbles have little or no intrinsic value except to those whose beliefs are similar to the mass hysteria that led people in the 17th Century to believe in witches or in the 21st Century in abduction by aliens. His conclusions were: that housing is a good long-term investment, that the current boom will be followed by a sharp slump (as now!), and that those who make "confident" predictions about the future of house prices are mistaken!

Last year I reported that in November 2007 there had been several indications of house price instability. In fact the market had peaked in August 2007 and as the position was succinctly put then by Academetrics "the expectation for a slowing market ……remains regardless of any decisions by the Bank of England. Indeed, the Bank's previous increases have now collided with the tightening in mortgage credit resulting from the sharp increase in mortgage arrears and repossessions and loss of confidence in mortgage-backed securities in the US market and, to a lesser extent, in the UK".

Since November 2007 both the Halifax and Nationwide report price falls of nearly 15% and the Halifax an 18% fall from the August 2007 peak. Year-on-year falls of 10.1% are reported by the Land Registry, 8.2% by FT House Price Index, and 6.3% by Rightmove, all lower than the two mortgage lenders probably due to delays in reporting and to differing mixes of properties. Some new builds are allegedly available at over 20% off "new" prices and bulk new builds are reportedly available at up to 40% off, while repossessions generally sell for at least 10% - 30% below discounted prices.

Forecasts of prices cover a wide range. The Treasury, expect at least a 25% peak-to-trough fall before a "recovery" in 2010 and the Halifax and the Nationwide both estimate the overall fall as 25%. The Centre for Economies and Business Research made a similar forecast in October and expects prices to rise "20% through 2011and 2012 as fundamentals reassert themselves" and nearly to regain 2007 price levels. JLL forecast a peak-to-trough fall of about 29% with a delay in the recovery of 2007 prices until 2010. Roger Bootle of Capital Economics forecasts that the 15% fall reported in October "is just the start and that prices will eventually drop by 35%". However the most pessimistic forecast is derived from the Property Derivatives based on the House Price Index. In May 2008 the contracts implied falls of 12.0%, 8.5% and 6.3% over three years and with small falls extending to 2015, but by November 2008 the corresponding figures were for falls but for three years only of 22.0%, 14.0% and 3.0%. The market makers comment that "Instinct suggests that these prices are too low …. liquidity is an issue in this market due to lack of buyers with prices potentially being pushed to artificially low levels … these longer dates contracts appear to offer an excellent opportunity and a large discount". The FT comments that house price derivatives markets are not the perfect guide to the real thing as they are often illiquid and dominated by mortgage banks seeking to hedge their mortgage exposure.

Other indicators used to estimate future prices include the ratio of the price of houses to earnings of which the long-term average is four. In November 2008 the Halifax average price was £163,605 and earnings were £35,878, a p/e of 4.56. Given constant earnings house prices would have to fall to £143,513, or a further 12.3%, to reach the long-term p/e of four, a fall of 28.1% from the August 2007 £199,600 peak. Another commonly-quoted yardstick is "affordability" - initial mortgage interest and capital payments as a percentage of "take-home" pay. Current payments at 45% are above the long-term average and house prices, *ceteris paribus*, would have to fall a further 18% or 33% from the peak to bring payments back to the long-term average of 37%.

The array of derivatives, benchmarks, historical patterns, trends, estimates and forecasts allows the comfort of "authority" for varied predictions but little causal basis for them. The availability of credit is a major factor influencing the housing market, the current rationing is due to bank losses restricting lending, and the consequent questionable solvency of some banks reducing their trustworthiness or creditworthiness (from *credere* to trust) so that funds normally available between institutions are reduced, further restricting lending. The housing market, being more dependent on credit than virtually any other sector, will continue to have demand curtailed until "normal" credit is restored. Fortunately, showing excellent judgement, the authorities led by the USA, which did not share the Bank of England's damaging initial reluctance, have first saved the banking system and are now using the necessary extreme measures to ease credit supply which in time will reflate the market.

Another factor strongly influencing prices is that the housing market is not a "random walk" i.e. where prices are as likely to be down as up. The reverse is the case: if house prices rose last year, there is strong evidence that they rise this year - price series display positive serial correlation in the short term: house prices have risen because they have risen. However, price series show negative serial correlation in the long term, or, a period of several years in which prices rise by more than the average, is generally followed by a period of similar length in which prices either fall or rise by less than the average. The overlying credit shortage has concertinaed this affect producing rapid falls which are self-reinforcing. When the market becomes more active and the expectation of further falls becomes replaced by an expectation of further rises, then the current serial pattern will reverse again.

These two factors are subsidiary to the main underlying influences which they modulate, the supply and demand for housing, the ultimate determinants of price. The supply of houses is relatively inelastic and slow to respond to changes in demand. The supply is limited by the long cycle time of acquiring, planning and then producing. The supply is further restrained by the planning process which determines how many houses shall be built in a given place in a given time but then, because of increasing complexities in the planning system, is frequently unable to deliver the programmed number of houses. Within established housing areas supply is even more restricted, especially where listing or conservation restrictions apply. Demand is much more variable, especially in the short term. As noted credit supply is a major determinant of demand and at present a major inhibitor of it, especially as the option to defer a purchase is usually available at least in the short term. However the costs and inconvenience of delay over a longer period increase rapidly, so demand is only deferred, and the underlying demand for houses, according to the currently used econometric models, is likely to keep growing. Thus the housing market presents a paradox. In the long term there is a fundamental imbalance between a supply which is subject to considerable restriction and a requirement, measured according to various models, which is greater than has normally been available. Both the long-term supply and the demand parameters may not be unaffected by the present severe recession, but I expect any such change to leave the fundamental position intact. However, in the short term the reverse is the case: the demand is so curtailed that supply, so restricted in the long term, is in surplus in the short term.

The key question for the housing market is how long is the short term? Fortunately the major cataclysms have been avoided. The threatened failure of the world's financial system has been avoided as "deft policy saw off calamity". The solvency of the vast

majority of the banks affected, or so far as is known to be affected, is being restored by recapitalisation, and the failure of another major bank such as Lehman's should be avoided. The Central Banks and Governments have recognised that the immediate requirements must take precedence over other objectives, and seem likely to develop policies appropriate to the extreme conditions. They have put in place extensive measures designed to ease liquidity, to increase credit and to reduce its costs. Other measures, such as quantitative easing, are also likely. Thus the present system will survive and credit conditions improve. In the months ahead the improved credit conditions will increase the demand for houses and prospective sellers who had not previously accepted market clearing prices will increasingly trade and transaction numbers rise. This rise in transactions will take place in a market that will still be experiencing the positive serial correlation of the recent price falls - momentum - but at some point it will switch and the momentum will reverse. When the market stops falling it will start rising! Switches in investment sentiment are fickle and impossible to determine - a knowledge or understanding of them would be a veritable philosopher's stone, - and I suspect that the switch will result from a combination of perceived over reaction, available credit, investment return and the pent-up or growing demand created by the current market seizure. An abrupt change is common in property markets. The Hillier Parker All Property Yield is rarely unchanged quarter to quarter, and peak prices or trough prices immediately reverse. In my view such a reversal in house prices will occur no earlier than Autumn 2009 and no later than Spring 2010.

Future Progress

We will not commission development until market conditions improve. Within the last year we have had several sites on which development could have commenced, but, because of the then prospects for the economy, we have delayed starting until market conditions improve. Thus we have no large-scale building work in progress, or committed.

Farming enjoyed an excellent 2006/07 season, particularly the arable sector, and this led to the increase in agricultural land prices. As the supply elasticity of arable products is very high, we did not expect these high prices to persist and we are disposing of the agricultural interests acquired as an adjunct to our rural development properties. We have sold one farm and part of another farm where a second part is under offer.

Planning work will continue on many of our fifteen rural development sites where we expect to gain some approvals over the coming year, although many planning regulations and their interpretation are both becoming increasingly less advantageous. Most of these sites were purchased, unconditionally i.e. without planning permission, the vast majority several years ago, when house prices were below last year's peak, and when permission is obtained, should increase in value significantly. For development or trading properties no change is made to the Company's balance sheet even when the open-market values have increased considerably. Naturally, however, the balance sheet will reflect the value of such properties on their sale or subsequent development.

Our investment portfolio has been reduced over the last few years as the Company's interests were increasingly directed to enhancing value by gaining planning change. Historically we have adopted a conservative policy and have secured long-term borrowings against a low LTV and at low margin. The investment portfolio's value will

reflect the market conditions at the time which without doubt will continue to worsen, but should improve earlier than some commentators expect. When appropriate we will seek to realise investment properties as we have just done in Aberdeen at a premium to its purchase price and to its recent valuation.

The current year's results will continue to reflect the decline in the investment and residential market. The cut in interest rates is greatly beneficial and I expect that the Libor premium will continue to decline as the bailout of the banking system becomes effective. The Group has long-standing relationships with its bankers. Our main facility is a five year loan maturing in February 2011. Other facilities are with banks from whom we have had borrowings over the same properties since 1990 and 1994 respectively of which one has just renewed and the other, a two-year facility, falls due for renewal in August 2009. I expect these relationships to continue.

The mid-market share price on 24 December 2008 was 72.5p a discount of 53.7% to the NAV of 156.6p. The Board does not recommend a final dividend but will restore dividends when profitability and consideration for other opportunities and obligations permits.

Conclusion

Last year I concluded "The UK economy is expected to experience a major deflationary shock resulting form an unprecedented contraction of credit" which is now occurring. Recently there have been four changes for the better: the inflation occurring in oil, foods and commodity prices has been viciously reversed; Sterling has fallen significantly; interest rates are at record lows and still falling; and the authorities, who previously prevaricated, are now taking appropriate action. These factors will moderate the severity of the recession.

The recession will embrace all the "developed" economies and have a severe impact on the emerging economies, will dispose of the theory of "decoupling" and will have far-reaching political implications: the Anglo Saxon liberal market model will give ground to the European centralist model; oil exporters, particularly Russia, will have their political power attenuated and for eastern exporters, especially China, will face political upsets. Fortunately, unlike the Great Depression, protectionism will be limited and deflationary policies avoided.

Further falls in investment and residential property prices are likely, but lower interest rates and increased credit combined with changing expectations of future price changes will bring an "upturn" within nine to eighteen months.

Fortunately the recession will pass, but it will not leave its passage unmarked.

I D Lowe

CHAIRMAN 29 December 2008

For further information please contact:

Caledonian Trust PLC

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Noble & Company Limited	Tel: 0131 225 9677
David Ovens	
Rory Boyd	

Group income statement for the year ended 30 June 2008

	2008 £000	2007 £000
Gross rental income	**793**	658
Service charge income	**20**	26
Dilapidation income	**29**	-
Property charges - occupied properties	**(158)**	(144)
Property charges - unoccupied properties	**(76)**	(196)
Net rental and related income	**608**	344
Proceeds from sale of trading properties	**175**	1,477
Carrying value of trading properties sold	**(70)**	(1,074)
Profit from disposal of trading properties	**105**	403
Administrative expenses	**(840)**	(809)
Other income	**61**	163
Other expenses	**(14)**	(51)
Net other income	**47**	112
Net operating (loss)/profit before investment property disposals and valuation movements	**(80)**	50
Profit on disposal of investment properties	**-**	16
Valuation gains on investment properties	**709**	867
Valuation losses on investment properties	**(7,870)**	(225)
Net valuation (losses)/gains on investment properties	**(7,161)**	642
Operating (loss)/profit	**(7,241)**	708
Financial income	**30**	257
Financial expenses	**(664)**	(567)
Net financing costs	**(634)**	(310)

(Loss)/profit before taxation	**(7,875)**	398
Income tax credit	**716**	126
(Loss)/profit for the financial period attributable to equity holders of the company	**(7,159)**	524
(Loss)/earnings per share		
Basic (loss)/earnings per share (pence)	**(60.25p)**	4.41p
Diluted (loss)/earnings per share (pence)	**(60.25p)**	4.41p

Consolidated statement of recognised income and expense for the year ended 30 June 2008

	2008	2007
	£000	£000
Change in the fair value of equity securities available for sale	**(30)**	(2)
Net loss recognised directly in equity	**(30)**	(2)
(Loss)/profit for the period	**(7,159)**	524
Total recognised income and expense for the period attributable to equity holders of the parent	**(7,189)**	522

Consolidated balance sheet as at 30 June 2008

	2008	2007
	£000	£000
Non current assets		
Investment property	16,915	24,076
Property, plant and equipment	22	17
Investments	11	41
Total non-current assets	16,948	24,134
Current assets		
Trading properties	11,383	10,767
Trade and other receivables	434	539
Cash and cash equivalents	42	824
Total current assets	11,859	12,130
Total assets	28,807	36,264
Current liabilities		
Trade and other payables	(462)	(655)
Interest bearing loans and borrowings	(987)	(696)
Income tax liabilities	-	-
	(1,449)	(1,351)
Non current liabilities		
Interest bearing loans and borrowings	(8,750)	(8,400)
Deferred tax liabilities	-	(716)
	(8,750)	(9,116)
Total liabilities	(10,199)	(10,467)
Net assets	18,608	25,797
Equity		
Issued share capital	2,377	2,377
Capital redemption reserve	175	175
Share premium account	2,745	2,745
Retained earnings	13,311	20,500
Total equity attributable to equity holders of the parent	18,608	25,797

The financial statements were approved by the board of directors on 29 December 2008 and signed on its behalf by:

ID Lowe
Director

Consolidated cash flow statement for the year ended 30 June 2008

	2008 £000	2007 £000
Cash flows from operating activities		
(Loss)/profit for the period	(7,159)	524
Adjustments for :		
(Profit) on sale of investment property	-	(16)
Losses/(gains) on fair value adjustment of investment property	7,161	(642)
Loss on sale of plant and equipment	-	4
Depreciation	7	7
Net finance expense	642	310
Income tax credit	(716)	(126)
Operating cash flows before movements in working capital	(65)	61
(Increase) in trading properties	(616)	(3,733)
Decrease in trade and other receivables	105	429
(Decrease)/increase in trade and other payables	(192)	164
Cash generated from operating activities	(768)	(3,079)
Interest paid	(665)	(558)
Interest received	22	257
Cash flows from operating activities	(1,411)	(3,380)
Investing activities		
Proceeds from sale of investment property	-	613
Acquisition of property, plant and equipment	(12)	(6)
Cash flows from investing activities	(12)	607
Financing activities		
Proceeds from new long term borrowings	641	1,720
Dividends paid	-	(327)
Cash flows from financing activities	641	1,393
Net decrease in cash and cash equivalents	(782)	(1,380)
Cash and cash equivalents at beginning of year	824	2,204

Cash and cash equivalents at end of year	42	824
	========	=======

Notes to the audited results for the year ended 30 June 2008

1. The above financial information represents an extract taken from the audited accounts for the year to 30 June 2008, which have been prepared under the basis of International Financial Reporting Standards (IFRSs), and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 (as amended). The statutory accounts for the year ended 30 June 2008 were reported on by the auditors and received an unqualified report and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985 (as amended).

   The statutory accounts will be delivered to the Registrar of Companies.

2. All activities of the group are ongoing. The board does not recommend the payment of a final dividend in 2008 (2007: 1.00p).

3. Earnings per ordinary share

   The calculation of earnings per ordinary shares is based on the reported loss of £7,875,000 (2007: profit £398,000) and on the weighted average number of ordinary shares in issue in the year, as detailed below:

	2008	2007
Weighted average or ordinary shares in issue during year - undiluted	11,882,923	11,882,923
Weighted average of ordinary shares in issue during year - fully diluted	11,882,923	11,882,923

4. The Annual Report and Accounts will be posted to shareholders on 31 December 2008 and further copies will be available, free of charge, for a period of one month following posting to shareholders from the Company's head office, 61 North Castle Street, Edinburgh, EH2 3LJ.

5. The Annual General Meeting of the Company will be held at 61 North Castle Street, Edinburgh, EH2 3LJ on Friday 30 January 2009 at 12.30pm.