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21 December 2022

Caledonian Trust plc

(the "Company" or the "Group")

Audited Results for the year ended 30 June 2022

Caledonian Trust plc, the Edinburgh-based property investment holding and development company, announces its audited results for the year ended 30 June 2022.

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CHAIRMAN'S STATEMENT

Introduction

The Group made a pre-tax loss of £1,302,000 in the year to 30 June 2022 compared with a profit before tax of £460,000 last year. The loss per share was 11.05p and the NAV per share at 30 June 2022 was 197.3p compared with earnings per share of 3.90p and NAV per share of 208.4p last year. The net valuation loss in the year was £500,000 compared to a net valuation gain in the previous year of £690,000.

Income from rent and service charges fell to £306,000 from £368,000 in 2021. The Directors consider that this is a non-recurring dip in income. There were no property sales during the year compared with sales of £4,186,000 last year. Administrative expenses were £887,000 (2021: £440,000), the increase being substantially attributable to a non-recurring purchase of intellectual property to enhance the value of the potential development of St. Margaret's House for £363,000. Interest payable was £139,000 (2021: £137,000).

Review of Activities

In the Group's property investment business, the principal change has been the completion of the lease to Deliveroo of the largest unit in our high yielding retail / industrial property at Scotland Street, Glasgow. Deliveroo have completed their extensive fit out of nine "dark kitchens" within the unit which are all occupied and trading. We continue to hold our other high yielding retail properties in Berwick, our North Castle Street offices, four Edinburgh garages, a public house / restaurant in Alloa, our site at Belford Road / Bell's Brae, Edinburgh and St. Margaret's House.

St Margaret's continues to be fully let at a nominal rent, presently just over £1.50/ft^2 of occupied space, to a charity, Edinburgh Palette, which has reconfigured and sub-let all the space to over 200 artists, artisans and galleries. St Margaret's continues to have its traditionally high occupancy level.

We have appointed Montagu Evans to market St Margaret's House for which we hold detailed planning permission for a development of 377 student bedrooms and 107 residential flats. We plan to launch the marketing campaign in Spring 2023 provided market conditions are propitious. We continue to receive unsolicited interest from a broad spectrum of parties in advance of the formal market launch. Further details in relation to St. Margaret's House can be found in the Future Progress section.

At Brunstane we commenced construction of the third phase of development, comprising five new houses over 8,650ft^2 forming the Steading Courtyard, at the beginning of July 2021 and this development was completed in September 2022. We completed the sale of three of the houses in October and November 2022 for an aggregate £2m, and Knight Frank are marketing the remaining two houses at offers over £675,000 and £695,000. The application for 11 new houses (c.20,000ft^2) "Upper Brunstane", in the Stackyard field to the east of the steading was granted in November 2022. We intend to prepare the site for development, take up the planning consent and secure the requisite building warrant with a view to undertaking the development once market conditions stabilise. We have made an application to modify the consent for "Plot 10", lying between Phase 3 and Upper Brunstane, by replacing the single large (3,500ft^2) house with two smaller houses of similar combined size which will complete the small courtyard leading into Upper Brunstane.

At Wallyford we are currently finalising several minor but important variations to the planning consent for six detached houses and four semi-detached houses over 13,350ft^2 and we have received detailed tender prices, but are reviewing when to start construction in light of current market uncertainty. The site lies within 400m of the East Coast mainline station, is near the A1/A720 City Bypass junction and is contiguous with a completed development of houses. To the south of Wallyford a very large development of new houses is being built at St Clement's Wells on ground rising to the south, affording extensive views over the Forth estuary to Fife. Towards the eastern edge, Persimmon completed a development of 131 houses last year. On an adjacent site Taylor Wimpey completed a development of 80 houses earlier this year and have started development of a second site comprising 148 houses which are selling at prices of £340/ft^2 for small three-bedroom semi-detached houses and £275/ft^2 for larger four-bedroom detached houses. On the western side of St Clement's Wells, Barratts are building almost 500 three and four-bedroom houses of which more than half are completed with prices currently at £327/ft^2 for small three-bedroom semi-detached and terraced houses and £280/ft^2 for larger four-bedroom detached houses. The Master Plan for the St Clement's Wells development includes a primary school, separate nursery and community facilities, which opened in 2021, and a Learning Campus, including a new secondary school, on an adjacent site which is scheduled to open in August 2023. Planning consent in principle has been granted for a further 750-800 new houses on the adjacent Dolphingstone site to the South-East. The environment at Wallyford, no longer a mining village, is rapidly becoming another leafy commuting Edinburgh suburb on the fertile East Lothian coastal strip.

The third of our Edinburgh sites is in Belford Road, a quiet cul-de-sac less than 500m from Charlotte Square and the west end of Princes Street, where we have taken up both an office consent for 22,500ft^2 and fourteen car parking spaces and a separate residential consent for twenty flats over 21,000ft^2 and twenty car parking spaces. This site has been considered "difficult". To dispel this myth, we have created a workable access to the site; cleared rubble and spoil; exposed the retaining south wall and the friable but strong bedrock in parts of the site; and completed an extensive archaeological survey. In consequence, the extent of the enabling construction works is much reduced compared to earlier estimates. We have now instructed architects to adjust the plans to meet current statutory requirements to remodel the Belford Road façade and to reconfigure the internal layout with a more contemporary open-plan design to reflect current market requirements. Discussions continue with City of Edinburgh Council Planning Department.

The Group has three large development sites in the Edinburgh and Glasgow catchments of which two are at Cockburnspath, on the A1 just east of Dunbar. We have implemented the planning consent on both the 48-house plot northerly Dunglass site and on the 28-house plot, including four affordable houses, southerly Hazeldean site. The Dunglass site is fifteen acres of which four acres is woodland, and a non-woodland area could allow up to a further thirty houses to be built if the ground conditions, which currently preclude development, could be remediated.

The Group's development site at Gartshore is within ten miles of central Glasgow, near Kirkintilloch (on the Union Canal), East Dunbartonshire, and comprises the nucleus of the large estate, previously owned by the Whitelaw family, including 130 acres of farmland, 80 acres of policies and tree-lined parks, a designed landscape with a magnificent Georgian pigeonnier, an ornate 15,000ft^2 Victorian stable block, three cottages and other buildings and a huge walled garden. Glasgow is easily accessible as

Gartshore is two miles from the M73/M80 junction, seven miles from the M8 (via the M73) and three miles from two separate Glasgow/Edinburgh mainline stations and from Greenfaulds, a Glasgow commuter station. Gartshore's central location, historic setting and inherent amenity forms a natural development site. Accordingly, proposals have been prepared for a village within the existing landscape setting of several hundred cottages and houses together with local amenities. This would complement our separate proposals for a high-quality business park, including a hotel and a destination leisure centre within mature parkland.

The Company owns thirteen rural development opportunities, nine in Perthshire, three in Fife and one in Argyll and Bute, all of which are set in areas of high amenity where development is more controversial and therefore subject to wider objection, especially as such small developments, outwith major housing allocations, may not merit high priority. Thus, gaining such consents is tortuous, although such restrictions add value and for most of these rural opportunities, we have endured planning consents. Until very recently, the rural housing market had not been experiencing the rapid growth taking place in Edinburgh and Glasgow and in their catchment areas. However, values in regions such as Perth and Kinross and Fife having risen over 8% in the past year, but, with even more attractive immediate opportunities elsewhere, no investment is proposed during the current year in the rural portfolio except to maintain existing consents or to endure them. The improvements being made to the A9, notably the completion of the dualling as far north as Birnam, continue to benefit most of our properties north of the Forth estuary as Ardonachie is now only 15 minutes from Perth; Balnaguard, Strathtay and Comrie all 30 minutes; and Camghouran, a site for holiday houses, 90 minutes.

Economic Prospects

Economics, "just one *'dashed'* thing after another…", Rudge replied, to paraphrase Alan Bennett's "History Boys", on being asked to define "history". So, indeed, is it proving as the UK economy, having contracted 0.2% in Q3 2022 (the Bank of England's forecast was 0.5%) is forecast by the MPC to contract a further 0.3% in Q4 and to fall by 0.75% in H2 2022, so starting a recession which, using the Bank's normal conditioning, based on market implied interest rates, is forecast to last until the middle of 2024, before regaining the pre-recession level in five years.

Over the last seven centuries there have been almost 200 business cycles of varying severity, only a few of which were deep and about 15 lasting five years or more. The worst of these cycles combined both such injurious features.

Tolstoy's Anna Karenina portrays changes in fortune: "Happy families are all alike; each unhappy family is unhappy in its own way". Similarly, economic distress has many different causes, but they fall into four general headings.

Disease is the most virulent of the four separate, but at times overlapping causes. The "plague": the Black Death, causing an economic contraction of 30% between c.1346 – 1353 (there were subsequent sporadic but lesser outbreaks), resulted in England's most severe recession. There was a macabre twist, causing it to fall outside the normal classification of recessions: GDP per person rose during the economic contraction, as the appalling high death rate of nearly 50% reduced the population, and simultaneously, real wages rose as labour scarcities transferred resources from capital to labour.

The scale of the recession caused by the "plague" was not repeated in the two subsequent disease induced recessions. The "Spanish" flu epidemic induced a recession which started in 1918 which was compounded by the sharp change from wartime production whose deflationary effects were reinforced by strikes in the coal industry and widespread unemployment. The economy contracted by about 7% and, before recovering, succumbed to the post WWI recession of 1920 – 1924, giving a combined reduction estimated at 22% of GDP.

Covid-19 caused the third of the "plague" induced recessions in which the economy contracted 9.4% in 2020, including a spectacular 19.4% fall in Q2 during the initial "lockdown". This disease led recession is exceptionable in that, due to the extensive Government financial support, businesses were largely maintained intact so that, as the disease became controlled through the extraordinarily successful vaccination programme, the economy recovered rapidly, returning to the pre-Covid-19 level in December 2021. Recessions are a curse on economies, and plagues are the curse of the first horseman of the apocalypse, "galloping while bending his bow… with [his] brass quiver filled with poisoned arrows, containing the germs of all diseases".

Famine, manifests as a black horse, ridden by the third and the most stealthy of the four horsemen, was a frequent curse of the economy, but caused fewer direct fatalities. England was predominantly an agricultural economy until the industrial revolution in the late 18th century and, consequently, "normal" season to season variations in agricultural output were by far the major influence on economic output, giving rise to short-term business cycles whose amplitude is not accurately quantifiable – but they occurred frequently with roughly 30 such cycles every hundred years from 1272 to 1772. However, one seasonal variation did produce one of the greatest recessions in England's economy (Scotland was less affected), termed the "Great Frost". The winter of 1708-09 was extremely cold and a severe frost gripped the countryside for several months, lasting into the late spring. The thaw was then followed by extensive flooding from the snow melt, factors resulting in a greatly reduced cropped area, almost all of which was late sown, and so yielded a very poor harvest. Simultaneously, the extreme cold winter and late spring caused many livestock to perish.

There is a colourful contemporary account:-

I. *The Hiſtory of the Great Froſt in the laſt Winter* 1708 *and* $170\frac{8}{9}$. *By the Reverend Mr.* W. Derham, *Rector of* Upminſter, *F. R. S.*

THIS Famous Society having done me the Honour to put into my Hands their Papers relating to the late *Great Froſt*, and having alſo my ſelf received divers Relations thereof from my Friends at Home and Abroad, as well as made Obſervations my ſelf, I ſhall endeavour to give an Account of Two Things; *The Degree, and Effects of this Remarkable Froſt.*

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The Degree of the Froſt in England.

As to this Matter, I believe this Froſt was greater (if not more univerſal alſo) than any other within the Memory of Man.

Recapitulate it here; *viz.* That my Thermometer was much lower on *December* 30. than it had ever been ſince 1697. when I firſt began my Thermometrical Obſervations; That the ſelf-ſame Thermometer in our Repoſitory in *Greſham*-College was lower than ever it was before

In *London* the greateſt Contraction of the Spirits was on *January* 3. which was an exceſſive cold Day at *Upminſter* alſo: But the far greateſt Contraction with us was on *December* 30. before. The reaſon of the Difference is, becauſe my Thermometer is always abroad in the open Air, where no Sun-ſhine toucheth; but thoſe two *London-Glaſſes* are within Doors, in Rooms where no Fires are made. And it is eaſie to obſerve, that the Froſt doth not preſently exert its greateſt force within Doors: And when it doth, neither doth it ſo ſoon abate its force within Doors, as without. The reaſon whereof is plain enough, and needs not be mention'd.

The economic disaster followed the delay to the spring planting season. “Pray for an early Spring”, I was advised when commencing farming!

The second horseman, emerging when the second seal of the Apocalypse was broken, rode a red horse and carried a sword vertically – the symbol of war, the principal cause of many deep recessions. Just prior to the “Great Frost” The War of the Spanish Succession, (principally 1701 – 1708) was the first of many European great power conflicts, a predecessor to the Napoleonic and both World Wars, was fought beyond Europe in Florida, Canada and the West Indies, and in South America, India and West Africa, between armies each numbering, for the first time, over 100,000, to whose number Britain contributed less than 20%, but provided disproportionate financial support and caused over 1 million casualties. The consequent economic cost to the UK resulted in a deep 15% recession in 1706 whose cost, having led to a review of the war objectives, initiated the lengthy negotiation of the subsequent peace Treaty.

The second Great Power conflict, which concluded with the victory over Napoleon’s France at Waterloo in 1815, caused a recession of 5.3%, lasting until 1819 in England and 1822 in Scotland. The recession was exacerbated by a sharp decline in the textile industry where workers’ pay was cut from 15 shillings a week to 5 shillings or less. The economy was also greatly damaged by the reallocation of resources to agriculture and the resultant transfer of income away from the high consuming lower income groups to the high saving wealthy landowners caused by the passage of the first of the Corn Laws in 1815 which boosted domestic grain prices by prohibiting cheaper grain imports for less than the present equivalent of about £1,800 per tonne. (The current, post Ukraine war, price is about £250 per tonne).

The third European Great Power conflict, WWI, induced an even deeper recession, as GDP fell to 21% in 1921 and output did not recover to the 1918 peak until 1929, as the adverse effects of the war were reinforced by the even more contractionary consequences of the Spanish flu pandemic.

The long-term cost of WW1 to the UK economy was significantly greater than its costs while it was waged. The war consumed 10% of the UK’s domestic capital and 24% of its overseas assets and 25% of its GDP. The UK lost 3.6% of its human capital from 715,000 military deaths and more than 1,500,000 injuries. In addition to the direct domestic economic damage, the long duration of the war caused far reaching changes to its trading partners throughout the world, making them less dependent on UK trade, even when the UK had recovered the necessary capacity. At the outbreak of WWI Britain was “the” leading member of a worldwide liberal economic order with 54% of its GDP representing world trade, accounting for 27% of the world exports, and had a net property income equivalent to 9% of GDP from overseas investments. This all changed: protectionism was rife, trade fell, and import substitution was widespread as protectionism gave rise to domestic manufacture, and industries developed as the UK was unable to supply them. The economic damage was exacerbated by the post war decision to return to the gold standard (a fixed exchange rate), particularly one based on the pre-war parity of $4.86 rather than $4.20, a lower level deemed necessary for unemployment to fall to previous levels. This move was controversial and was condemned by Keynes at the time whose views, subsequently, were proved correct. The role of finance, monetary and fiscal policy and financial regulation in causing recessions is the major recurring theme in centuries of recurring recessions, a topic to be summarised following a brief analysis of the recession caused by WWII, the most recent of the Great Power wars.

The WWII victory resulted in another severe recession, as GDP fell 12.2% from 1943 to 1947, but unlike post WW1 the recovery took place quickly due to two main factors. First, and most importantly, there was no "flu" pandemic. Second, because after WWI several significant economy policy corrective measures were recognised and largely embraced post WWII, remedial action was both available and largely taken to mitigate the consequences of the war devastation.

The most significant change was the reversal of the post WWI policy of imposing harsh conditions on the debtors, and reparations from the losers. Significantly, post WWII, Britain had loans equivalent to 25% of GNP and was the major world debtor, owing the US £3.75bn in "war loans". To assist the UK's and the world's recovery, these debts were rolled over into a 50-year loan at 2%. At the same time, the US' European Recovery Programme "The Marshall Plan" made over $11bn available to European recovery of which 90% was as grants and of which Britain received £3.19bn. Thus, post WWII western economies were not crippled as they had been after WWI. However, one financial policy error was repeated, as subsequent to the Bretton Woods agreement made in 1944, Britain again agreed to a fixed exchange, on this occasion against the dollar, which, given the UK's inflation rate, proved to be far too high and in 1959 Sir Stafford Cripps modified this policy by devaluing Sterling by 30% from $4.03[23] to $2.80.

The last, the fourth horseman of the Apocalypse was revealed astride a sickly green grey coloured horse, the pallor of some slowly spreading affliction. Such a condition aptly describes the symptoms of recessions inherent in or caused by the economic "systems" or their operation. These recessions occur only in monetised systems – not, for instance, in purely subsistence agricultural economies. One of the longest English recessions occurred between 1420 and 1490 whose primary cause was a "credit" crisis, causing silver bullion to be rationed. Imports from the Far East had greatly expanded, resulting in a trade deficit, exacerbated by the collapse of England's leading cloth export and wool, falling by 50% in the four years to 1445, and the deficit was financed by the export of bullion, notably silver. The shortage of bullion was reinforced by hoarding of bullion, especially in the East where, in the late 14th century, China's Ming dynasty reverted to the silver standard, abandoning the Mongol Yuan dynasty's fiat currency. The credit shortage became so great that by the 1420s only 13 pence per head was available in England compared to 56 pence in the previous century. The Great Slump finally ended about 1490 as bullion supply increased with higher prices and improved mining methods, together with new supplies from Portuguese exploitation of African gold supplies and later Spanish exploitation of South American treasures and mines.

The Long Depression of 1873 to 1879 also originated mainly from changes in bullion supply, but for different reasons. The US Coinage Act of 1873 ended the bimetallic standard of both gold and silver and moved to a purely gold standard. The elimination of silver abruptly contracted the money supply, drove down the silver price and closed many mines, particularly those in the extensive new mining area in Nevada. A worldwide recession followed, particularly severe in Central Europe, then recovering from the 1870 Franco-Prussian War, but extending to the UK, which, although enjoying an industrial boom, was suffering a long recession in the domestic Agricultural Sector, having become exposed to cheaper international competition. The United States economy, having experienced a long boom after the 1861-1865 Civil War, then experienced a deep recession.

The "Great Depression" lasting from 1929 to 1939 in the USA, primarily a finance-based downturn, is worthy of its reputation as the world's most notable economic downturn, as between 1929 and 1932 world GDP fell by 15%, peak to trough, and remained depressed below its previous level for a considerably longer time. The Great Depression was most severe in the USA where GDP per head dropped from $7,100 to $4,950 or 30% by 1933 and GDP did not recover to its 1929 level until 1939. In the US between 1929 and 1932 industrial production fell 46%, wholesale prices 32%, trade by 70%, and the unemployment level increased seven times. The reduced severity of the recession in the UK facilitated its economy's recovery to its pre-recession level by 1934.

The causes of the Great Depression, originating in the USA, have competing interpretations of its primary and ancillary causes, but all of them are fundamentally "financial". A colourful popular interpretation is that the stock market crash was a primary cause of the Great Depression, rather than a reflection of the cause. However, stock market valuations do not reliably reflect the reality, as promulgated by proponents of the "efficient market hypothesis", but are greatly influenced by the perceptions of the preconceptions of others, iteratively: they are guided, to varying extents, by human behavioural traits as well as by analytical assessments, or even, anecdotally, by New York cabbies who then became self-styled stock market gurus. The American economy grew rapidly in the late 1920s, facilitated by a major expansion of the credit base, widely extending consumers' credit in various formats, including the establishment of a "never, never" or Hire Purchase ("HP") purchase culture which reinforced the boom in business profitability, where stock price rises were reinforced by the extension of 90% broker credit, attracting even more speculative demand. In 1929 the market was "spooked": consumer sales were considered to be falling. Almost overnight there were margin calls on stock, their sales causing further drops, bank withdrawals and asset sales to fund credit requirements, leading to falling asset valuations and then to loan defaults undermining confidence in banks, bank runs and then to bank failures, all in a vicious self-reinforcing spiral.

The causes of the scale, the depth and the extent of the Great Depression are disputed. The current preferred explanation of why a possibly "normal" business cycle recession cycle so escalated is provided by the monetary explanations of Milton Friedman and Anna J Schwartz who held that the US Federal Bank did not intervene, but permitted both the collapse of the banks and maintained high interest rates, and allowed the money supply to contract by 35%. In short, the US Federal Bank attempted to control the economy by following a contractionary policy which had the directly opposite result. Unfortunately, the damage resulting from the failure of the US policy was a contagion that spread across the world.

Following recovery from WWII the UK, together with most of the Western World, enjoyed growth with minor deviations of up to 5% pa until mid-1973. The economy benefited from various relaxations, particularly the deregulation of the house mortgage market which permitted Banks, as well as Building Societies, to lend for house purchases. Increased credit increased house prices and the increased house wealth boosted demand throughout the economy, a demand which was intensified by the mass distribution of credit cards, (reminiscent of the HP credit expansion in the US in 1920s). Demand was further increased by "Barber's Boom", the then Chancellor, Tony Barber's[32], "dash for growth", designed to raise productivity and growth, a policy similar to that espoused, all so briefly, by Prime Minister Truss.

A major factor contributing to "Barber's Boom" contained the seeds of its destruction. From the late 1950s cheapening oil prices had stimulated the economy as it substituted for coal, but was systematically destroying the coal industry. In 1956 an output of 207 million tonnes was produced by 700,000 men, but by 1971 fewer than 290,000 men produced 133 million tonnes from many fewer collieries. Falling demand reduced the bargaining power of the miners who, in 1957, enjoyed a wage premium of 22% above their male counterparts in manufacturing, but by 1967 their wage was 2% below that of a manufacturing employee. Such resentments resulted in the miners' strike, 9 January - 28 February 1972, with severe effects on electricity supply and the economy.

It is indeed ironic that the strike demonstrated the continuing importance of the coal industry only months before an unexpected event made it even more important. In October 1973 the brief Yom Kippur War caused the Saudi led OPEC countries to ban all exports to the USA and to use their cartel position to increase its price from about $3 to $14 by 1976. Oil supplies to the UK were interrupted and power generation became increasingly dependent on coal. Against a background of rapidly rising prices and a looming oil shortage, the miners called a strike in December 1973, reducing also this primary fuel source for power stations with the consequent emergency regulations, including rationing of electricity and the three-day working week, all together causing a severe contraction in the economy.

The 1973 Barber Boom had led to an inflationary spiral, which was fuelled by the Oil Price surge and reinforced by wage rises, gained by commercial advantage, all combined to cause high inflation, peaking at 25% in 1975 whose high prices reduced export volumes, so resulting in the sterling crisis of 1976, a crisis from which the economy was rescued by the record IMF loan of $39bn. Ominously, while the economy did recover, peaking in late 1979, inflation was still high, rising to 16.4% in 1980, the underlying problems of the 1970s remained unresolved.

The Thatcher government's inheritance on replacing Labour in 1979 was an economy with high inflation, expectations of high inflation, a disaffected labour force, many of whose traditional industries, having become uncompetitive, were closing. The underlying cause of this inheritance was the poor competitiveness of the UK economy, permeated by lax fiscal and monetary policies to which the continuing rapid rise in the prices by 1980 proved to be the "last straw". Temporising economic policies had exacted their reckoning. The Thatcher government embraced monetarist policies and instigated far reaching financial management reforms, principally, tightening monetary policy, but including fiscal tightening, and widespread measures to improve competition and, hence, productivity. In consequence, a deep recession followed, employment peaked at 11.9%, GDP fell by 4.5% at its nadir, company earnings declined 3.5%, and a recovery took three and a quarter years.

The stringencies of the early 1980s gave way to an economic boom, the "Lawson Boom" – with echoes of the "Barber Boom" – partly due to the deregulation of many financial controls and restrictions which greatly improved the supply side of the economy, allowing higher growth without inflation. However, the stimulation of demand again proved even greater than the supply capacity, leading once more to an extensive inflation, reduced international competitiveness and a major balance of payments deficit. Unfortunately, possibly for political reasons rather than sound financial ones, the UK had entered into a fixed exchange rate, the Exchange Rate Mechanism ("ERM"), and, being unable to devalue, was forced to defend the fixed exchange rate by raising interest rates, a peak of 15% being momentarily reached (3½% today seems high!). These measures had caused the economy to fall into recession early in 1990, reducing economic output for 3½ years by a maximum of 2.5% and climaxing dramatically on 16 September 1992 when the UK left the ERM and devalued the £ by 20%. Again, failed financial policies had prejudiced the economy.

The next financially induced recession, starting in 2008, was different, very different, from the "classic" inflation induced recessions of the 1980s and 1990s, the "Barber" and "Lawson" booms, where demand had been fostered beyond the supply capacity of the economy, a barrier the revolutionary policies of the Thatcher administration (Times 30.11.22) had only mitigated.

Following the 1990s recession, Gordon Brown, the then Chancellor, recognising that Fiscal and Monetary Policy were both politically controlled and both used financially unwisely by incumbent governments for political reasons announced (on 6 May 1997) the setting up of an independent Monetary Policy Committee ("MPC") chaired by the Governor of the Bank of England to determine the interest rate necessary to deliver the Government's target inflation rate, thus removing monetary policy from direct political control. Such independence, likely coincident with benign inflationary conditions, appeared to deliver stable growth and inflation. Accordingly, Gordon Brown, in his pre-budget speech of 6 December 2006 said,

> "tenth consecutive year of growth … the longest period of sustained growth in our history, but of all the major economies – America, France, Germany, Japan – Britain has enjoyed the longest post war period of continuous growth … sustained under this government for a record 38 quarters [and] will continue into its 39th and 40th and beyond …".

Such pride did come before a fall, a spectacular one, heralded within nine months when in early September 2007 a Scottish paper published a photograph resembling an old-fashioned bank run – depositors outside the Northern Rock ("NR") offices in Edinburgh waiting to withdraw their money. Next day the Bank announced an emergency liquidity supply.

There appeared, initially, to be a classic "bank run", the first in the UK since Overend, Gurney & Company in 1866, but the "run" on NR had a different and more subtle and other underlying cause. Unusually, NR relied not primarily on retail depositors who constituted only 23% of its liabilities, but on a combination of short-term borrowing and other and building society long-term funding, such as Preferred Stock, but not on Collateralised Debt Obligations ("CDOs") or other "structured" assets. NR's total assets had grown from £17.4bn on flotation in 1998 to £113.5bn in January 2007, an asset growth financed largely by substantial debt and reserve notes, such that total assets divided by common equity, which in June 1998 was 22.8, (high even by US investment bank's high standards of c.25.0 at that time) became 60.0 in June 2007 and 86.3 in October 2007. With such very high borrowing, or "leverage", an even very small discounting of the value of non-equity liabilities would wipe out the miniscule common equity. Leverage determines the degree of risk taken by unsecured creditors, especially those lending at a discount to the face value of the security which in 2007 was normally 2% to 5%, the quaintly termed "haircut". It implies, if the haircut is 2%, that the borrower needs £2 equity per £98 security or a ratio of 50. If the haircut rate is 4%, then the borrower can only borrow £46 security: thus, if the "haircut" increases, either even more equity is required for a given amount or less security can be borrowed. Highly leveraged entities such as NR were, therefore, very "exposed" to changes in the perceived creditors' risk or "haircut" level, as determined by the credit "market".

On 9 August 2007 a key event occurred when the French Bank Paribas closed three investment vehicles using short-term money such as was used by NR, a very public illustration of a widespread credit funding difficulty then affecting more and more institutions. Critically, while NR had almost no exposure to the subprime market in which Paribas lent, it was "fishing" – borrowing – in the same financial pool, which abruptly shrank and many institutions and investment vehicles fishing there were experiencing difficulties in renewing their loans. For NR its high leverage resulted in that financing market closing to them and the management was forced to turn to the Bank of England for support, which granted loans for £28.4bn in December 2007.

That support of the Bank was given before the "run" on NR – it was not the "run" that caused NR's difficulties, but the earlier withdrawal of credit facilities by wholesale markets, sophisticated institutional investors, due to a sudden change of or reappraisal of international and individual credit risk. NR's liquidity crisis was different to a normal "bank run". In normal "runs" when assets are impaired each individual depositor runs for fear that the others will run, leaving no assets left for those that do not run, deemed "co-ordination failure". NR assets were secure at that time. NR was a prime mortgage lender to UK households when house prices were rising and employment was stable, and at that point there was no sign of any deterioration in the loan quality.

Thus, NR did not represent a normal bank failure: it was the change in risk in credit, or the perceived change in its risk that required higher returns and, therefore, a higher equity cover that undermined NR. Such a risk is separate from the security of banks' loans and their related regulation and lies with the extent of capital market risk, and as such banking and capital market conditions should have been considered jointly and so regulated.

Consideration of the credit market was a lesson, self-evidently, lost on the Royal Bank of Scotland ("RBS") when in October 2007 RBS took over ABN Amro in the largest deal in financial history. The FCA – FSA Board Report found that, subsequent to the takeover, RBS had, on present criteria, Tier 1 capital of less than 2%, echoing the capital structure of NR. The changed credit risk environment was a time bomb which was primed when the Wall Street investment bank, Bear Stearns, was rescued by JP Morgan Chase in March 2008 and exploded dramatically when Lehman Brothers collapsed precipitously in September 2008. Neither the prospect nor the extent of this credit bomb were, presumably, foreseen by financial regulators, as presumably they had not been seen by the RBS, who pressed forward with the ABN Amro takeover regardless. (Or was it one or more of: momentum; hubris; incompetence; autocracy; or "ostrich"?). One wag declared it represented the ultimate triumph of Marxism: the capital owners were denuded and the banks' workers enriched. As the late Queen Elizabeth said to Professor Luis Garicano, Director of Research at the London School of Economics Management Department: "If these things were so large, how (come) everybody missed them?" Certainly, the Bank of England were oblivious of the burning fuse as it increased interest rates from 5½% to 5¾%[42] in July 2007 on the eve of one of the largest and longest recent recessions.

The recession starting in Q2 2008 was qualitatively different from all recent financially induced recessions. These have generally occurred following restrictive monetary policies imposed by the Bank to reduce inflation following booms due to excess demand over supply and not by recessions directly delivered by external creditors: this was a financial balance sheet, or credit crisis, the first since the 1930s Great Depression. It is pertinent to enquire, given the scale of the bailout to financial institutions, and the cost to the economy of what has proved to be a long period of exceptionally poor economic performance with a continuing lasting heritage, if it would not have been very much cheaper to have scotched the problem earlier. For example, if, importantly, Lehman had been saved, or on a much smaller scale NR, and credit or credit assurances flooded the market, as was undertaken with the rescue of the clearing banks, would not then the subsequent cost of the recession proved so very much smaller? The Fed's and the Bank of England's early decisions may just have more than a slight resemblance to the policy failures causing the Great Depression – doing the wrong thing! In striking contrast was Mario Draghi's epic undertaking "Whatever it takes…".

The Great Recession caused the economy to contract by 6.25% and it did not recover to its former level for 5 years in the UK, longer even than the Great Depression in the 1930s. More significantly, during recovery there was no higher rate "catch-up" growth, such that usually restores real GDP to that level implied by the previous growth rate, but rather growth stalled and experienced a double dip recession in 2011, partly caused by the misjudged fiscal austerity measures of the Cameron / Osborne administration. In the Eurozone, the even greater austerity measures, caused a longer depression in contrast to the US' laxer policy, led by Bernanke's effective endorsement of the monetary interpretation of the causes of the Great Depression, which restored their economy more rapidly.

Further damage to the economy has been caused by an apparent widespread lasting effect on productivity, particularly in the UK where productivity, adjusted for inflation and the exchange rate, grew only 0.27% p.a. between 2008 and 2019 in contrast to 0.70% p.a. in France and Germany and 1.00% p.a. in the US. Until 2007 UK output per hour was the second highest in the G7, but by 2019 it was second lowest, 18% lower than France. The degree of uncertainty is often cited as a deterrent to investment, especially its timing. Investment only is made when a favourable outturn is expected, but, as in all investments, there is a probability of an unfavourable outcome. If the possible cost of the unfavourable outcome can be reduced by waiting by more than the opportunity cost of delaying that investment, it is logically correct to delay. Furthermore, in practice, as the "behavioural" cost of a loss is greater than the "economic" cost – and behaviour tends to shun losses more than it embraces profit – then investment is even more likely to be delayed. In practice few Boards will sanction big investments when by waiting, even at net overall cost, the prospect of big losses can be avoided. Interestingly, I consider that to be a precise interpretation of many present decisions, as described colloquially as "uncertainty": forgetting everything is "uncertain", taxes and death excepted!

There is a separate constraint on investment: just as success breeds success so investment is both a cause and a consequence of a healthy economy – it results from robust demand and delivers stronger supply. Such an understanding may have been implicit in the abandoned economic policy that Prime Minister Truss sought to introduce - a stimulus to the economy producing a self-perpetuating investment boom. Unfortunately, that policy, possibly enlightened under some circumstances, quickly proved unworkable as the policy raised investment costs, particularly interest costs in credit markets, and the exchange rate of the pound fell. The New Deal in the US was introduced when markets accepted such a policy. Perhaps, as is averred, the bond markets really do determine the fate of advanced economies.

The economy has made the most remarkable recovery from the Covid induced recession and by Q2 2022 had just regained the pre-Covid level of Q4 2019, a slightly worse outcome than Germany, and considerably worse than the US which has grown 2.5%, while the two other major European countries, Italy and France, grew about 1.0%. The war in Ukraine has inevitably reversed the recovery and in the UK the economy has started to contract, falling 0.2% in Q3 2022, taking it 0.4% below its pre-Covid level in Q2 2019 and is expected by the Bank to contract a further 0.5% in Q4, before continuing to contract throughout all 2023 and H1 2024.

The long recession now forecast has multiple coincident causes, including shortcomings in financial management. The singular most obvious cause of the recession are the soaring prices of fuel, mineral oil and gas, and food commodities, grains and vegetable oils, caused by the war in Ukraine and the response of the Western powers to that war. If Ukraine had been allowed to fall, the economic consequences would have been relatively insignificant. Much blood and treasure is being, and will continue to be, spent on principle and perceived strategic protection. Fortunately, for the EU and the whole of the Western "alliance", the majority of that price is being and will be paid by Ukraine and the US. The bitter irony is that amongst those countries in receipt of most benefit, lies the greatest aversion. It is primarily the US shield that safeguards Europe, not any European nation nor any combination of European nations, and it is European security that is primarily threatened.

Perversely, the war poured "oil" on a burgeoning fire. Covid, a cataclysm saved by the brilliance of research and of its application, together with exceptionally gifted administrative decisions, notably in the UK, and rescued by very generous fiscal reliefs and the injection of unprecedented accommodative monetary measures, caused spending to surge rapidly in the recovery. That surge in demand encountered an array of constraining supply restrictions: restarting production chains; crowded ports; shipping shortages; and manifold other supply problems caused by this outbreak of Covid, weather and restrictions in labour, capital and facilities, causing inflation. The war started before these restrictions had been removed, greatly compounding them. Unfortunately, monetary responses, especially in the UK lagged this reality. Bank rate was 0.1% until December 2021 and rose in May 2022 after the start of the war to only 1.0% when the Bank said:

> "After the peak in 2022 Q4, the upward pressure on CPI inflation is expected to dissipate rapidly, as global commodity prices are assumed to rise no further, global bottlenecks ease, and domestic inflationary pressures subside in response to weaker growth of demand and a rising degree of excess supply. CPI inflation is projected to fall to just above the 2% target in two years' time, largely reflecting the waning influence of external factors, and to 1.3% in three years, well below the target, reflecting weaker domestic pressures".

And in August 2022[46], when it raised interest rates to 1.75%, the MPC said:

> "We expect inflation to begin to fall next year.
> It is unlikely that the prices of energy and imported goods will continue to rise so rapidly.
> We expect that some of the production difficulties businesses are facing will ease.
> The slowdown in demand for goods and services should also put downward pressure on prices.

We expect inflation will be close to our 2% target in around two years…".

In November the MPC raised the interest rate to 3%, saying:

> "There has been a material tightening on financial conditions… As a result, the UK economy is expected to be in recession throughout 2023 and 2024 H1 and GDP is expected to recover only gradually thereafter".

The Bank is set at catching up with events: rates had been too low for too long. Strikingly, this has been the inverse of the MPC's decision in response to the onset of the Great Recession in 2008 when it held interest rates too high for too long: having raised interest rates in the teeth of the threatening storm in July 2007 to 5.75% the MPC only cut the rate by 0.5 percentage points in December 2007 while the main cuts were delayed until October 2008 and March 2009 when rates were reduced to 0.5%. Then, as now, they were behind the curve.

The depth and the extent of the recession into which the economy is entering is varyingly forecast. The Bank of England have a forecast based on Bank Rate, implied by recent financial markets peaking at 5.25%, and an alternative one based on interest rates at 3%. Using the higher interest rates a 0.75% fall in output in 2022 Q3 and Q4 reduces 2022 growth to 0.1% with a fall of 1.9% in 2023 and another fall of 0.1% in 2024. Judged quarterly, the economy is expected to have a maximum contraction of 3% enduring from the 8th to 12th quarters from Q3 2022 and then to recover to the previous level of Q2 2022 in just over 5 years' time, an almost similar length of recovery time to the Great Depression. Less pessimistically, if peak 3% interest rates are assumed, - an unlikely forecast – the recession is less than 2% in the worst quarters and the economy recovers to the pre-recession level in about four years. Patently, while the alternative forecast represents a far less unfavourable outcome, the basis of its assumption is improbable, although the peak rate of 5.25% used in the Bank's forecast has already been shown to be most improbable, any revised forecast would be more favourable than their core forecast.

The OBR's forecast corresponds relatively closely with the Bank's alternative forecast with a peak to trough fall of 2%, but the economy is forecast to regain its pre-recession level more quickly in about 2¼ years time. The Bank's survey of independent forecasters' reported their forecasts were on average in line with the Bank's alternative and less severe forecast, and after a small fall in 2023 expected growth to return to 1.8% in 2024 and in 2025.

A recession, possibly not deep, but probably long, seems almost certain, given the relatively benign Economists' consensus. However, of certainties Keynes said: "the inevitable never happens and the unexpected constantly occurs", a dictum unfortunately true of consensus economic forecasts, as demonstrated by the failure of the consensus view in forecasting the US recessions since 1970 – not one of them had been forecast! The unexpected is a constant in markets, sometimes flying in as a "black swan", but on another "wing" there is always the possibility of a "bluebird" event bringing unexpected joy – a warm winter or peace…!

The betting odds, as those of us habitually backing outsiders know to our cost, are usually good forecasters as are the markets, unlike consensus economists. In this case, most regrettably they agree with the economists: we may have to wait a while for that bluebird. Much may depend, as Larry Summers asks, whether the Bank considers interest rates to be as antibiotics or to be as steroids: with antibiotics it is better to take the full course of medicine whether the affliction appears to have passed or not; with steroids it is better to stop as soon as possible to avert possible serious harm. In the past they have prescribed antibiotics, missing the inflexion point.

I forecast that, provided there is no serious escalation of the Ukraine war, interest rates will not rise above 4.25% and that inflation will fall back quickly as commodity prices become at or below the comparison level and as supply restrictions ease further and demand is reduced by high interest rates. Thus, interest rates should fall from the peak quickly and return gradually to "normal" levels of about 2.5%, rather than the abnormal levels obtaining past the 2008 Great Recession.

Property Prospects

Economic prospects do not portend well for property as the economy falls into recession which, according to the OBR, is likely to last until late 2023 with a peak to trough fall of GDP of 2.1 percentage points or according to the Bank of England's central projection until H2 2024 with a peak to trough fall of 3.0 percentage points, and returning to the pre-recession level in 2027.

The Bank of England's central projection is based on the interest rates path then implied by financial markets which (in the UK) rose to a peak of 5.25% in Q3 2023, before falling back. This path is around 2.25 percentage points higher on average than in the Bank's August projection. The Bank's alternative November projection, not conditioned by the interest rate path implied by the financial markets, is based on interest rates being constant at 3%. In this alternative projection the peak to trough fall is only 1.75 percentage points, as the economy comes out of recession slightly earlier and returns to the pre-recession level in 2026.

The dramatic and continuing tightening of the money supply is rapidly raising interest rates, reducing credit availability and the solvency ratio of loans, and reducing the margin between the return on property and other investment classes, and more secure investments. In consequence the demand for both investment and residential property is falling, and, with the expected further monetary tightening, will fall faster and further.

Interest rate rises will increase financial distress in both business and residential property owners and increase the supply of property. Simultaneously, lower business profitability margins and lower consumer incomes will reduce demand for both business premises and residential premises, reducing property rents for business premises, and values for all property types. These deleterious influences on the property sector are being reinforced by the economic disruption caused by strikes which will reduce output and result in a greater supply of property and, a lesser demand for it: a vicious circle.

From next year these adverse effects will be reinforced by the tightening of fiscal policy, mostly resulting from the fiscal drag implied by not indexing most tax allowances. Currently the EPC provides a fiscal transfer, principally to consumers, by rescheduling fiscal costs.

Comment on financial and political causes of the recession are not germane to analysis of the effects on property of the impending recession. However, there are three main factors that assist interpretation. First, low interest rates were maintained post Covid for longer than required to support the economy, resulting in an inflationary surge. Second, low interest rates resulted in capital appreciation of all asset classes and increased incomes of the minority benefiting from all aspects of asset handling, managing and transferring, while productivity increases and output gains were very low. The small growth in the economy achieved was disproportionately allocated. Third, the military war in Eastern Europe has, unsurprisingly, increasingly embraced an economic war whose consequences include a disruption of fuel supplies both by sanction and by renewed exploitation of the oligopoly enjoyed by the OPEC+ cartel of oil and gas suppliers. These mechanisms have allowed an immediate transfer of economic wealth from the consuming economies to the supplying economies.

These seeds of distress which have been sown, unfortunately, are now germinating. Early indications of distress in the property sector are given in the IPD Index, which over 10 years has given a return of 8.1% p.a., and 4.1% last year, has declined a record 6.5% in October 2022 alone, faster even than in any month during the 2008 financial crisis.

The November 2022 CBRE reports on the investment yields of 39 separate classes and sub-classes of commercial property and 24 separate classes and sub-classes of "bed" residential property and described all 63 categories as "trending" weaker, or falling in value, a similar trend to that previously shown in October 2022. Since December 2021, commercial property yields have increased generally about 0.5 percentage points except for secondary investments which remain unchanged at high levels. Offices and Industrials have become considerably weaker with all yields rising about 0.75 percentage points except for "secondary" sub-classes all rising about 1.25 percentage points. The four other commercial classes, Healthcare, Leisure, Pubs and "Car" mostly rising between 0.3 and 0.5 percentage points. In the "bed" sector, Build to Rent ("BTR"), Purpose Built Student Accommodation ("PBSA") and London hotel yields are little changed since last year in spite of "trending" weaker.

Within the retail sector since June 2022 only the yield of Prime Supermarkets has changed appreciably, rising from 3.50% to 5.0%, with the capital value falling 30%. Office yields have risen by a minimum of 0.25 percentage points in the West End, but by 1.0 percentage point in regional cities and up to 2.0 percentage points in secondary locations. Industrials have suffered similar large rises in yield, a maximum of 1.50 percentage points from 3.25% to 4.75% for the Prime Distribution sub-class, their capital value falling 32%.

The leisure and pub class has generally increased yields since January by 0.75 percentage points, but the healthcare yield has risen between 0.25 percentage points and 0.5 percentage points. In the "Bed" group Residential yields since January have not changed in London and rose only by up to 0.25 percentage points elsewhere. Hotel yields rose only 0.25 percentage points in London but up to 0.90 percentage points in Prime Regions. Prime Student accommodation yields have risen only 0.25 percentage points in London and by 0.5 percentage points, elsewhere, with higher rises for other sectors.

The yield figures quoted in November for student accommodation are consistent with CBRE's earlier analysis.

> "Yields – There continues to be demand for good quality assets in cities with favourable supply and demand characteristics. Yields are now starting to come under pressure from the wider economic headwinds but there is a lack of direct evidence to support any movement in Q3 2022. As such the sector is currently in a period of pricing discovery."
>
> "Outlook – Demand for higher education is the highest it has ever been, and this is translating into strong occupational demand for operational PBSA, which is likely to translate into a period of sustained rental growth. The wider economic headwinds are placing some pressure on the sector. However, with several portfolio deals currently in the market, and the Student Roost portfolio transaction proceeding investment volumes in 2022 could still mark a new record".

The downturn in Capital values reported by CBRE is consistent with recent Investment Property Forum ("IPF") surveys of commercial property. In the May 2022 survey "All Property" capital growth was estimated to be 5.9%, but by September 2022 this had been downgraded to 2.3% and the most recent November forecast for 2022 is a contraction of 6.4%. The values of all categories of investment property fell by between 6.1% and 8.1% except Retail Warehouse whose fall is restricted to 1.0%. In Winter 2021 the Capital Value growth for 2022 was forecast as 1.8%, a forecast rising in Spring 2022 to 5.9% before falling to the current -6.4%, a turn round of 8.2 percentage points.

Forecast of capital value returns in 2023 have been similarly downgraded and are currently estimated at -7.1% compared to 1.9% in Spring of 2022, with all sectors, losing value of from 6.8%, Industrial, to 8.0%, Shopping Centres.

The rental growth in the industrial sector has continued to be high, gaining an estimated 10.1% in 2022, which, together with a small rise in office rental values, offset continuing falls amongst the retail sector to give an All-Property rental rise of 3.7%. However, in 2023 a further small growth in industrial rental value is outweighed by falls in all other sectors and the rental value increase is forecast to be 0.6%. Rents are estimated to contribute only 4.5% p.a. to the All-Property Total return in the years to 2026. Changes in that return are almost wholly due to changing capital values.

Capital values are estimated to increase from 2024, but by only 1.9%, 6% and 3.4% in the years to 2026 while stable rents add 4.5% to the total return, resulting in the total returns, negative in 2022 and 2023, rising to 6.8% in 2024, and a peak 9.0% in 2025 as capital values recover, presumably in line with projected future interest rate reductions, post-recession, but reducing to 8.0% in 2026. The estimated total return over the five years to end 2026 is 3.6% p.a., almost 2.00 percentage points lower than was forecast as recently as September 2022.

Thus, the estimated prospects for property returns are very poor, although there is an estimated medium term recovery dependent, presumably, on interest rates falling and economic growth returning before 2025.

The poor returns to commercial property over the next few years have three separate but distinct strands. First in a "normal" business, or inflationary "Minsky" cycle, there is a pattern of a fall and then a recovery to the pre-cycle level. The recession is expected to develop into a recovery with continuing economic growth. However, a second separate strand influencing this cycle is non-recurring. Since the start of the Great Recession in 2008, interest rates have been held at abnormally low levels by aggressive monetary policies. Capital asset values, including all commercial property, have correspondingly reflected the low cost of capital which has boosted asset values by increasing their value, or, when falling for other reasons, moderating their fall. However, the recent atypical period of unnaturally low interest rates has ended abruptly, and will result in a significant change to property values and to the value of entities investing in them.

The third strand affecting property capital values is that of secular change, whose nature is specific to each sector. Unfortunately, there are deleterious secular changes in all the three main commercial sectors: office; retail; and industrial.

The demand for office space is being spectacularly reduced by "hybrid" working, or working from home. The extent of this change is substantial but not yet quantifiable, although in certain main office areas office occupancy rates, while recovering, continue below 50%. A recent survey concluded that the long-term reduction in space needed would be between 20% and 40%.

The demand for even "modern", but not "state of the art", offices will be further reduced by the increased demand for office environments that are "greener", less energy intensive and more sociologically attractive. The effect of such changes are not yet reflected in the market where the industry shelters behind a façade of "prime will be fine"!! The same mantra was repeated in the retail sector, when the retail downturn started, but the prime sector, initially appearing immune to value falls, ultimately succumbed, as the downturn persisted. The same is forecast to happen to office values: the commercial property industry, like most industries responds reasonably rapidly to general economic change, such as interest rate change and recession but to changes in the industry – secular changes – the response, while slow at first will finish fast - as "Mike" replied in Hemingway's, The Sun Also Rises, when asked "How did you go bankrupt?". "Two ways" he said **"**Gradually and then suddenly". Disruptive changes in industry are sometimes, surprisingly quick: think Kodak!

In Retail a similar secular change continues to have deleterious effects. Online shopping before the pandemic accounted for about 18% of retail sales and, unsurprisingly, peaked during "lockdown" at 37.8% but is still at 26.4%, and although considerable adjustments have been made, the process of adjustment to the value of retail assets is incomplete, as retailers were traditionally tied into longer term upward only leases, delaying all the required adjustment.

The industrial sector, specifically its logistics sub-sector, servicing online businesses, has just completed a large transformation in adjusting to the booming online revolution. The sudden growth in demand resulted in yields dropping from their traditional high levels, usually 8% to 10%, to a record 3.0% in Prime London and 4.5% in good secondary locations, and in rents rising by as much as 10% in early 2022. However, quite suddenly, this has changed, as this rapidly rising sector consolidates. Colliers note that in H2 2022 yields are shifting out rapidly and capital values are falling by 10.2% and they expect yields to continue to soften by 1.50 percentage points, and rental growth to slow from the current high of 10.3% to 2.9% in 2023. Thus, all sectors of the commercial market, excluding the bed sector – considered below – are unlikely to prosper in the coming years, a long-term trend that has persisted with exceptions such as the logistics sector since 2007, the peak of the market.

The residential market is not undergoing the secular and structural changes being experienced in the commercial sector. A cyclical change is occurring, possibly a moderately severe one, but the factors underlying the strength of the residential market are unlikely to change in the medium term. Indeed, part of the residential market is and will continue to be very strong. In July rental growth was 12.3% in the UK, 14.0% in London and 14.7% (Q3) in Edinburgh, where agents report they have "never operated in a more competitive market". Current and even forecast lower house prices together with difficulties in mortgage availability and the Financial Policy Committee's stress test restrictions will support rental demand. The supply of property to let is being progressively reduced by the reduction of individual mortgage interest relief to 20%, tighter credit controls, higher buy to let mortgage interest costs, and increasingly severe and unpredictable regulatory impositions – especially in Scotland where currently, evictions, even for the non-payment of rent, are unlawful until at least April 2023. Historically, rents do not fall in line with house prices and, even in the Great Financial Crisis in 2008, English rents fell only 2.2% from which they recovered in just over a year. Unsurprisingly, Savills forecast that rents (of second-hand properties) will continue to rise at 6.5% in 2023 and 4.0% in 2024 before reducing to 2.5% p.a. thereafter.

Savills reduction in rental growth from 2025 is based, in my view questionably, on a much increased supply of property from house owners either gaining vacant possession in forced circumstances such as repossession, divorce, or care or being unwilling to sell into a perceived poor market. Doubtless this will occur, but the "difficulties" of owning property to let have now become so onerous that I forecast that there will continue to be a reduction in the supply of privately owned rental property. Certainly, in an even more recent report on UK "Prime Residential", Savills conclude that in spite of such "accidental landlords, supply shortages are predicted to remain a lasting feature…".

For PBSA there are no such “accidental” landlords and supply, while increasing, is insufficient to meet the growing demand and rents are expected to continue to rise after a pause due to uncertain demand during the Covid pandemic. Unite, the leading student housing provider expects rents to have increased 3.5% this year and to increase a further 4.5% to 5% next year. The FT’s summary is: -

> the “student housing is the bubble that won’t burst…” it has “the sort of market that private equity dreams are made of: a sector with a structural supply imbalance, supported by resilient demand from wealthy foreign students and well-off middle-class parents who prioritise spending on their offspring’s education”.

House prices do not have the same benign short-term expectation. Prices have risen dramatically since Covid peaking in the year to September 2022 at 9.9% Halifax and 7.5% Nationwide; and in Scotland in June 2022 at 9.1% Acadata, since when prices have fallen further each month and by 2.3% in November, the largest monthly fall since 2008. The causes of house price falls are increasing mortgage rates, increasing deposits, stricter terms, lower disposable incomes and a higher degree than usual of economic uncertainty, being reinforced by a “wait and see” if prices fall even more.

The Bank report that house prices are expected to continue to fall, and the OBR optimistically records falls of 1.2% in 2023, 5.7% in 2024, but a recovery in 2025 of 1.2%. Other forecasters are more sanguine: peak to trough falls of 10% are forecast by Knight Frank and 12% by Capital Economics.

Savills predicate their forecast on two important assumptions: that unemployment a critical determinant in earlier recessions will rise less than is usual to “only” 4.8% and that interest rates “only” to 4% and fall in 2024. On these assumptions they forecast that UK prices will fall 10.0% in 2023, recover to a 1% rise in 2024 and will then rise rapidly to increase by 6.2% over the five (1.2% / year) years to 2027. These 5-year averages include considerably poorer figures for London of 2%, for the South-East and East of England 3.0% and over 11.0% for North of England, Yorkshire and Wales with an intermediate 9.5% for Scotland.

Savills differentiates the “Prime Market” from the “Mainstream”. The Prime Market is less influenced by the price or the availability of credit and is not expected to be so adversely affected in the forthcoming downturn as the mainstream market. In 2023 Regional “Prime” houses will fall by 6.5% in value, rather than the 10.0% fall for mainstream and then recover similarly in 2024 and achieve a 9.9% growth over 5 years to, and including, 2027, a slightly higher increase than mainstream prices. In Scotland the pattern is expected to be similar with a lower fall of 5.0% in 2023 and an overall rise of 12.7% by end 2027 - a modest increase!

How far will prices fall in this recession? In the Great Recession, a much deeper and slightly longer one than forecast generally, Nationwide recorded peak to trough falls of All Houses 18.6%, New Houses 12.9%, Modern 18.8% and Older Houses 19.6%. The current recession, while significantly a finance induced recession, is unlikely to impact house prices as much as the Great Recession. Credit levels are lower, equity is higher, many more mortgages are fixed, and the lending criteria for mortgages has been significantly tightened since then. Most importantly, unemployment is forecast by the Bank to peak at 6.4% in the MPC’s central projections but only at 4.9% by the OBR, significantly lower than the unemployment in the Great Recession which rose to 8.04% in 2011.

Indeed, most forecasts are for price reduction of about 10%, but for a reasonably quick recovery. I forecast that the rates will rise less than the Bank expected and that inflation will fall quickly as the one-off fuel prices drop off comparisons and there is a contraction of the supply, adjusting to lowering prices, already so evident in many commodities such as oil and other commodities. Indeed, disasters foreseen often fade: one unlikely risk to this forecast is external: a serious escalation of the war; and the other but equally unlikely risk is internal: political difficulties emanating from a reduction in living standards in some sectors of society.

The Halifax index previously peaked at the £199,000 recorded in August 2007. The equivalent RPI inflation-adjusted price in October 2022 would have been 71.8% higher or £341,938, and the current Halifax price in October 2022 is £292,406. In spite of this year’s rapid rises, the current price is still 14.5% lower in real terms. If house prices rise at 4.0% per annum and inflation is 2.0% per annum, then just less than 12 more years must elapse before the August 2007 peak is regained in real terms.

House prices are difficult to forecast and historically, notably, recently, errors have been large, especially around the timing of reversals or unusual events such as we have just experienced. For the long-term, I repeat my previous forecasts, "… the key determinant of the long-term housing market will be a shortage in supply, resulting in higher prices".

Future Progress

The Group's strategy continues to be the development of its sites in the Edinburgh housing market areas and the geographical extension north and east that is occurring, while maximising the value of its investment portfolio.

The Horsemill phase of our Brunstane development sold out very successfully in Q1 2021, allowing a start to the adjacent Steading phase of five stone faced dwellings in a courtyard, whose construction was completed in the Autumn of 2022. Three houses have been sold since 1 July 2022 at above the Home Report Valuation and the remaining two houses, while still attracting considerable market interest, remain unsold.

The current pause in the housing market and the very considerably increased construction costs have delayed the start to our 10 house development near the station in the centre of Wallyford, a very rapidly expanding commuter suburb adjoining Musselburgh. Currently, we are redesigning the project to reduce costs and intend to commence development at a time when the planned completion will coincide with an upturn in sales, expected in 2024. We intend to follow this, having gained planning consent last month, with the penultimate phase of our Brunstane development of 10 houses, which, unlike the previous two phases, is of simpler construction.

We continue to work with our architects to update our existing consents at Belford Road with improvements within the existing consent, so providing 20 modern high amenity flats in keeping with the high quality and varied style of the location. The improved design incorporates changes necessary for new insulation standards and other environmental improvements. The design improves fenestration and the internal layout, and the external and internal finishes. The planning process has been subject to even greater delays than usual and this updated design, while originally deemed suitable, is now having to be further refined to meet the planners' revised requirements.

Whenever market conditions are more favourable, we intend to market St. Margaret's House for which we hold detailed planning consent. We are currently taking steps to undertake a limited amount of work on site sufficient to safeguard the planning consent. Last year we delayed bringing the property to market in November as at that time the market was considered likely to be further improved by the Spring of 2022. We had continuing unsolicited offers to purchase the property and in January 2022 we entered into an exclusivity agreement with an attractive indicative non-binding offer, albeit one arguably reflecting the market price at that point in time rather than those special conditions pertaining to the failed higher Drum offer. The proposal made earlier this year required the use of the existing Intellectual Property ("IP") and the finalisation of all the agreements necessary with the neighbours, Network Rail and the Scottish Ministers, as well as road access approvals from the City of Edinburgh Council. These were obtained after very considerable delays and cost in August 2022, but by this time the interests of the prospective purchaser had changed in view of greatly increased construction costs, higher interest costs and lower investment value, and a rise in uncertainty and they ultimately declined to proceed. Now, a year later, we are proposing to market the property in Spring 2023, having all the necessary consents, providing conditions are propitious. We are currently receiving further unsolicited proposals which are being considered. Simultaneously, being now responsible for the planning process, we are investigating the possibility of considerable construction cost savings and an enhanced planning consent.

Our developments require a stable and liquid housing market but, in spite of the current cost inflation, we do not depend on any increase in prices for the successful development of most of our sites, as most of these sites were purchased unconditionally for prices not far above their existing use value. A major component of the Group's enhancement of value lies in securing planning permission, and in the extent of that permission, and it is relatively independent of changes in house values. For development or trading properties, unlike investment properties, no change is made to the Group's balance sheet even when improved development values have been obtained. Naturally, however, the balance sheet will reflect such enhanced value as the properties are sold.

The strategy of the Group continues to be conservative, but responsive to market conditions, so continuing a philosophy that underlay the change from primarily investment property to include our now extensive development programme. This change in strategy allowed us to escape the devastation caused by the 2008 Great Recession from which most sections of the property sector either never fully recovered or had to be recapitalised, and to avoid the extensive loss in value associated with the Covid-19 pandemic and the changes that are currently very seriously affecting most of the property investment sector.

On behalf of the members of the Group, I pay tribute to all our employees who have worked for a third year unstintingly and well under the difficult conditions persisting throughout the long Covid-19 pandemic for which the final restrictions were lifted on 18 April 2022.

The closing mid-market share price on 20 December 2022 was 145p, a discount of 26% per share to the NAV as at 30 June 2022. The Board does not recommend a final dividend, but intends to restore dividends when profitability and consideration for other opportunities and obligations permit.

Conclusion

The economy is entering a very difficult period. A contraction will take place due to an immediate adjustment to a short-term inflationary spike and to two longer term, very unfavourable, underlying circumstances. These adjustments will be difficult because of inherent cultural and sociological factors and of economic performance since the Great Recession, which will cause the adjustment to the underlying circumstances to be longer and more difficult. Fortunately, these adjustments will impinge on an economy that recovered more quickly from the Covid induced recession and with less economic scarring that was originally feared.

The economy is undergoing a classic Minsky cycle of high inflation resulting from an excess of demand over supply, a principal cause of which is the long, and inflationary, period of very loose monetary policy – inflation has been allowed to fester rather than being "nipped in the bud": this has been caused by the Bank's recent mistiming: ironically, it mirrors exactly the mistiming made by the Bank when it raised interest rates in July 2007 just as the economic crisis unfolded.

The first of the two long-term economic problems is directly due to the cost of the response to the Covid pandemic which allowed so rapid an economic recovery. The scientific innovations that led to the creation of vaccines, and the implementation and management of the vaccination and lockdown programmes were triumphs of research, management and of Government decision making. The democratic processes that sanctioned and implemented the programmes were resounding endorsements of UK democracy and, to a notably lesser extent than that of the EU and USA democracies, that stand in distinct contrast to the failed Covid policy of Chinese autocracy.

A gross subsidy which was provided as a key part of this response prevented the Covid crisis from undermining the economy was effectively a capital investment which provided huge benefits. However, these benefits were achieved at very great cost, financed by very great borrowing from the UK Treasury and, like all borrowing, it imposes interest and principal payments on the recipients, the UK taxpayer.

The second underlying unfavourable economic circumstance has been the sudden rise in fuel costs. Russia's invasion of Ukraine, together with its restriction of gas supplies, and its acting, together with the OPEC+ oil cartel to reduce oil supplies, have caused all fuel prices to rise far above free market prices. This effects a transfer of wealth from the consumers, such as the UK, to the producers.

Thus, for two quite separate reasons, the UK economy is poorer, although much of this diminution in wealth comprises the increased borrowing of the Government, a financial concept synonym for the UK economy and which is not an independent entity, contrary to apparent popular belief. Some sections of society expect some non-existent party to pay these debts, some materialised ghost, but, certainly not "me" – but someone, anyone – else. Unfortunately, obligations will continue to burden the economy, the non-acceptance of which, in some increasingly dependent sectors of society, will hinder the adjustments appropriate in the economy to ensure an optimal growth rate.

The impact of the two burdens posed by increased borrowing and the transfer of wealth to energy producers falls on an already economically stressed society. Like most societies, such increases in financial burdens appear less burdensome when they constitute a reduction in an increase in income rather than an actual decrease in income, even although the same quantum of reduction is applied. A lesser gain in income is more bearable than an equivalent loss. Unfortunately, UK increases in output since 2007 have been both small and unevenly distributed. Thus, in certain sectors of society the financial burden of the necessary adjustments will reduce income rather than diminish the extent of its increase, a psychologically more difficult burden. In the slow economic growth the distribution of increased wealth changed, increasingly in favour of services, and of capital, partly due to the rapid increase in asset values accompanying artificially low interest rates at the cost of labour, which distinction, when there is little growth in the economy, becomes stark. Moreover, increased income and capital appreciations have been seen, notably in the case of financial services, to be unrelated to performance or merit, as so spectacularly amplified by the banking scandals, and more generally in those protected by professional cartels. The malign influence of such "Distributional Coalitions", as so well analysed by the American economist, Mancur Olson, is widespread.

These and many other factors all contribute to the inhibition of increased productivity which has proved so limited since the Great Recession and have not provided the necessary, and even expected, better and continuously improving living standards that would have facilitated the economic adjustments now necessary. Paul Krugman said "Productivity isn't everything, but in the long run it's almost everything".

Only by improving productivity will economic progress be made, but there are many different requirements. The first, and generally accepted requirement, is for progressive technical change; appropriate education and improved skills; and adaptiveness. The second is for sociological changes, including greater freedoms, less dependency, the advancement by application and achievement rather than by affiliation and association. The third is for attitudinal changes, including less dependency, greater freedoms, requiring an understanding and then acceptance that all improvements to public goods and services, including amenity greening, and energy substitution require resources which can only be met without diminution elsewhere by increased output, not miraculously conjured up "out of thin air" or from a mythical Government. The fourth is an institutional change that rewards entrepreneurship and that encourages competition and destroys oligopolies, including professional ones. Lastly, a political change is required to encourage trade and the interchange of ideas, the independence of universities, and research and its development and to support growth and not failing industries or areas.

These barriers to economic growth can be lifted but it is politically and economically unrealistic to introduce major changes until the present economic crises are resolved, which, fortunately, present policies will achieve, but not without cost. Thus, things will get worse before they can get better.

I D Lowe
Chairman
21 December 2022

Strategic report for the year ended 30 June 2022

Operating and Financial Review

Principal Activities

The principal activities of the Group are the holding of property for both investment and development purposes.

Results and proposed dividends

The Group loss for the year after taxation amounted to £1,302,000 (*2021 profit: £460,000).* The directors do not propose a dividend in respect of the current financial year (*2021: Nil*). The Group net asset value amounts to £23,253,000 (*2021: £24,555,000*).

Business review

A full review of the Group's business results for the year and future prospects is included in the Chairman's Statement within the Review of Activities on pages 2 and 3 and Future Progress on pages 17 to 19. In accordance with legislation the accounts have been prepared in accordance with UK-adopted International Accounting Standards. As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent Company is not presented as part of these financial statements.

Key performance indicators

The key performance indicators for the Group are property valuations, planning progress and property market, all of which are discussed in the Chairman's Statement. No substantial cash outlays are expected on investment properties in the coming year and sales of development properties are expected to realise cash to reinvest in the Group's development programme and provide general working capital.

Principal risks and uncertainties

There are a number of potential risks and uncertainties, which have been identified within the business and which could have a material impact on the Group's long-term performance.

Development risk
Developments are undertaken where appropriate value is judged to be obtainable after consideration of economic prospects and market assessments based on both internal analysis and external professional advice. Committed developments are monitored regularly.

Planning risk
Properties without appropriate planning consent are purchased only after detailed consideration of the probabilities of obtaining planning within an appropriate timescale. The risk that planning consent is not obtained is mitigated by ensuring purchases are made at near to existing use value. In such purchases the Group adopts a portfolio approach seeking an overall return within which it accepts a small minority will be less successful.

Property values
The Group's highest value investment properties have either development prospects or a development angle which should insulate them against the full effect of any general investment downgrade of commercial property.

Availability of funding
The Group has cash resources but it may also use bank or other funding to undertake its developments and for future property acquisitions. Where appropriate, bank facilities will be negotiated and tailored to each project in terms of quantum and timing.

The directors believe that funding should be readily available, provided the banks' current strict criteria are met and the relatively high rates of interest are accepted.

The low acquisition cost of some of the Group's sites reduces the overall development cost and hence the level of funding available under current formulaic lending processes based on loan to cost.

Tenant relationships
All property companies have exposure to the covenant of their tenants as rentals drive capital values as well as providing income. The Group seeks to minimise exposure to any single sector or tenant across the portfolio and continually monitors payment performance.

Environmental policy
The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by Group activities.

Corporate Governance

The directors recognise the need for sound corporate governance. As a company whose shares are traded on AIM, the Board adopted the Quoted Companies Alliance's Corporate Governance Code ("the QCA Code"). Its corporate governance statement including any disclosures required pursuant to the QCA Code is published on the Company's website www.caledoniantrust.com.

Section 172 Compliance

Section 172 of the Companies Act 2006 imposes a general duty on every Director to act in a way they consider, in good faith, would be the most likely to promote the success of the Group and Company for the benefits of its shareholders as a whole. In doing so, Directors should have regard to several matters including:

a) The likely consequences of any decision in the long term;
b) The interests of the Company's employees;
c) The need to foster the Group and Company's business relationships with suppliers, customers and others;
d) The impact of the Group and Company's operations on the community and environment;
e) The desirability of the Group and Company maintaining a reputation for high standards of business conduct; and
f) The need to act fairly as between members of the Company.

The Board factors stakeholder interest into its long-term policies and objectives. The business of the Group and Company requires engagement with shareholders, customers and tenants, local planning authorities, employees and suppliers.

When considering stakeholder interest, the Board is responsible for ensuring that the long-term policies and objectives implemented allow the Group and Company to provide tenants with properties which meet their needs and to produce consistently high quality homes on its developments.

The Executive Directors are responsible for the operations of the business while the Non-Executive Director is independent and well positioned to provide objective judgement and scrutiny over decisions made by the Board.

Information about stakeholders and how the Board has discharged its duties are included on pages 24 and 25.

M J Baynham
Secretary
21 December 2022

Corporate Governance
QCA Code Compliance and Section 172 Statement
for the year ended 30 June 2022

The corporate governance report is intended to provide shareholders with a clear understanding of the Group's corporate governance arrangements, including analysing compliance with the Quoted Companies Alliance 2018 Corporate Governance Code ("the QCA Code") and where the Group does not comply with the QCA Code, an explanation of why it does not.

The QCA Code provides a robust framework which enables the Group to maintain high standards of corporate governance appropriate for the size of the Group. The QCA Code sets out ten principles and each principle and the Group's actions in relation related thereto are set out below. Douglas Lowe, in his capacity as Executive Chairman, is responsible for ensuring the Group has the necessary corporate governance framework in place and that, except for Principle Five, the ten principles are followed across the Group.

Principle One
Business Model and Strategy

The Group's business model is that of a property investment and development company, which is focused on the Scottish property market. Further details regarding application of the Group's business model, its activities and its properties can be found in the 'Review of Activities' section of the Chairman's Statement on pages 2 and 3 of the Group's annual report and accounts for the year ended 30

June 2022. The ‘Future Progress’ section of the Chairman’s Statement on pages 17 to 19 of the Group’s annual report and accounts for the year ended 30 June 2022 provides a summary of the Group’s strategy. The key challenges in the execution of the Group’s business model and strategy and how the Group seeks to address these can be found in the ‘Principal risks and uncertainties’ section on pages 21 and 22 of the Group’s annual report and accounts for the year ended 30 June 2022.

Principle Two
Section 172 Statement and Understanding Shareholder Needs and Expectations

As well as compliance with the QCA Code, Directors are required in accordance with Section 172 of the Companies Act 2006 to include a statement of how they have taken into account the shareholders in promoting the success of the Company. This section and information on pages 22 and 23 set out how the Board has discharged its duties.

It is important to note that the executive directors are the two largest shareholders, together holding over 85% of the Company’s share capital.

Investors have access to current information on the Company through its website, www.caledoniantrust.com, through its regulatory announcements, its annual and interim accounts and through the directors who are available to answer investor related enquiries.

Shareholders may contact the Company in writing via email (webmail@caledoniantrust.com), by telephone on 0131 220 0416 or in writing to the Company’s Head Office, 61A North Castle Street, Edinburgh EH2 3LJ. Any information provided in response to any such enquiries will be information that is freely available in the public domain.

All shareholders are encouraged to attend the Company Annual General Meeting where the Directors listen to the views of the shareholders formally during the AGM and informally following the AGM. In the event of a voting decision not being in line with its expectations the Board would seek to engage with those shareholders to understand and address any concerns as appropriate. Shareholders can continue their engagement with the Directors through any of the channels already mentioned.

The Board dedicates sufficient time to ensure that communication is effective with existing and potential shareholders and other key stakeholders. The Board believes the Company’s mode of engaging with shareholders is adequate and effective.

Principle Three
Wider Stakeholder and Social Responsibilities

On the basis of the Directors’ knowledge and long experience of the operations of the Group the Board recognises that the long-term success of the Group is reliant upon the efforts of the employees of the Group, its professional advisors and its contractors. The directors engage directly on a regular basis with all these stakeholders which ensures that there is close Board oversight and contact with the Group’s key resources and relationships.

Employees: The Group has a small number of full and part-time employees. The Executive Directors are in regular contact with the Group’s employees, which provides an opportunity for employees to discuss matters they wish to raise. The administrative staff are in contact with the Directors on a daily basis. A pay review took effect from 1 November 2022.

Customers: The Group aims to deliver quality homes and other developments. It invests in strong design features and should any snagging work be required, it ensures rectification is completed quickly. The Group’s interaction with its tenants is constructive and cordial and any contentious points are quickly resolved. The Group recognises the important role of all relevant Regulations and seeks to conform with both the spirit and the requirement of the regulations.

Suppliers and professional advisors: The Group engages contractors after appropriate formal and informal vetting, and for larger projects after formal tendering. The Executive Directors meet with contractors regularly throughout large projects to review their recommendations and to review progress. Advisors are selected on the basis of suitability and experience for the advice required. For each firm engaged an agreed nominated partner or director is responsible for the Group’s instructions and advice who reports to the executive directors as required.

Environment: The Board recognises the growing awareness and requirements in respect of environmental issues and is working with its professional advisors to promote an environmentally friendly approach to the design of its new developments.

The Group takes into account feedback received from its key stakeholders and considers making amendments to working arrangements and operational plans where appropriate and where such amendments are consistent with the Group's strategy and objectives. However, no material changes to the Group's working processes were required over the year to 30 June 2022, or more recently, as a result of stakeholder feedback received by the Company.

Principle Four
Risk Management

In addition to its other roles and responsibilities, the Audit and Compliance Committee is responsible to the Board as a key control for ensuring that procedures are in place, and are being effectively implemented to identify, assess and manage the significant risks faced by the Group in respect of the execution and delivery of the Group's strategy. The Board and executive management team also consider and monitor risk on an ongoing basis.

The principal risks and uncertainties which have been identified within the business and which could have a material impact on the Group's long-term performance can be found in the 'Principal risks and uncertainties' section on pages 21 and 22 of the Company's annual report and accounts for the year ended 30 June 2022.

The risks which the Group faces are subject to change and the measures to counter or to mitigate them are reviewed regularly. The Board considers that an internal audit function is not necessary, due to the close day to day control exercised by the Executive directors.

Principle Five
Maintaining a Well Functioning Board of Directors

As at 21 December 2022 the Board comprised the Chairman and Chief Executive Officer Douglas Lowe, one executive director, Michael Baynham and one non-executive director, Roderick Pearson. Of the Board's members, Mr Pearson is considered to be independent. A further commentary on this topic is provided below.

Mr Lowe has been both Chairman and Chief Executive Officer of the Company for many years. He is the largest shareholder holding over 79% of the issued share capital and since the banking crisis of 2007 a private company under his control, Leafrealm Limited, has provided significant loans to the Group to fund its working capital requirements. The Board believes that Mr Lowe's shareholding aligns his interests with the other members' interests and there is ample evidence to support this.

The Board consider that in these circumstances it is in the best interests of the Group to maintain Mr Lowe's positions as both Chairman and Chief Executive Officer contrary to recommended best practice in the QCA Code. The Board has been assured that, subject to all debt owed to Leafrealm Limited being repaid, a return to normal remuneration levels and normal investment and trading conditions, further Board appointments and changes will be made. Separately, the Board has received an undertaking from Mr Lowe that if he ceases to work full-time, appropriate Board changes will be made.

The Company presently does not comply with the QCA Code recommendation to have at least two non-executive directors who are identified as independent. For those reasons the Board believes that, given the present size of the Company and the nature of its business and operations it is well served by the current composition of the Board which functions effectively and is well balanced. This position is considered regularly and where appropriate and necessary further appointments will be made.

Mr Pearson has been a non-executive director since March 2007 and the rest of the Board consider him to continue to be independent. Mr Pearson brings the weight of his professional qualification and experience to the valuations of investment properties but is sufficiently removed from the day to day operations of the Company to retain a critical and independent view. As such he represents the best interests of all the shareholders.

Mr Lowe and Mr Baynham work full time and Mr Pearson currently works on average two days per month. Biographical details of the current directors are set out below. Executive and non-executive directors are not presently subject to re-election.

The Board met formally on seven occasions during the year to 30 June 2022 and all directors attended all meetings. It has established an Audit and Compliance Committee and a Remuneration Committee, details of which are set out further below. The Audit and Compliance Committee met on three occasions during the year ended 30 June 2022 with all members of the committee attending. The Remuneration Committee met once during the year with all committee members attending.

As appointments to the Board are made by the Board as a whole it is not considered necessary to create a Nominations Committee.

Principle Six
Appropriate Skills and Experience of the Directors

The Board currently consists of three directors. Mr Baynham is also the Group Company Secretary. The Board recognises that it currently has limited diversity and increasing diversity will be considered as and when the Board concludes that replacement or additional directors are required.

The Board is satisfied that with the Directors, it has an effective and appropriate balance of skills and experience to deliver the strategy of Group for the benefit of the shareholders over the medium to long-term. All directors are able to take independent professional advice in the furtherance of their duties.

During the year ended 30 June 2022, neither the board nor any committee has sought external advice on a significant matter and no external advisers to the board or any of its committees have been engaged.

I Douglas Lowe
Chairman and Chief Executive Officer
Mr Lowe is a graduate of Clare College Cambridge (MA Hons in Natural Science and Diploma in Agriculture) and Harvard Graduate School of Business Administration (MBA and Certificate in Advanced Agricultural Economics). Until 1977 he was Chief Executive of his family business, David Lowe and Sons of Musselburgh, property owners, farmers and market growers established in 1860, which farmed intensively 2,000 acres and employed over 200 people.

In 1978 and 1979 Mr Lowe was Deputy Managing Director of Bruntons (Musselburgh), a listed company which manufactured mainly wire and wire rope and employed approximately 1,000 people. He was a significant shareholder and, from 1986 until shortly after joining the Company, Executive Deputy Chairman of Randsworth Trust PLC, a property company with a dealing facility on the Unlisted Securities Market. The market capitalisation of Randsworth Trust PLC increased from £886,000 to over £250 million between April 1986 and sale of the company in 1989.

Mr Lowe purchased shares in Caledonian Trust PLC in August 1987, at which time he became Chief Executive. Mr Lowe attends two broadly constituted private political and economics discussion groups throughout the year. He maintains close contact with all of the Group's professional advisers in order to discuss and identify any new laws, regulations or standards which may affect the Group. He studies a wide range of relevant economic, political and technical publications and undertakes extensive research in preparation of the Chairman's Statements, which accompany the Annual and Interim Accounts. Mr Lowe's experience in many senior executive positions in many organisations ensures that he has the necessary ability to develop and implement the Group's strategy.

Michael J Baynham
Executive Director and Company Secretary
Mr Baynham graduated in law (LLB (Hons)) from Aberdeen University in 1978. Prior to joining the Company in 1989, he worked as a solicitor in private practice specialising in commercial property and corporate law. He was a founding partner of Orr MacQueen WS in 1981 and from 1987 to 1989 was an associate with Dundas & Wilson CS.

Mr Baynham maintains his Practising Certificate with the Law Society of Scotland and attends professional development seminars and other relevant seminars on a regular basis throughout the year. He maintains close contact with all of the Group's professional advisers in order to understand and apply any new laws, regulations or standards relevant to the business.

Mr Baynham's experience of corporate law, commercial property law, commercial property finance, investment and development ensures that he has the necessary ability to implement the Group's strategy.

Roderick J Pearson
Non-Executive Director
Mr Pearson is a graduate of Queens' College Cambridge (MA Modern Languages and Land Economy) and is a Fellow of the Royal Institution of Chartered Surveyors. He has held senior positions in Ryden and Colliers International, practising in Edinburgh, Aberdeen and Glasgow, and now has his own practice, RJ Pearson Property Consultants Limited.

Mr Pearson's experience of property as a surveyor in private practice together with his experience in senior management positions ensures that he has the ability to support the executive directors and also to challenge strategy, and decision making and to scrutinise performance.

All three members of the Board bring relevant sector experience through their long and varied careers throughout the property, financial, legal and consulting sectors. The Board believes that its members possess the relevant qualifications and skills necessary to effectively oversee and execute the Group's strategy.

Principle Seven
Evaluation of Board Performance

The directors consider that the size of the Company does not justify the use of third parties to evaluate the performance of the Board on an annual basis. The Company does not currently have a formal appraisal process for Directors but the Chairman assesses the effectiveness of the Board as a whole and the individual directors to ensure that their contribution is relevant and effective. This process is performed over the course of the year. He also assesses the effectiveness of the Audit Committee and the Remuneration Committee. During the year ended 30 June 2022, the Chairman's assessment did not find any shortcoming in Board or committee effectiveness and did not lead to any material recommendations for any changes.

The Chairman is the majority shareholder and the above arrangements are acceptable to him. The Board will continue to assess this position on at least an annual basis, and if and when it is deemed appropriate it will establish more prescribed evaluation processes.

The Directors have given consideration to succession planning and have in place a strategy to address succession as and when it becomes necessary. The Board believes the current board and current committee structure and membership is appropriate, but will consider whether any board and other senior management appointments are required on at least an annual basis and will consider the feedback from the Chairman's assessments, as described above, in this process.

Principle Eight
Corporate Culture

The Board acknowledges that their decisions on strategy and risk determine the corporate culture of the Group and its performance. High standards of ethical, moral and social behaviour is deemed important in achieving the Group's corporate objectives and strategy and such standards are actively promoted.
The Group only has a small number of employees who work closely with the Executive directors. Accordingly, the Board is always well placed to assess its culture which respects all individuals, permits open dialogue and facilitates the best interest of all of the Group's stakeholders. The Board are prepared to take appropriate action against unethical behaviour, violation of company policies or misconduct.

The Company has adopted a policy for directors' and employees' dealings in the Company's shares which is appropriate for a company whose securities are traded on AIM, and is in accordance with rule 21 of the AIM Rules and the Market Abuse Regulation of the European Union.

Principle Nine
Maintenance of Governance Structures and Processes

Board Roles and Responsibilities

Ultimate authority for all aspects of the Group's activities rests with the Board, with the respective responsibilities of the Directors delegated by the Board. Given the size and nature of the Group's business both of the executive directors engage directly with all key stakeholders on a regular basis.

As noted in the disclosure above in respect of Principle Five, Mr Lowe is both Chairman and Chief Executive Officer of the Company and the Company therefore does not comply with the QCA Code in this respect. In his role as Chairman, Mr Lowe has overall responsibility for corporate governance matters in the Company, leadership of the board and ensuring its effectiveness on all aspects of its role. In his role as Chief Executive Officer Mr Lowe leads the Group's staff and is responsible for implementing those actions required to deliver on the agreed strategy.

Matters reserved specific to the Board include formulating, reviewing and approving the Group's strategy, budget, major items of capital expenditure, acquisitions and disposals, and reporting to shareholders and approving the Annual and Interim Statements. The Board is also responsible for assessing the risks facing the Group and where possible developing a strategy to mitigate such risk.

The Board complies with the Companies Act 2006 and all other relevant rules and regulations including their duty to act within their powers; to promote the success of the Group; to exercise independent judgement; to exercise reasonable care, skill and diligence; to avoid conflicts of interest; not to accept benefits from third parties and to declare any interest in any proposed transaction or arrangement.

At present, the Board is satisfied with the Group's corporate governance, given the Group's size and the nature of its operations, and there are no specific plans for changes to the Company's corporate governance arrangements in the shorter term. As the Group expands and when its programme of developments increase, future Board appointments and Board changes will be considered.

Audit Committee
During the period under review the Audit Committee was chaired by Mr Pearson. It met to review the Interim Report, the Annual Report, to consider the suitability of and to monitor the internal control processes and to review the valuations of its investment and stock properties. The Audit Committee reviewed the findings of the external auditor and reviews accounting policies and material accounting judgements.

The independence and effectiveness of the external auditor is reviewed annually and the Audit Committee meets at least once per financial year with the auditor to discuss their independence and objectivity, the Annual Report, any audit issues arising, internal control processes, auditor appointment and fee levels and other appropriate matters.

The Audit Committee have reported that they are satisfied that the internal control processes are robust. The accounting policies meet regulatory requirements and any material judgements are stated in Note 3 of the consolidated accounts for the year ended 30 June 2022. The Audit Committee is satisfied that the external auditor is independent and effective.

The Audit Committee terms of reference can be found here http://www.caledoniantrust.com/CR11-AUDIT-COMMITTEE-M0918.pdf .

Remuneration Committee
The Executive Directors had previously agreed to waive some or all of their remuneration, given the financial constraints created by Covid lockdowns and restrictions. The Board resolved to reinstate the salary of one of the Executive Directors to its previous level and to pay a modest salary to the Chair and Chief Executive with effect from 1 December 2021 and 1 November 2021 respectively.

The Remuneration Committee terms of reference can be found here www.caledoniantrust.com/CR11-REMUNERATION-COMMITTEE-M0918.pdf .

As ID Lowe is a member of the remuneration Committee, the Remuneration Committee is not made up of independent directors as envisaged by the QCA Code and the Company therefore does not comply with the QCA Code in this respect.

No director who sits on the Remuneration Committee takes part in discussions or votes on matters pertaining to their individual performance or remuneration.

Details of the directors' remuneration can be found in Note 6 of the consolidated accounts for the year ended 30 June 2022.

Nomination Committee
The Board have agreed that appointments to the Board will be made by the Board as a whole and have not created a Nomination Committee.

At present, the Board is satisfied with the Company's corporate governance, given the Company's size and the nature of its operations, and as such there are no specific plans for changes to the Company's corporate governance arrangements in the shorter term.

As the Group expands and when its programmes of developments increase, future Board appointments and Board changes to reflect such changes will be considered, as appropriate.

Principle Ten
Shareholder Communication

The work of the Company's Audit Committee and Remuneration Committee during the year is described above and in the reports of the Audit Committee and Remuneration Committee.

Shareholders have access to current information on the Company through its website, http://www.caledoniantrust.com, though its regulatory announcements, its annual and interim financial reports and via Mr Lowe, Chairman, who is available to answer investor relations enquiries. Shareholders may contact the company in writing, via email (webmail@caledoniantrust.com) or by telephone on 0131 220 0416. Enquiries that are received will be directed to the Chairman, who will consider an appropriate response.

The results of voting on all resolutions in future general meetings will be posted to the Group's website and announced via RNS. Where a significant proportion of votes (e.g. 20% of independent votes) have been cast against a resolution at any general meeting, the Board will post this on the Group's website and will include, on a timely basis, an explanation of what actions it intends to take to understand the reasons behind that vote result, and, where appropriate, any different action it has taken, or will take, as a result of the vote.

The Company's financial reports since 2002 can be found here http://www.caledoniantrust.com/accounts_details.html. Notices of General Meetings of the Company for the last five years can be found here http://www.caledoniantrust.com/AGM_Notices.html .

The Group engages in open communication with its shareholders and endeavours to reply to all shareholder queries received. The Chairman prepares a detailed summary of the Group's activities in his Statement which accompanies the Annual and Interim Financial Statements. Regulatory announcements are distributed in a timely fashion through appropriate channels to ensure shareholders are able to access material information on the Group's progress. A report of the audit and remuneration committees is included in respect of Principle Nine above. All shareholders are encouraged to attend the Company's Annual General Meeting.

M J Baynham
Secretary
21 December 2022

Corporate Governance
Audit Committee report for the year ended 30 June 2022

Statement from the Chairman of the Audit Committee

On behalf of the Board, I am pleased to present the Audit Committee Report for the year to 30 June 2022. This report provides shareholders with an overview of the activities carried out by the Audit

Committee during the year. The Audit Committee ensures the financial performance of the Group is properly measured and reported.

Committee Members

The Audit Committee comprises R J Pearson (Chairman) and I D Lowe. R J Pearson is the independent non-executive Director.

Other members of the Board occasionally attend Audit Committee meetings when requested by invitation. In the year to 30 June 2022 the Audit Committee met three times with both members being present, and the other member of the Board attended all of those meetings.

Responsibilities

The Audit Committee, *inter alia*, determines and examines matters relating to the financial affairs of the Group including the terms of engagement of the Company's auditor and, in consultation with the auditor, the scope of the annual audit. It receives and reviews reports from management and the Company's auditor relating to the half yearly and annual accounts and the accounting and internal control and risk management systems in use throughout the Group; reviews the Group's overall risk appetite and strategy; and monitors, on behalf of the Board, the Group's current risk exposures. The Audit Committee monitors the integrity of the financial statements produced by the Group and makes recommendations to the Board on accounting policies and their application. The Audit Committee receives reports from compliance functions within the Group and is responsible for reviewing and approving the means by which the Group seeks to comply with its regulatory obligations. The Committee also ensures that the arrangements for employees and contractors to raise concerns confidentially about possible wrongdoing in financial reporting (or other matters) are proportionate and allow for independent investigation. The duties of the Audit Committee are set out in its terms of reference, which are available from the Company's website. These are regularly reviewed to ensure they remain applicable and up-to-date with legislation, regulation and best practice.

The Audit Committee meets at least twice a year. For the year ended 30 June 2022, the Audit Committee has met three times to consider the planning of the statutory audit and to review the Group's draft half year and full year results prior to Board approval and to consider the external auditor's detailed reports.

Internal Audit

The Group does not currently have an internal audit function. The Audit Committee considered the size and nature of the Group and believes that existing management within the Group is able to derive assurance as to the adequacy of internal control and risk management systems without the introduction of an internal audit function.

Risk Management and Internal Controls

The Group has a range of internal controls, policies and procedures in place. The Audit Committee works alongside the Board to review, and where necessary suggest changes to, the current systems in place.

The Audit Committee is satisfied that the current systems in place are operating effectively.

External Audit

Johnston Carmichael LLP were re-appointed for the year to 30 June 2022. The Audit Committee monitors the relationship with the external auditor to ensure independence and objectivity at all times. The Audit Committee also reports to the Board on the independence, objectivity and effectiveness of the external auditor. Johnston Carmichael have been the external auditor for the Group since 2017 with David Holmes as the Partner for three years and Grant Roger taking responsibility as Partner in 2020. The Audit Committee has recommended that Johnston Carmichael LLP are appointed for the next financial year. Johnston Carmichael LLP do not carry out any non-audit work for the Group.

External Audit Process

Johnston Carmichael LLP prepare an audit plan. This plan sets out the scope and timetable of the audit as well as the areas to be specifically targeted. The plan is provided to the Audit Committee for approval in advance of the audit. On completion of the audit, the findings are presented to the Audit Committee by the auditor for discussion. There were no significant areas of concern highlighted by the auditor this year.

The Group accountant has regular contact and communication with the auditor during the year. This allows for any areas of concern or of significance to be raised with the auditor throughout the year.

Main Issues Discussed and Conclusions

The table below highlights the issues at the audit close meeting: -

Issue	How it was addressed by the Audit Committee
Revenue recognition	
Revenue from sales of investment and trading properties is recognised on legal completion which is when the buyer takes control of the property whether it is commercial property, private houses or plots of land. Using legal completion minimises the management judgements required to determine when ownership is transferred.	No property disposals were completed during the year and the committee is satisfied that no sales fell to be recognised as revenues in the year ended 30 June 2022.
Revenue from rents are spread over the life of the lease and for service charges over the period to which the service relates.	One rent free period arose during the year and was spread over the life of the lease concerned.
Fair value	
The approach to assessing fair value of investment properties is conservative. Montagu Evans, Chartered Surveyors, were engaged by the Group to provide it with independent external valuations of all investment properties at 30 June 2022.	The Committee discusses each of the valuations with its external valuer. The external valuation process and the values ascribed to specific assets are also considered and commented upon in the audit report by our auditor, Johnston Carmichael LLP.
Valuations were prepared in accordance with relevant industry standards using transactional evidence and an established methodology.	
Development properties held as stock	
Trading properties are carried at the lower of cost and net realisable value. The net realisable value is an area of judgement based on demand, future costs and the availability of planning consent.	The Committee monitors progress and intentions for each location and the timing of work to ensure that planning consents already given endure.

R J Pearson
Chairman of the Audit Committee
21 December 2022

Corporate Governance
Remuneration Committee report for the year ended 30 June 2022

The Remuneration Committee comprises, R J Pearson (Chairman), the independent, non-executive director and I D Lowe.

The Committee met once during the year, with both members being present, to review the remuneration of the Executive Directors. During the financial constraints of Covid lockdowns and restrictions, the Executive Directors had waived their entitlement to some or all of their remuneration. No director who sits on the Remuneration Committee takes part in discussions or votes on matters pertaining to their individual performance or remuneration. It was resolved that following the easing of the constraints of Covid-19, the remuneration of the Executive Directors be reinstated to previous levels with effect from 1 November and 1 December 2021 but the Chair and Chief Executive immediately waived the majority of his remuneration for the time being.

There was no change to the remuneration of the Non-Executive Director.

Details of the directors' remuneration can be found in Note 6 of the consolidated accounts for the year ended 30 June 2022.

R J Pearson
Chairman of the Remuneration Committee
21 December 2022

Directors' report for the year ended 30 June 2022

Directors

The directors who held office at the year end and their interests in the Company's share capital and outstanding loans with the Company at the year-end are set out below:

Beneficial interests - Ordinary shares of 20p each

	Percentage held	**30 June 2022**	30 June 2021
		£	£
I D Lowe	79.1	9,324,582	9,324,582
M J Baynham	6.2	729,236	729,236
R J Pearson	-	-	-

Beneficial interests – Unsecured loans

I D Lowe	100.0	4,380,000	4,380,000

The interest of I D Lowe in the unsecured loans of £4,380,000 (*2021: £4,380,000*) is as controlling shareholder of the lender, Leafrealm Limited.

No rights to subscribe for shares or debentures of Group companies were granted to any of the directors or their immediate families or exercised by them during the financial year.

Rule 9 of the UK City Code on Takeovers and Mergers (the "Takeover Code") provides, among other things, that where any person who, together with persons acting in concert with him, holds over 50 per cent. of the voting rights of a company, acquires any further shares carrying voting rights, then they will not generally be required to make a general offer to the other shareholders to acquire the balance of their shares.

Douglas Lowe is part of a concert party pursuant to the Takeover Code, which includes the interests in the Company's Ordinary Shares of his Close Relatives (as defined in the Takeover Code) and Leafrealm Limited and Sheriffhall Business Park Limited, companies where Douglas Lowe is the controlling shareholder (the "Douglas Lowe Concert Party"), which holds in aggregate over 50% of the voting rights of the Company. The Douglas Lowe Concert Party is interested in a total of 9,527,582 Ordinary Shares which carry 80.9% of the voting rights of the Company. Douglas Lowe or entities controlled by Douglas Lowe may accordingly increase their aggregate interests in shares without incurring any obligation to make an offer under Rule 9.

Political and charitable donations

Neither the Company nor any of its subsidiaries made any charitable or political donations during the year.

Disclosure of information to auditor

The directors who held office at the date of approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of Johnston Carmichael LLP will be put to the Annual General Meeting.

By Order of the Board

M J Baynham
Secretary

21 December 2022

Directors' Responsibilities Statement in respect of the annual report and financial statements

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with UK-adopted International Accounting Standards and applicable law and the directors have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the profit or loss of the Group for that period. In preparing each of the Group and parent Company 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 they have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and parent Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the parent Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated statement of comprehensive income for the year ended 30 June 2022

	Note	**2022 £000**	2021 £000
Revenue			
Revenue from development property sales		**-**	4,186
Gross rental income from investment properties		**306**	368
Total Revenue	5	**306**	4,554
Cost of development property sales		**-**	(3,930)
Property charges		**(90)**	(128)
Cost of Sales		**(90)**	(4,058)
Gross Profit		**216**	496
Administrative expenses		**(887)**	(440)
Other income		**8**	2
Net operating (loss)/profit before investment property disposals and valuation movements		**(663)**	58
Valuation gains on investment properties	10	**190**	690
Valuation losses on investment properties	10	**(690)**	-
Loss on disposal of investment property		**-**	(151)
Net (loss)/gains on investment properties		**(500)**	539
Operating (loss)/profit	5	**(1,163)**	597
Financial expenses	7	**(139)**	(137)
Net financing costs		**(139)**	(137)
(Loss)/profit before taxation		**(1,302)**	460
Income tax	8	**-**	-

(Loss)/profit and total comprehensive income for the financial year attributable to equity holders of the parent Company		**(1,302)**	460
(Loss)/earnings per share			
Basic and diluted (loss)/profit per share (pence)	9	**(11.05)p**	3.90p

The notes on pages 51 – 71 form an integral part of these financial statements.

Consolidated balance sheet as at 30 June 2022

	Note	**2022 £000**	2021 £000
Non-current assets			
Investment property	10	**16,610**	17,110
Plant and equipment	11	**8**	3
Investments	12	**1**	1
Total non-current assets		**16,619**	17,114
Current assets			
Trading properties	13	**10,672**	9,313
Trade and other receivables	14	**134**	135
Cash and cash equivalents	15	**1,317**	3,020
Total current assets		**12,123**	12,468
Total assets		**28,742**	29,582
Current liabilities			
Trade and other payables	16	**(1,109)**	(647)
Interest bearing loans and borrowings	17	**(360)**	(360)
Total current liabilities		**(1,469)**	(1,007)
Non-current liabilities			
Interest bearing loans and borrowings	17	**(4,020)**	(4,020)
Total liabilities		**(5,489)**	(5,027)
Net assets		**23,253**	24,555
Equity			
Issued share capital	21	**2,357**	2,357
Capital redemption reserve	22	**175**	175
Share premium account	22	**2,745**	2,745
Retained earnings		**17,976**	19,278
Total equity attributable to equity holders of the parent Company		**23,253**	24,555
NET ASSET VALUE PER SHARE		**197.3p**	208.4p

The financial statements were approved by the board of directors on 21 December 2022 and signed on its behalf by:

I D Lowe
Director
The notes on pages 51 - 71 form an integral part of these financial statements.

Consolidated statement of changes in equity as at 30 June 2022

	Issued share capital £000	Capital redemption reserve £000	Share premium account £000	Retained earnings £000	Total £000
At 1 July 2020	2,357	175	2,745	18,818	24,095
Profit and total comprehensive income for the year	-	-	-	460	460
At 30 June 2021	2,357	175	2,745	19,278	24,555
(Loss) and total comprehensive expenditure for the year	**-**	**-**	**-**	**(1,302)**	**(1,302)**
At 30 June 2022	**2,357**	**175**	**2,745**	**17,976**	**23,253**

Consolidated statement of cash flows for the year ended 30 June 2022

	Note	2022 £000	2021 £000
Cash flows from operating activities			
(Loss)/profit for the year		**(1,302)**	460
Adjustments for:			
Net loss on sale of investment property		**-**	151
Net loss/(gains) on revaluation of investment properties		**500**	(690)
Depreciation		**5**	1
Loss on sale of fixed assets		**-**	1
Net finance expense		**139**	137
Net operating cash flows before movements in working capital		**(658)**	60
(Increase)/decrease in trading properties		**(1,359)**	3,693
Decrease/(increase) in trade and other receivables		**1**	(13)
Increase/(decrease) in trade and other payables		**574**	(370)
Cash (absorbed by)/generated from operations		**(1,442)**	3,370
Interest paid		**(251)**	(333)

Net cash (outflow)/inflow from operating activities	**(1,693)**	3,037
Investing activities		
Proceeds from sale of investment properties	**-**	1,149
Proceeds from sale of fixed assets	**-**	5
Acquisition of property, plant and equipment	**(10)**	-
Cash flows (absorbed by)/generated from investing activities	**(10)**	1,154
Financing activities		
(Decrease) in borrowings	**-**	(1,243)
Cash flows (used) from financing activities	**-**	(1,243)
Net (decrease)/increase in cash and cash equivalents	**(1,703)**	2,948
Cash and cash equivalents at beginning of year	**3,020**	72
Cash and cash equivalents at end of year	**1,317**	3,020

Notes to the consolidated financial statements as at 30 June 2022

1 Reporting entity

Caledonian Trust PLC is a public company incorporated in England and domiciled in the United Kingdom. The consolidated financial statements of the company for the year ended 30 June 2022 comprise the Company and its subsidiaries as listed in note 7 in the parent Company's financial statements (together referred to as "the Group"). The Group's principal activities are the holding of property for both investment and development purposes. The registered office is c/o Womble Bond Dickinson, The Spark, Draymans Way, Newcastle Helix, Newcastle upon Tyne, NE4 5DE and the principal place of business is 61a North Castle Street, Edinburgh EH2 3LJ.

2 Statement of Compliance

The Group financial statements have been prepared and approved by the directors in accordance with UK-adopted International Accounting Standards. The company has elected to prepare its parent Company financial statements in accordance with International Accounting Standards; these are presented on pages 72 to 91.

3 Basis of preparation

The financial statements are prepared on the historical cost basis except for investments and investment properties which are measured at their fair value.

The preparation of the financial statements in conformity with UK-adopted International Accounting Standards requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These financial statements have been presented in pounds sterling which is the functional currency of all companies within the group. All financial information has been rounded to the nearest thousand pounds.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 2 to 20. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in note 18 to the consolidated financial statements.

In addition, note 18 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The directors have prepared projected cash flow information for the period ending eighteen months from the date of their approval of these financial statements. These forecasts assume the Group will make property sales in the normal course of business to provide sufficient cash inflows to finance the Group's activities.

The Group and parent Company finance their day to day working capital requirements through related party loans and bank funding is considered for specific development projects. The related party lender has indicated its willingness to continue to provide financial support and not to demand repayment of its principal loan during 2023.

For these reasons they continue to adopt the going concern basis in preparing the financial statements.

Areas of estimation uncertainty and critical judgements

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is contained in the following notes:

Estimates

- *Valuation of investment properties (note 10)*
  The fair value has been based on a third party valuation provided by an external independent valuer as at 30 June 2022. The independent valuation is based upon assumptions including future rental income, anticipated letting void cost and the appropriate discount rate or yield or, if appropriate, the development value. The independent valuer also takes into consideration market evidence for comparable properties in respect of both transaction prices and rental agreements.

- *Valuation of trading properties (note 13)*
  Trading properties are carried at the lower of cost and net realisable value. The net realisable value of such properties is based on the amount the Group is likely to achieve in a sale to a third party after taking account of the construction cost to complete the properties. This is then dependent on availability of planning consent and demand for sites which is influenced by the housing and property markets.

Judgements

- *Deferred Tax (note 20)*
  The Group's unrecognised deferred tax asset relates to tax losses being carried forward and to differences between the carrying value of investment properties and their original tax base. A decision has been taken not to recognise the asset on the basis of uncertainty regarding the availability and timing of future taxable profits.

4 Accounting policies

The accounting policies below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation
The financial statements incorporate the financial statements of the parent Company and all its subsidiaries all of which have the same accounting date. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to determine the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date it ceases. Inter-company balances are eliminated on consolidation.

Revenue
Turnover is the amount derived from ordinary activities, stated after any discounts, other sales taxes and net of VAT.

Revenue from the sale of investment and trading properties is recognised in the income statement on legal completion, being the date on which control passes to the buyer.

Rental income from properties leased out under operating leases is recognised in the income statement on a straight-line basis over the term of the lease. Costs of obtaining a lease and lease incentives granted are recognised as an integral part of total rental income and spread over the period from commencement of the lease to the earliest termination date on a straight-line basis.

Other income
Other income comprises income from agricultural land and other miscellaneous income recognised on receipt.

Finance income and expenses
Finance income and expenses comprise interest payable on bank loans and other borrowings. All borrowing costs are recognised in the income statement using the effective interest rate method. Interest income represents income on bank deposits using the effective interest rate method.

Taxation
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the charge / credit is recognised in equity. Current tax is the expected tax payable on taxable income for the current year, using tax rates enacted or substantively enacted at the reporting date, adjusted for prior years under and over provisions.

Deferred tax is calculated using the balance sheet liability method in respect of all temporary differences between the values at which assets and liabilities are recorded in the financial statements and their cost base for taxation purposes. Deferred tax includes current tax losses which can be offset against future capital gains. As the carrying value of the Group’s investment properties is expected to be recovered through eventual sale rather than rentals, the tax base is calculated as the cost of the asset plus indexation. Indexation is taken into account to reduce any liability but does not create a deferred tax asset. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Investment properties
Investment properties are properties owned by the Group which are held either for long term rental growth or for capital appreciation or both. Properties transferred from trading properties to investment properties are revalued to fair value at the date on which the properties are transferred. When the Group begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on the fair value model, and is not reclassified.

The cost of investment property is recognised on legal completion and includes the initial purchase price plus associated professional fees and historically also includes borrowing costs directly attributable to the acquisition. Subsequent expenditure on investment properties is only capitalised to the extent that future economic benefits will be realised.

Investment property is measured at fair value at each balance sheet date. The directors assess market value at each balance sheet date and external independent professional valuations are prepared at least once every three years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the income statement.

Tangible assets
Tangible assets are stated at cost, less accumulated depreciation and any provision for impairment. Depreciation is provided on all tangible assets at varying rates calculated to write off cost to the expected current residual value by equal annual instalments over their estimated useful economic lives. The periods used are:

Fixtures and fittings	-	3 years
Motor vehicles	-	3 years
Other equipment	-	5 years

Trading properties

Trading properties held for short term sale or with a view to subsequent disposal are stated at the lower of cost or net realisable value. Cost is calculated by reference to invoice price plus directly attributable professional fees. Interest and other finance costs on borrowings specific to a development are capitalised through stock and work in progress and transferred to cost of sales on disposal. Net realisable value is based on estimated selling price less estimated cost of disposal.

Financial instruments
The Group had no hedge relationships at 1 July 2020, 30 June 2021 or 30 June 2022.

Financial assets

Investments
The Group's investments in equity instruments are measured initially at fair value which is normally transaction price. Subsequent to initial recognition investments which can be measured reliably are measured at fair value with changes recognised in the profit or loss. Other investments are measured at cost less impairment in profit or loss. Dividend income is recognised when the Group has the right to receive dividends either when the share becomes ex dividend or the dividend has received shareholder approval.

Current receivables

Trade and other receivables with no stated interest rate and receivable within one year are recorded at transaction price including transaction costs. Assessments for impairment are performed at each reporting date and any losses are recognised in the statement of comprehensive income. Impairment reviews take into account changes in behaviours and the patterns of receipts from tenants on a case by case basis.

Cash and cash equivalents

Cash includes cash in hand, deposits held at call (or with a maturity of less than 3 months) with banks, and bank overdrafts. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are shown within current liabilities on the balance sheet and included with cash and cash equivalents for the purpose of the statement of cash flows.

Financial liabilities

Current payables

Trade payables are non-interest-bearing and are initially measured at fair value and thereafter at amortised cost.

Interest bearing loans and borrowings

Interest-bearing loans and bank overdrafts are initially carried at fair value less allowable transactions costs and then at amortised cost.

Changes in accounting policies

There are no new standards or amendments to existing standards which are effective for annual periods beginning on or after 1 July 2021 which are relevant to the Group. There are no new standards or amendments to existing standards or interpretations that are effective as at 30 June 2022 and relevant to the Group. The directors have considered standards which are issued but are not yet effective and do not expect them to have any significant impact on financial measurement and disclosures.

Operating segments

The Group determines and presents operating segments based on the information that is internally provided to the Board of Directors ("The Board"), which is the Group's chief operating decision maker. The directors review information in relation to the Group's entire property portfolio, regardless of its type or location, and as such are of the opinion that there is only one reportable segment which is represented by the consolidated position presented in the primary statements.

5 Operating (loss)/profit

	2022 £000	2021 £000
Revenue comprises: -		
Rental income	**306**	368
Sale of properties	**-**	4,186
	306	4,554

All revenue is derived from the United Kingdom

	2022 £000	2021 £000
The operating profit is stated after charging: -		
Depreciation	**5**	1
Amounts received by auditors and their associates in respect of:		
- Audit of these financial statements (Group and Company)	**19**	17
- Audit of financial statements of subsidiaries pursuant to legislation	**10**	9

6 Employees and employee benefits

	2022 £000	2021 £000
Employee remuneration		
Wages and salaries	**232**	177
Social security costs	**17**	12
Other pension costs	**28**	28
	277	217
	======	======

Other pension costs represent contributions to defined contribution plans.

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

	No.	No.
Management	**2**	2

	2022	2021
Administration	**3**	3
Other	**-**	1
	5	6

Remuneration of directors	**2022 £000**	2021 £000
Directors' emoluments	**135**	64
Company contributions to money purchase pension schemes	**25**	25

Director	Salary and Fees £000	Benefits £000	Pension Contributions £000	**2022 Total £000**	2021 Total £000
I D Lowe	28	5	-	**33**	6
M J Baynham	94	-	25	**119**	75
R J Pearson	8	-	-	**8**	8
	130	**5**	**25**	**160**	89

The Company does not operate a share option scheme or other long-term incentive plan.

Key management personnel are the directors, as listed above. The total remuneration of key management personnel, including social security cost, in the year was £173,491 (*2021: £94,067*).

	2022	2021
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**1**	1

7 Finance expenses

	2022 £000	2021 £000
Finance expenses		
Interest payable:		
- Other loan interest	**139**	137

8 Income tax

There was no current nor deferred tax charge in the current or preceding year.

Reconciliation of effective tax rate

	2022 £000	2021 £000
(Loss)/profit before tax	**(1,302)**	460
Current tax at 19% *(2021: 19%)*	**(247)**	87
Effects of:		
Expenses not deductible for tax purposes	**72**	(10)

Excess depreciation over capital allowances	**(6)**	(6)
Losses carried forward	**86**	6
Effect of indexation	**-**	(57)
Loss on sale of revalued investment property	**-**	111
Revaluation of property not taxable	**95**	(131)
Total tax charge	**-**	-

An increase in the UK corporation tax rate from 19% to 25% (effective from 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Group's tax charge accordingly.

In the case of deferred tax in relation to investment property revaluation surpluses, the base cost used is historical book cost and includes allowances or deductions which may be available to reduce the actual tax liability which would crystallise in the event of a disposal of the asset (see note 20).

9 Earnings per share

Basic earnings per share is calculated by dividing the (loss)/profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period as follows:

	2022	2021
	£000	£000
(Loss)/profit for financial period	**(1,302)**	460
	No.	No.
Weighted average no. of shares: for basic earnings per share and for diluted earnings per share	**11,783,577**	11,783,577
Basic (loss)/earnings per share	**(11.05) p**	3.90 p
Diluted (loss)/earnings per share	**(11.05) p**	3.90 p

The diluted figure per share is the same as the basic figure per share as there are no dilutive shares.

10 Investment properties

	2022	2021
	£000	£000
Valuation		
At 1 July	**17,110**	17,720
Disposed in year	**-**	(1,300)
Revaluation in year	**(500)**	690
Valuation at 30 June	**16,610**	17,110

The carrying value of investment property is the fair value at the balance sheet date based on valuations by Montagu Evans, Chartered Surveyors, as at 30 June 2022. The external valuer is not connected with the Group.

The valuation methodology applied by the external valuer was in accordance with the RICS Valuation - Global Standards effective from 31 January 2020 ("the Red Book") published by the Royal Institution of Chartered Surveyors ("RICS"). The definition of Fair Value, as adopted by the International Accounting Standards Board (IASB) in International Financial Reporting Standard (IFRS) 13 and as stated in paragraph 7 of VPS4 of the Red Book is as follows:

"The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market sector participants at the measurement date." The properties were valued individually and not as part of a portfolio.

The 'review of activities' and 'property prospects' within the Chairman's statement provides commentary on the Group's properties.

The historical cost of investment properties held at 30 June 2022 is £8,805,509 (2021: £8,805,509). The cumulative amount of interest capitalised and included within historical cost in respect of the Group's investment properties is £451,000 (2021: £451,000).

Valuations were based on vacant possession, rental yields or residual (development) appraisal rather than investment income in order to achieve the highest and best use value. To obtain the residual valuation the end development value is discounted by profit for a developer and cost to build to reach the base estimated market value of the investment. Only two properties were valued using an appropriate yield with allowance for letting voids, rent free periods and letting/holding costs for vacant accommodation and early lease expiries/break options, together with a deduction for purchaser's acquisition costs in accordance with market practice. The resulting net yields have also been assessed as a useful benchmark. Yields of 7.5% and 11% were applied respectively.

Assuming all else stayed the same, a decrease in net rental income or estimated future rent will result in a decrease in the fair value whereas a decrease in the yields will result in an increase in fair value. A decrease of 1% in the yields would result in an increase in valuation of £221,000 (*2021: £224,000*). An increase of 1% in the yields would result in a decrease in the fair value of £181,000 (*2021: £171,000*).

All the investment properties have been categorised as Level 2 in both years as defined by IFRS 13 Fair Value Measurement. Level 2 means that the valuation is based on inputs other than quoted prices that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The amount of unrealised gains or losses on investment properties is charged to the statement of comprehensive income as the movement in fair value of investment property. For the year to 30 June 2022 this was a fair value loss of £500,000 *(2021: profit £690,000).* During the year ended 30 June 2021, an investment property was sold along with several stock properties, together comprising Ardpatrick Estate, in a single transaction. There were no realised gains or losses on the disposal of investment properties in the year ended 30 June 2022.

11 Plant and equipment

	Motor Vehicles £000	**Fixtures and fittings £000**	**Other equipment £000**	**Total £000**
Cost				
At 30 June 2020	21	16	72	109
Disposals in year	(20)	(1)	(3)	(24)
At 30 June 2021	1	15	69	85
Depreciation				
At 30 June 2020	14	16	69	99
Disposals in year	(13)	(1)	(4)	(18)
Charge for year	-	-	1	1
At 30 June 2021	1	15	66	82

Net book value

At 30 June 2021	-	-	3	3

	Motor Vehicles £000	**Fixtures and fittings £000**	**Other equipment £000**	**Total £000**
Cost				
At 30 June 2021	1	15	69	85
Additions in year	-	10	-	10
At 30 June 2022	1	25	69	95
Depreciation				
At 30 June 2021	1	15	66	82
Charge for year	-	3	2	5
At 30 June 2022	1	18	68	87
Net book value				
At 30 June 2022	**-**	**7**	**1**	**8**

12 Investments

	2022 £000	2021 £000
Listed investments	**1**	1
	======	======

13 Trading properties

	2022 £000	2021 £000
At start of year	**9,313**	13,006
Additions	**1,359**	237
Sold in year	**-**	(3,930)
At end of year	**10,672**	9,313
	========	========

Finance costs related to borrowings specifically for a development are included in the cost of developments. At 30 June 2022 the total finance costs included in stock and work in progress was £53,055 (*2021: £Nil*).

14 Trade and other receivables

	2022 £000	2021 £000
Amounts falling due within one year		
Other debtors	**103**	108
Prepayments and accrued income	**31**	27
	134	135
	======	======

The Group's exposure to credit risks and impairment losses relating to trade receivables is given in note 18.

15 Cash and cash equivalents

	2022 £000	2021 £000

Cash	**1,317**	3,020
	======	======

Cash and cash equivalents comprise cash at bank and in hand. Cash deposits are held with UK banks. The carrying amount of cash equivalents approximates to their fair values. The Company's exposure to credit risk on cash and cash equivalents is regularly monitored (note 18).

16 Trade and other payables

	2022	2021
	£000	£000
Trade creditors	**59**	54
Other creditors including taxation	**14**	13
Accruals and deferred income	**1,036**	580
	1,109	647
	======	======

The Group's exposure to currency and liquidity risk relating to trade payables is disclosed in note 18.

17 Other interest bearing loans and borrowings

The Group's interest bearing loans and borrowings are measured at amortised cost. More information about the Group's exposure to interest rate risk and liquidity risk is given in note 18.

Current liabilities

	2022	2021
	£000	£000
Unsecured loan	**360**	360
	======	======
Non-current liabilities		
Unsecured loans	**4,020**	4,020
	=======	=======

Net debt reconciliation

	2022	2021
	£000	£000
Cash and cash equivalents	**1,317**	3,020
Liquid investments	**1**	1
Borrowings – repayable with one year	**(360)**	(360)
Borrowings – repayable after one year	**(4,020)**	(4,020)
Net debt	**(3,062)**	(1,359)
Cash and liquid investments	**1,318**	3,021
Gross debt – variable interest rates	**(4,380)**	(4,380)
Net debt	**(3,062)**	(1,359)

17 Other interest bearing loans and borrowings (continued)

	Cash/bank overdraft	**Liquid investments**	**Borrowing due within**	**Borrowing due after**	**Total**

			1 year	1 year	
	£000	£000	£000	£000	£000
Net debt at 30 June 2020	72	1	(1,503)	(4,120)	(5,550)
Cashflows	2,948	-	1,143	100	4,191
Net debt at 30 June 2021	3,020	1	(360)	(4,020)	(1,359)
Cashflows	(1,703)	-	-	-	(1,703)
Net debt at 30 June 2022	**1,317**	**1**	**(360)**	**(4,020)**	**(3,062)**

Terms and debt repayment schedule
Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	**2022**		2021	
			Fair value £000	**Carrying amount £000**	Fair value £000	Carrying amount £000
Unsecured loan	GBP	Base +3%	**4,020**	**4,020**	4,020	4,020
Unsecured development loan	GBP	Base +0.5%	**360**	**360**	360	360
			4,380	**4,380**	4,380	4,380

The unsecured loan of £4,020,000 is from Leafrealm Limited and is repayable in 12 months and one day after the giving of notice by the lender. Interest is charged at 3% over the Bank of Scotland base rate. The margin applied with effect from 1 July 2020 in line with the terms of the loan.

The short-term unsecured development loan of £360,000 is from Leafrealm Limited and is repayable after the disposal of Phase 3 of the Brunstane development. Interest is charged at a margin of 0.5% over the Bank of Scotland base rate.

The weighted average interest rate of the floating rate borrowings was 3.2% *(2021: 3.3%)*.

18 Financial instruments

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	2022		2021	
	Fair value £000	**Carrying amount £000**	Fair value £000	Carrying amount £000
Trade and other receivables	**103**	**103**	108	108
Cash and cash equivalents	**1,317**	**1,317**	3,020	3,020
	1,420	**1,420**	3,128	3,128
Loans from related parties	**4,380**	**4,380**	4,380	4,380

Trade and other payables	**1,100**	**1,100**	639	639
	5,480	**5,480**	5,019	5,019

Estimation of fair values

The following methods and assumptions were used to estimate the fair values shown above:

Trade and other receivables/payables – the fair value of receivables and payables with a remaining life of less than one year is deemed to be the same as the book value.

Cash and cash equivalents – the fair value is deemed to be the same as the carrying amount due to the short maturity of these instruments.

Other loans – the fair value is calculated by discounting the expected future cashflows at prevailing interest rates.

Overview of risks from its use of financial instruments

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework and oversees compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Board's policy is to maintain a strong capital base so as to cover all liabilities and to maintain the business and to sustain its development.

The Board of Directors also considers whether or not dividends should be paid to ordinary shareholders.

For the purposes of the Group's capital management, capital includes issued share capital and share premium account and all other equity reserves attributable to the equity holders. There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations.

As the Group operates wholly within the United Kingdom, there is currently no exposure to currency risk.

The main risks arising from the Group's financial instruments are interest rate risks and liquidity risks. The board reviews and agrees policies for managing each of these risks, which are summarised below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers, cash held at banks and its investments.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The majority of rental payments are received in advance which reduces the Group's exposure to credit risk on trade receivables.

Other receivables

Other receivables consist of amounts due from tenants and purchasers of investment property along with a balance due from a company in which the Group holds a minority investment.

Investments

The Group does not actively trade in equity investments.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying value	
	2022	2021
	£000	£000
Investments	**1**	1
Other receivables	**103**	108
Cash and cash equivalents	**1,317**	3,020
	1,421	3,129

The Group made an allowance for impairment on trade receivables of £31,000 (*2021: £Nil*). As at 30 June 2022, trade receivables of £37,000 (*2021: £74,000*) were past due but not impaired. These are long standing tenants of the Group and the indications are that they will meet their payment obligations for trade receivables which are recognised in the balance sheet that are past due and unprovided. The ageing analysis of these trade receivables is as follows:

	2022	2021
Number of days past due date	**£000**	£000
Less than 30 days	**19**	25
Between 30 and 60 days	**1**	8
Between 60 and 90 days	**5**	7
Over 90 days	**12**	34
	37	74

Credit risk for trade receivables at the reporting date was all in relation to property tenants in United Kingdom. The Group's exposure is spread across a number of customers and sums past due relate to 8 tenants (*2021: 11 tenants*). One tenant accounts for 34% (*2021: 36%*) of the trade receivables past due by more than 90 days.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group's reputation. Whilst the directors cannot envisage all possible circumstances, the directors believe that, taking account of reasonably foreseeable adverse movements in rental income, interest or property values, the Group has sufficient resources available to enable it to do so.

The Group's exposure to liquidity risk is given below

30 June 2022 £'000	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**2-5 years**
Unsecured loan	4,020	4,261	136	105	4,020

Unsecured development loan	360	365	365		-
Trade and other payables	1,109	1,109	1,109	-	-

30 June 2021 £'000	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**2-5 years**
Unsecured loan	4,020	4,364	219	125	4,020
Unsecured development loan	360	362	1	361	-
Trade and other payables	639	639	639	-	-

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group borrowings are at floating rates of interest based on the Bank of Scotland base rate.

The interest rate profile of the Group's borrowings as at the year-end was as follows:

	2022 £000	2021 £000
Unsecured loan – Base +3%	**4,020**	4,020
Unsecured loan – Base +0.5%	**360**	360
	=====	=====

A 1% movement in interest rates would be expected to change the Group's annual net interest charge by £43,800 *(2021: £43,800)*.

19 Operating leases

Leases as lessors

The Group leases out its investment properties under operating leases. Operating leases are those in which substantially all the risks and rewards of ownership are retained by the lessor. Payments, including prepayments made under operating leases (net of any incentives such as rent free periods) are charged to the income statement on a straight line basis over the period of the lease. The future minimum receipts under non-cancellable operating leases are as follows:

	2022 £000	2021 £000
Less than one year	**209**	179
Between one and five years	**352**	407
Greater than five years	**261**	316
	822	902
	=====	=====

The amounts recognised in income and costs for operating leases are shown on the face of the income statement.

20 Deferred tax

At 30 June 2022, the Group has a potential deferred tax asset of £1,662,000 *(2021: £1,488,000)* of which £120,000 *(2021: £79,000)* relates to differences between the carrying value of investment properties and the tax base. In addition, the Group has tax losses which would result in a deferred tax asset of £1,542,000 (*2021: £1,409,000*). This has not been recognised due to uncertainty regarding the availability and timing of future taxable profits.

Movement in unrecognised deferred tax asset

	Balance 1 July 20 at 19%	Additions/ (reductions)	Balance 30 June 21 at 25%	Additions/ (reductions)	**Balance 30 June 22 at 25%**
	£000	£000	£000	£000	**£000**
Investment properties	84	(5)	79	41	**120**
Tax losses	1,090	319	1,409	133	**1,542**
Total	1,174	314	1,488	174	**1,662**

21 Issued share capital

	30 June 2022		30 June 2021	
	No	**£000**	No.	£000
Authorised share capital				
Ordinary shares of 20p each	**20,000,000**	**4,000**	20,000,000	4,000
Issued and fully paid				
Ordinary shares of 20p each	**11,783,577**	**2,357**	11,783,577	2,357

Holders of ordinary shares are entitled to dividends declared from time to time, to one vote per ordinary share and a share of any distribution of the Company's assets.

22 Capital and reserves

The capital redemption reserve arose in prior years on redemption of share capital. The reserve is not distributable.

The share premium account is used to record the issue of share capital above par value. This reserve is not distributable.

23 Ultimate controlling party

The ultimate controlling party is Mr I D Lowe.

24 Related parties

Transactions with key management personnel

Transactions with key management personnel consist of compensation for services provided to the Company. Details are given in note 6.

Transactions with key management personnel (continued)

Lowe Dalkeith Farms, a business wholly owned by I D Lowe, used land at one of the Company's investment properties as grazings for farming until April 2021. Rent was agreed and paid at £1,575 per annum.

Other related party transactions

The parent company has a related party relationship with its subsidiaries.

The Group and Company has an unsecured loan due to Leafrealm Limited, a company of which I D Lowe is the controlling shareholder. The balance due to this party at 30 June 2022 was £4,020,000 (*2021: £4,020,000*) with interest payable at 3% over Bank of Scotland base rate per annum. The margin applies with effect from 1 July 2020 in line with the terms of the loan. Interest charged in the year amounted to £135,694 *(2021: £124,620).*

The Company also has an unsecured development loan due to Leafrealm Limited, a company of which I D Lowe is the controlling shareholder. The balance due to this party at 30 June 2022 was £360,000 (*2021: £360,000)* with interest payable at a margin of 0.5% over base rate. Interest charged in the year amounted to £3,200 *(2021: £2,160).*

In the year ended 30 June 2021, the Company also had an unsecured facility due to Leafrealm Limited, a company of which I D Lowe is the controlling shareholder. The maximum balance drawn down was £115,000 with interest payable at 8% per annum. Interest charged in the year amounted to £Nil *(2021: £5,508*) and the facility was repaid in full in line with its terms during the year ended 30 June 2021.

Contracting work on certain development and investment property sites has been undertaken by Leafrealm Land Limited, a company under the control of I D Lowe. The value of the work done by Leafrealm Land Limited charged in the accounts for the year to 30 June 2022 amounts to £8,219 (*2021: £2,311*) at rates which do not exceed normal commercial rates. The balance payable to Leafrealm Land Limited in respect of invoices for this work at 30 June 2022 was £630 (*2021: £Nil*).

Lowe Dalkeith Farms, a business wholly owned by I D Lowe, provided equipment used in the maintenance of the Group's investment or development sites. The value of the equipment hire from Lowe Dalkeith Farms charged in the accounts for the year to 30 June 2022 amounts to £2,249 (*2021: £2,068*) at rates which do not exceed normal commercial rates. The balance payable to Lowe Dalkeith Farms in respect of invoices for this work at 30 June 2022 was £630 (*2021: £Nil*).

Property advisory services on two investment property transactions was undertaken by RJ Pearson Property Consultants Limited, a company under the control of R J Pearson. The value of the work done charged in the accounts for the year to 30 June 2022 amounts to £25,000 (*2021: £Nil*) at rates which do not exceed normal commercial rates. The balance payable to RJ Pearson Property Consultants Limited in respect of invoices for this work at 30 June 2022 was £Nil (*2021: £Nil*).

For a full listing of investments and subsidiary undertakings please see note 7 of the parent Company financial statements.