Caledonian Trust plc

Directors' Report and Financial Statements 30 June 2002

Registered number: 1040126

Contents

Company Information

Board of Directors	I. D. Lowe (Chairman and Chief Executive) M. J. Baynham L.L.B.(Hons) J. N. Little B. J. Rankin C.A.
Secretary	M. J. Baynham L.L.B.(Hons)
Head Office	61 North Castle Street Edinburgh EH2 3LJ
Registered Office	St Ann's Wharf 112 Quayside Newcastle upon Tyne NE99 1SB
Auditors	KPMG Audit Plc Saltire Court 20 Castle Terrace Edinburgh EH1 2EG
Nominated Advisers	Noble & Co Limited 1 Fredericks Place London EC2R 8AB
Nominated Brokers	Numis Securities Limited Cheapside House 138 Cheapside London EC2V 6LH
Bankers	Bank of Scotland Head Office PO Box 5 The Mound Edinburgh EH1 1YZ
Registrars	Lloyds TSB Registrars Scotland PO Box 28448 Finance House Orchard Brae Edinburgh EH4 1WQ www.shareview.co.uk
Registered No.	1040126

Chairman's Statement

for the year ended 30 June 2002

Introduction

The Group made a profit of £3,237,578 in the year to 30 June 2002 compared to £88,047 last year including £2,589,353 profits from the sales of investment property. NAV per share on 30 June 2002 was 163.5p compared to 138.6p last year.

Rent and service charges increased by £61,819 primarily because St Magnus was fully income producing until its disposal in April 2002 whereas in the previous year the main income stream there did not commence until May 2001. This rise in income more than offset net falls elsewhere, including a reduction of about £200,000 in rents at Stoneywood as tenants left or were granted rent free occupation as part payment for early surrenders.

Property rental outgoings were £440,112 lower, almost wholly due to reduced refurbishment expenditure at St Magnus. Administrative expenses fell by £47,783 largely due to reduced professional fees at St Magnus. Net interest paid fell by £474,489 as bank debt fell from £16,949,912 to £5,250,176 at the year end and the average base rate fell to 4.32% from 5.81% last year.

On 30 June 2002 the Group's portfolio comprised by value 63.21% office investment property (of which 73.45% is open plan), 10.36% retail property and 26.43% development property.

Review of Activities

Aberdeen has been the main focus of our property activities during the financial year. As I reported previously we concluded a contract in September 2001 to sell the Stoneywood Business Centre, our 15 acre office and industrial property in Dyce, Aberdeen, to BP for their proposed new 380,000ft^2 Northern hemisphere headquarters. Some discussions had been going on for almost a year but once BP had determined to proceed the detailed negotiations for this very complex transaction were concluded in fifteen working days. The consideration of £9.05m was paid in two tranches, £7m in January 2002 and the balance of £2.05m in October 2002.

I also reported last year that on 5 November 2001 we had let the remaining vacant 4,834ft^2 area of St Magnus House Aberdeen, our 80,173ft^2 modern open-plan office to our principal tenant Enterprise Oil for £17.50 per ft^2. Thus St Magnus, for the first time for many years, was fully let, almost wholly refurbished to the highest standards and almost entirely let to outstanding covenants on leases which largely ran until 2015. In view of these improvements we considered that the value of St Magnus had peaked and in view of the strategy of the Company to reinvest in other opportunities offering higher returns we decided to market St Magnus. After a brief targeted marketing campaign St Magnus was sold for £13.05m. Just prior to the exchange of missives Shell bid for Enterprise Oil and then transferred the Enterprise Oil office to their existing premises.

Changes in the remainder of our investment portfolio have been important, albeit significantly less dramatic than those in Aberdeen. After a long delay, caused primarily by the strict New Town planning conditions, we completed the letting in December 2001 of 9 South Charlotte Street, a traditional Georgian building on three floors, to La Tasca Restaurants Limited, a themed tapas chain, on a full repairing lease for 25 years where the rent free period ended in June 2002. The improvements to the property have been very significant and, lying just off Princes Street on the main thoroughfare from Princes Street to Charlotte Square and George Street, the property has been transformed from a traditional Georgian office to a near prime retail investment, which we expect to perform very well. We refurbished the offices at 57 North Castle Street, and in February 2002 let them to John Menzies for 10 years on full repairing and insuring terms. The rent was reviewed on 17/19 Young Street, just off Charlotte Square, where two charming Georgian townhouses are let to Lloyds TSB until 2006. An increase of 11% on the rent was agreed, the first increase since 1991. The residential value is now probably higher than the office value. At 61 North Castle Street we intend to refurbish the four floors presently vacant. Detailed planning consent and listed building consent has been obtained for the conversion of the second and third floors together with the attic above the third floor, into two self-contained flats opening off the original entrance at 59 North Castle Street. The reconversion to residential use will create two very fine Georgian properties, the upper one including the interesting attic with commanding views.

Chairman's Statement (continued)

Our largest investment property in Edinburgh, St Margaret's House, a 92,845ft^2 open-plan office was let to the Secretary of State for the Environment until 28 November 2002. The Scottish Parliament operates a dispersal programme whereby there is a presumption against location of offices for civil servants in Edinburgh where new agencies or departments are formed, or where leases on existing properties determine. In accordance with this policy one of the two occupiers of St Margaret's House has relocated to new purpose-built premises in the Scottish Borders near Galashiels, and the second occupier The Registers of Scotland has transferred all their staff into their other existing premises. Over the last few years we have considered several possible uses for the building, and for it together with a contiguous site which forms part of a large triangular island site bounded by the A1 London Road, the main line railway and Restalrig Road. An overall scheme which has considerable planning advantages would provide up to 400,000ft^2 of offices, or up to 500 residential units, possibly with ancillary retail and leisure uses. However such a scheme would entail a very long planning period and given the Government ownership of most of the adjacent property there would be considerable administrative, financial and political difficulties. Thus we have decided that the best use of the site is for continued office use and we are considering different levels of refurbishment. The St Margaret's site is probably unique in offering the possibility of a large-scale office in the city centre near to the Scottish Parliament and to the rapidly improving east centre of the city.

In Berwick-upon-Tweed we have relet the only vacant unit in our parade of 7 small retail units at Golden Square. This investment property is now fully let and producing £66,022 per year, and if market indicators for such investments show further improvement, we may seek to realise it for reinvestment.

We are developing and extending our residential sites within the Edinburgh area. At Eskbank, near the City bypass, we have completed an elegant development of five four bedroom houses at Weir Court, which have just been released to the market at prices starting from £295,000. Our second residential site for eight detached houses borders Musselburgh and is within 400 yards of the mainline station at Wallyford. A contiguous area is to be developed for a large number of private houses, subject to agreeing road improvements to the adjacent A1 near the junction with the City bypass, and this development should radically alter the character of the existing settlement and greatly enhance the value of our site. We expect development to take place here in two or three years. Our third site, lying just east of Dunbar, should accommodate 17 houses. The A1 is presently a dual carriageway to a point just east of Haddington and this dual carriageway is being extended to a point east of Dunbar, 5 miles from our site. This new road, together with the rapid expansion of Dunbar as an improving town with comprehensive community facilities contributes to the excellent long-term prospects for this development. In order to minimise unit overhead costs we have agreed terms for the acquisition of a further 2.5 acres of building land and some adjacent amenity ground, and are negotiating to purchase some adjoining land.

We have a site in an established residential area in north Edinburgh under offer which would provide 20 large high quality flats.

Residential options are being considered for our development site in Belford Road Edinburgh where there is a consent for 22,500ft^2 of Grade A offices. Belford Road is an excellent residential area with new flats selling for about £350/ft^2.

We have negotiated a new three year stepped rental lease with mutual breaks from 29 September 2001 with the tenant of our properties at Baylis Road/Murphy Street, near Waterloo, SE1. Residential values continue to rise in this area and we have recently received two unsolicited approaches for the sites.

In central south Glasgow we have just completed the purchase of a medium sized commercial investment property yielding prospectively 8% where, like our Waterloo properties, there are considerable medium term residential development opportunities.

Economic Prospects

The economic uncertainties confronting the UK last year and this year have interesting similarities : "asset bubbles and wars". Last year the TMT asset bubble had burst and the Afghanistan war had been won, but this

Chairman's Statement (continued)

year the UK asset bubble may be about to burst and the outcome in Iraq is unknown. I argued last year that the cumulative effect of the brilliantly successful Afghan military campaign, of astute economic management, and of fortunate economic circumstances would allow an upturn in the US economy in 2002. Fortunately this view has proved correct as US growth in the third quarter was at an annual rate of 4.0% and is expected to be 2.4% for 2002 and 2.7% for 2003. Since the TMT bubble burst the UK economy has proved less volatile than the US and although growth dropped to only 0.1% in the first quarter of 2002 there has been no recession and growth of 1.6% is expected in 2002, the slowest rate recorded since 1992, increasing to 2.5% next year.

The first main risk facing the UK economy in 2003 is a significant disruption to oil supplies as a result of an Iraqi war raising oil prices significantly for more than a few months. The readmission of the UN inspection teams has reduced the immediate risk and if inspection continues until the spring the likelihood of war then is also reduced as the US military advantage is compromised by the deleterious effect on troops operating in hot weather wearing protective clothing. If war breaks out oil prices would rise if supplies through or from the Gulf were curtailed. However, as the Gulf will contain the most formidable naval and air forces ever assembled facing an enemy almost totally devoid of these resources, tankers should continue to enjoy relatively safe passage.

Most OPEC producers will decide that the balance of their advantage lies with maintaining adequate supplies as, if they seek political advantage, this could more easily be achieved by overt disassociation with any anti-Iraq forces. A dramatic price rise might have short term economic advantages but their long term advantage lies in maintaining the world economy, in which they have considerable investment, and preventing the development of an alternative supply.

Paradoxically OPEC economic interests are best served by a continuance of the restriction in oil output imposed on the current regime in Iraq as a "sanitised" Iraq, restored to economic and political power under the current leader would destabilise the region and OPEC: their worst outcome is Saddam repentant and in power.

The second main risk to the UK economy is a pricking of the house price "bubble" resulting in a sharp contraction of consumption which has been the main support for increased economic activity since 1996. Increased consumption has been financed partly by reduced saving and partly by Mortgage Equity Withdrawal which has now risen from nil four years ago to 6% of personal disposable income, a level approaching the 1980's peak. These factors together with house prices up to 30% higher have resulted in an 11% increase in secured lending and a 15% increase in unsecured lending in the year to June 2002 and have caused borrowing secured on, but not invested in, housing to rise to £8bn, the highest in relation to disposable income since the late 1980's housing boom. Household debt is now an unusually high 120% of income, but low nominal interest rates have maintained the ratio of interest payments to income below historical averages and below the late 1980's peak. Such borrowing has allowed household consumption to rise 1.9% in the first half of 2002 compared with a growth in GDP of only 0.7%.

The Economist Intelligence Unit forecasts for GDP growth of 1.8% in 2003 and 2.0% in 2004 are predicated on similar growth in expenditure implying continuing consumer confidence. Asset prices are key factors in determining confidence and OECD studies indicate that a 20% fall in the real value of the UK stockmarket cuts consumer spending by 1% and GDP by 0.4%. In the UK falling equity wealth has largely been offset by rising housing wealth, but house price falls would reinforce continuing stockmarket falls, the effect being more severe due to the higher gearing of the housing market and so leading to a much larger reduction in consumption.

It is self evident that houses will not continue to rise indefinitely at the current rate of 30% per annum and some commentators suggest that they are already 25-30% overvalued. The Bank of England's central projection is that house inflation will fall to zero before 2005, but it also warns "of a more abrupt slowdown". A rise in interest rates has been one of two main traditional causes of an "abrupt slowdown" as two-thirds of debt is floating. However, as 25 year projections of future short-term interest rates are benign, peaking at just over 5% in five years' time, interest rates should not be a major cause of any "abrupt slowdown".

Chairman's Statement (continued)

A rise in unemployment is the second possible major cause of falling house prices, but economic forecasts by the Economist Intelligence Unit show growth until 2005 at or near long-term trends indicating little employment change. This year in spite of below trend growth of 1.6% employment rose by 37,000. Thus, it seems likely if economic growth continues and if the Government continues it's public service policies public sector jobs will continue to replace job losses elsewhere, and rising unemployment should not cause an "abrupt slowdown".

Notwithstanding this analysis there are many signs of a fall in the market. Rents in inner and central London fell by 10% in the year to March 2002 with further falls reported later. Prices in high value central London boroughs have fallen about 10% over the year to October 2002 although low value areas such as Newham and Tower Hamlets have risen over 30%. A similar trend is evident nationally: growth is now lower in London than many outlying commuting areas such as East Anglia and some more remote areas such as the West Country, Yorkshire and the Scottish Borders have recently had the greatest growth. Some commentators see price rises starting in the London area and rippling out: now falls starting in London may ripple out.

House prices are dependent also on housebuyers expectations. Rapidly rising prices lead to an investment psychology expressed for example as "buy now while stocks last"; "house prices always go up/never fall"; and "residential investment has done much better than equities/pensions": in investment terms "momentum investing" which can create "a bubble". Several factors together or separately could deflate such a housing market: potential first time buyers are unable to finance purchases leaving property unsold; a supply of one sector, say letting properties, exceeds demand; adverse comment reduces demand; or an external shock reduces demand. If, as a result of any one or any combination of adverse factors, prices stabilise or fall, speculators and investors will close positions and prospective purchasers will hold back waiting for further falls, and the "bubble" bursts.

Notwithstanding the risk of a burst bubble, the Bank of England's central projection is for house price inflation to fall to 0% in two years but other commentators expect continuing rises: Council of Mortgage Lenders 7%; Nationwide and the Halifax 10%; and Hometrack 4%. However the outcome depends on whether the current high levels represent a market response to the current supply and occupational demand or whether demand has been increased by investors speculating and by demand being brought forward on a momentum basis. I suspect that throughout many areas of the UK there is an element of such momentum investing but that there is a significantly much higher element in London and the South East, and in these areas I suspect that prices will drop noticeably, especially as occupational demand in these areas is likely to decline due to the continuing downturn in financial services.

A moderate reduction in house prices would severely damage the economy, primarily by reducing consumption and GDP growth resulting in lower tax revenues and further increasing Government borrowing requirements. The Government expenditure programme already appears unsustainable and after seven months of the fiscal year borrowings are already 30% over budget. The programme is predicated on GDP growth of 2.5% until 2006/7 but following a probable growth of only 1.6% in 2002, growth of 3% is needed in subsequent years to meet the target. Most estimates show lower growth in 2003 and 2004 before any allowance for reduced GDP growth as a result of house price falls in some areas. The future political choices will be between maintaining public service expansion by borrowing or by reducing planned expenditure. Economic growth rate seems likely to be below trend, an outcome reinforced by house price adjustment in some areas.

Property Prospects

The CB Hillier Parker All Property Yield Index fell 0.2% point to 7.2% in the year to November 2002 due to a 0.35% point fall in retail yields. The 10 year Gilts yield was 4.7%, increasing the "Yield Gap" to 2.5% points, the largest since the index was first compiled in 1971.

Property yields lower than Gilt yields traditionally reflected the perception of property as in part an "equity" stock where growth in rents compensates for the low initial yield. However this year the All Property Rental Index fell 2.9% and over the last five years has averaged 5.9%, say 3.5% in real terms, and the average of forecasts published in Estates Gazette are for growth of 0.2% in 2003 and 1.8% in 2004. Low rental growth

Chairman's Statement (continued)

would be consistent with the high current yields. Over the last ten years the IPD all property index returned 10.3% annualised, of which 7.8% represented income return and 2.5% capital growth. Property investment now more clearly resembles a higher yield fixed interest investment with a much reduced element of potential equity growth.

In Edinburgh Ryden report the takeup of offices in the six months to 30 September 2002 as 340,000ft^2, similar to last year, but significantly down on the average 603,000ft^2 for the same period in the previous four years. Total supply is 1,968,924ft^2, of which a significant amount is peripheral, but is still higher than the previous peak of 1,915,692ft^2 in March 1993 and current developments will further increase supply. Rents have reportedly declined from a peak of £29 to £25 in central Edinburgh and from £25 to £20 in Edinburgh Park.

In Aberdeen property prices are more sensitive to oil prices than to the general economy. Brent Oil was $21.20 this time last year, dipped below $20 in January/February 2002 and has since stayed above $24 rising recently to $27. In real terms the 2002 price is about double the price before the 1973 Yom Kipper war but only a quarter of the price subsequent to the Iranian revolution in 1979. At 2002 prices UK North Sea oil and gas output is expected to peak in 2002 and 2005 respectively with UK oil production falling 12% by 2005. The drilling of exploration and appraisal wells, development expenditure and total offshore expenditure are all expected to fall sharply in the next three years. Reduced activity in the oil sector together with continuing declines in manufacturing, fishing and agriculture seem likely to damage the local economy. Office take up in the year to September 2002 was 402,554ft^2, 16% higher than the previous year. However, supply is 1,124,804ft^2, an all time record, and should BP build their new HQ at Stoneywood, sold by us last year, another 300,000ft^2 becomes available. With the benefit of hindsight, the timing of the sale of our Aberdeen investments seems most opportune.

The office markets in London and the South East have fallen significantly and the prospects are unfavourable. The Investors Chronicle reports City rents have fallen 20% to £50 and West End rents 21% to £65 and the increase in rent free periods is equivalent to a further fall of 5%. Take up has fallen, supply has risen and vacant space is 11.5% in the City and 8.5% in Central London. Moreover JP Morgan estimate that speculative City developments started in the first half of this year were 2.3m ft^2, the highest level for ten years and around London 17.3m ft^2 is under construction with completions peaking next year. Rents have been falling within the M25 and particularly in the Thames Valley area where take up dropped from the TMT peak of 8.0m ft^2 in 2000 to a rate of 2.4m ft^2 in 2002. The rest of the UK has largely escaped the malaise affecting the South East and rents are showing an annualised growth of 2.6%.

The South East rents largely peaked in 2001 and apart from Docklands where rents have doubled, rental levels were about 10% higher than the previous peak, 1989/1990. However in real terms the peak 2001 rental figure for the all-offices index was only 80% of the previous peak and the City below 70%. Most of the regions have current real rental levels below previous levels except the North East. Only Scotland, the North East and Yorkshire and Humberside are at or slightly above previous real levels. Other investment sectors have performed less badly: real shop rents equal those of the 1990 peaks; real industrial rents are 85% of peak and the all property rents are 87% of peak. With few exceptions real rents have fallen from peak to peak, notably in some cases.

This disappointing real rental performance has been exacerbated by yield movements. In May 1990 Gilt Yields were about 12.35% and are now 4.85%. The Hillier Parker All Property Yield then was 7.6% but is now approximately 8.2%. Property yields on a comparable basis have therefore risen although Gilts have fallen 7.5% points while real rentals have fallen from peak to peak. Thus over the cycle "All Property" has not maintained real rental values while the investment value of those reduced rents has fallen: a doubly poor outcome!

The immediate future for property does not appear encouraging. The earlier analysis of the Edinburgh office market indicates a significant downturn even without an economic recession. The London market is poor and Savills expect the City and West End office rents to stagnate and not to recover recent highs until 2005. Richard Ellis expect further falls in office rentals, especially in London and the South East and retail and industrial sectors to have no real overall growth until 2005 or 2006. The prices of quoted property companies probably

Chairman's Statement (continued)

reflect these poor prospects, as the sector discount in mid November was 36% with the blue chip Land Securities at a 40% discount.

The cyclicality of the property market, especially the office market, is readily understood but the poor performance of property peak to peak is less easily understood. The main factor has been the increase in supply due to the relaxation of market, locational or planning restrictions. Examples include the new office centres in Edinburgh, Docklands in London and the large increase in out-of-town retail space. Another factor may be that supply has been provided at a price insufficient to cover the many largely hidden costs, including tenant failure, under-priced short-term leases, depreciation of the fabric, inadequate recovery under repairing provisions and technical and locational obsolescence. The high cost of serviced offices after stripping out staff and facilities costs give one estimate of the full cost of space on a flexible basis. Unfortunately the factors currently limiting returns in the commercial investment property market are likely to persist and overall the market is unattractive.

Fortunately the Company is a "niche player" and we have identified new opportunities. With few exceptions Edinburgh office space is polarised between central townhouses and new high quality Grade A office space in the Exchange and Edinburgh Park predominantly occupied by Institutions, Financial Services and top tier professional firms. There is little open plan "commercial" property available to tailored specifications, on flexible leases, serviced or partly-serviced, well located and with generous car parking. St Margaret's House meets this niche market requirement.

The Edinburgh area housing market provides insulation from any short-term price instability and excellent long-term prospects, and offers a second niche opportunity. Earlier analysis showed the UK residential market to be overpriced, especially in London and the South East, where in places prices are already falling. Any Edinburgh house market downward adjustment should be significantly less than in the South East or even the UK as prices have traditionally been much less volatile. Between the 1989-90 peak and the 1993-94 trough real prices fell by 40% in the South East, 37% in London and 30% in the UK overall. Prices for four categories of Edinburgh City Centre were monitored by the Edinburgh Solicitors' Property Centre over the cycle: one category rose by 3.9% and the other three fell by between 3.5% and 10.5%. In the four Edinburgh suburban categories monitored one was unchanged, two fell about 5% but one category, modern detached villas, fell 15.3%, by far the largest of all changes. In the area immediately nearby Midlothian fell 8% but East and West Lothian only 3.9% and 3.5% respectively.

The buy-to-let market in Edinburgh has increased recently but represents a very much smaller proportion of central property than in London. In any downturn the proportion of resales depressing prices will be much lower in Edinburgh than in London.

The ratio of house prices to earnings is a useful indicator of the volatility of house prices. In London the long-term average is 4.1 but is now 5.7 just below the 1980s' peak of 6.1. The UK ratio is 4.4 now, also near the 4.8 high, but in Scotland it is only 2.7, largely unchanged for 6½ years with the Lothian ratio currently about 3.5.

Economic conditions, especially employment levels are a major determinant of prices. Overall the Scottish economy has performed poorly compared with the UK's and is expected to continue to grow by about 1% point less than the UK in 2002 and 2003, primarily due to recent and continuing heavy falls in the manufacturing sector. Edinburgh's manufacturing sector is small and the Scottish service sector is expected to expand by about 2% over the next two years. Cambridge Econometrics expect Edinburgh's growth until 2006 to be just over 2%, marginally less than London, but expect employment in Edinburgh to grow more rapidly than in London.

Edinburgh's economic success is expected to continue to attract incomers – last year the East of Scotland had the highest such rate in the EU – contributing to the expected rise in the population in the Lothian area from 783,000 to 832,115. This population increase together with smaller-sized households, projected to fall from 2.3 persons in 2000 to 2.0 in 2014, is estimated to result in a 19.3% increase in households, or 65,600 more, say 4,373 per year. The most rapid increases in Scottish households, 24% and 22%, are expected in West Lothian and East Lothian.

Chairman's Statement (continued)

There will be a long term increase in demand for houses in the Edinburgh area. If supply of land was unrestricted real house prices would rise in line with construction costs in the long run, but supply restrictions are severe in the Edinburgh area. Only a few sites, mostly brownfield sites or a dwindling number of office reconversions, remain in central Edinburgh but planning restrictions are onerous. Outside the city centre development continues on the very few remaining gap sites and redevelopment occurs on some industrial and other premises. These supply limitations have resulted in planning proposals for peripheral and outlying areas. In North Edinburgh proposals have been made for about 5,000 houses on the large gas works site and associated grounds at Granton. An equally large proposal, the South East Wedge, is situated inside the City Bypass in South Edinburgh and North Midlothian where 4,500 houses are proposed. Further afield substantial housing estates are being added to existing settlements usually near good road or rail links where houses sell at up to a 40% discount to more central equivalent property. Historically these very large scale developments fall well behind schedule and these major proposals will also almost certainly be implemented much later than the time planned to meet the perceived need and so maintain the current limitation on supply.

Future Progress

The Group should make satisfactory investment and trading profits, including those from Eskbank, in the current year. Rental income will fall as a result of the disposals of St Magnus and Stoneywood, and the determination of the St Margaret's lease on 28 November 2002. However, net interest received should exceed interest paid. The full outcome for the financial year will depend crucially on any change in net valuation.

We have just completed a comprehensive costing of the dilapidations at St Margaret's where a claim for damages of over £4.0m has been intimated to the Scottish Ministers. We will pursue this claim as strongly and quickly as possible but settlement could be delayed into the next financial year. The refurbishment of St Margaret's is being planned, subject to an assessment of the optimum market specification. Our main future interests are the acquisition or creation of development opportunities and the realisation of existing development opportunities, all within a five year period, with particular emphasis on the residential market.

The mid-market price is currently 118p, a considerable improvement on the 98.5p reported last year, and a discount of 27.83% to the NAV of 163.5p. During the year we bought in 507,500 shares and this contributed to the higher NAV and a lower discount. The Board recommends a final dividend of 1p and we intend to increase the dividend at a pace consistent with profitability and with consideration for other opportunities.

The current tax charge this year relates primarily to the sale of Stoneywood as indexation, losses carried forward and capital allowances offset the profits on St Magnus. The Group currently has losses and allowances of over £1m, of which trading losses of £432,785 will be allowable against development profits.

Conclusion

UK growth will be below earlier estimates but still over 2%, unless the house price asset bubble deflates quickly and widely. In Scotland conditions will be poorer than the UK but the service based Edinburgh economy should at least equal UK performance. Scottish house prices will stabilise but avoid the falls expected in London and the South East.

Most of the Group's investments have now matured and have been realised and the existing portfolio consists mostly of potential developments, in areas with excellent prospects. The Group has substantial cash reserves to effect these developments, to acquire others and to take advantage of other opportunistic investments including corporate acquisitions. I envisage good medium term returns and continued growth in NAV.

I. D. LOWE
Chairman
20 December 2002

Directors' Report

The directors present their report together with the audited financial statements of the Company and of the Group for the year ended 30 June 2002.

Review of year

The results for the year before taxation are a profit of £3,621,729 (2001 – £88,047) of which £2,589,353 arises from property sales.

Principal activities

The Group is principally engaged in property investment holding and development. Additions to and disposals of properties are shown in note 8 to the financial statements.

Results and dividends

The Group profit for the year after taxation amounted to £3,237,578. The Group's activities comprise one geographical segment and three classes of business. An interim dividend of 0.5p (2001 – 0.0p) was paid during the year and the directors propose the payment of a final dividend of 1.0p (2001 – 0.5p) per ordinary share.

Fixed assets

The movements in tangible fixed assets during the year and details of the differences between book and market values of land and buildings are set out in notes 8 and 9 to the financial statements.

Share capital

On 19 December 2002 the following were registered as being interested in 3% or more of the Company's ordinary share capital:

	No. of shares	Percentage held
Aberdeen City Council Superannuation Fund	349,991	3.0

I. D. Lowe and M. J. Baynham have interests amounting to more than 3% of the Company's ordinary share capital, details of which are disclosed below.

Directors

The directors who held office during the year and their interests in the Company's share capital are set out below:

Beneficial interests – Ordinary Shares of 20p each	Percentage held	19 December 2002	30 June 2002	30 June 2001
I. D. Lowe	78.8	9,064,582	9,064,582	9,064,582
M. J. Baynham	4.5	520,191	520,191	520,191
B. J. Rankin	0.9	100,000	100,000	100,000
J. N. Little	0.1	16,250	16,250	16,250
Beneficial interests – 7.5% convertible unsecured loan stock 1994/2004				
I. D. Lowe	65.2	£1,116,000	£1,116,000	£1,116,000
M. J. Baynham	1.1	£18,069	£18,069	£18,069
J. N. Little	0.9	£15,000	£15,000	£15,000
Keepname Limited	11.7	£200,000	£200,000	£250,000

B. J. Rankin is a Director and Shareholder in Keepname Limited.

Directors' Report (continued)

Options have been granted to directors to subscribe for ordinary shares under the terms of The Executive Share Option Scheme as follows:

Option holder	No of shares at 30 June 2001	Options exercised during year	Options granted during year	No of shares at 30 June 2002	Subscription price
I. D. Lowe	60,000	—	—	60,000	60.0p
I. D. Lowe	200,000	—	—	200,000	67.5p
M. J. Baynham	60,000	—	—	60,000	60.0p
M. J. Baynham	150,000	—	—	150,000	67.5p

The options to subscribe for shares at 67.5p can be exercised from 24.3.1998 to 24.3.2005 and the options to subscribe for shares at 60p can be exercised from 8.4.2000 to 8.4.2007.

At 30 June 2002 the Company's share prices was 123.5p, which was also the highest price reached during the year. The lowest price during the year was 46.5p at 1 July 2001.

Suppliers
It is the Company's policy to settle suppliers' invoices within 60 days of their receipt. There were 10 days billings from suppliers outstanding at the year-end.

Auditors
In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 1SB

By order of the board

M. J. BAYNHAM
Secretary
20 December 2002

Statement of Directors' Responsibilities

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

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

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

Independent Auditors' Report

To the members of Caledonian Trust PLC

kpmg

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

We have audited the financial statements on pages 12 to 27.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the directors' report and, as described on page 10, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

20 December 2002

Consolidated Profit and Loss Account

for the year ended 30 June 2002

	Note	2002 £	2001 £
INCOME – CONTINUING OPERATIONS			
Rents and service charges		2,730,696	2,668,877
Other trading sales		340,328	397,999
		3,071,024	3,066,876
OPERATING COSTS			
Property rental outgoings		(99,644)	(539,756)
Cost of other sales		(396,129)	(398,042)
Administrative expenses	2	(816,113)	(863,896)
		(1,311,886)	(1,801,694)
OPERATING PROFIT		1,759,138	1,265,182
Profit on disposal of investment property		2,589,353	—
Gain on sale of investments		—	24,116
Interest receivable		158,527	62,153
Interest payable	3	(885,289)	(1,263,404)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,621,729	88,047
Taxation	6	(384,151)	—
PROFIT FOR THE FINANCIAL YEAR		3,237,578	88,047
DIVIDENDS	7	(172,667)	(60,089)
RETAINED PROFIT FOR THE FINANCIAL YEAR	16	3,064,911	27,958
Earnings per ordinary share	19	27.56p	0.72p
Diluted earnings per ordinary share	19	24.96p	1.79p
PROFIT FOR THE FINANCIAL YEAR IS RETAINED AS FOLLOWS:			
In holding company		691,110	686,512
In subsidiaries		2,373,801	(658,554)
		3,064,911	27,958

All activities of the Group are continuing.

Statement of Total Recognised Gains and Losses

for the year ended 30 June 2002

	2002	2001
	£	£
Profit for the financial year	3,237,578	88,047
Unrealised surplus on revaluation of properties	450,000	525,454
Taxation arising on disposal of previously revalued property	(860,849)	—
Total gains recognised since the last annual report	2,826,729	613,501

Note of Historical Cost Profits and Losses

for the year ended 30 June 2002

	2002	2001
	£	£
Reported profit on ordinary activities before taxation	3,621,729	88,047
Realised surplus on previously revalued property	7,534,683	—
Historical cost profit on ordinary activities before taxation	11,156,412	88,047
Taxation on profit for year	(384,151)	—
Taxation in respect of previously revalued property	(860,849)	—
Historical cost profit for the year after taxation	9,911,412	88,047
Historical cost profit for the year retained after taxation	9,738,745	27,958

Consolidated Balance Sheet

at 30 June 2002

	Note	2002 £	2002 £	2001 £	2001 £
FIXED ASSETS					
Tangible assets:					
Investment properties	8		14,404,759		32,274,454
Other assets	9		10,439		159,919
			14,415,198		32,434,373
Investments	10		20		20
			14,415,218		32,434,393
CURRENT ASSETS					
Debtors	11	2,532,398		749,066	
Cash at bank and in hand	12	8,762,235		1,369,614	
		11,294,633		2,118,680	
CREDITORS: Amounts falling due within one year	13	(3,830,372)		(15,377,944)	
NET CURRENT ASSETS/(LIABILITIES)			7,464,261		(13,259,264)
TOTAL ASSETS LESS CURRENT LIABILITIES			21,879,479		19,175,129
CREDITORS: Amounts falling due after more than one year	13		(3,064,058)		(2,515,905)
NET ASSETS			18,815,421		16,659,224
CAPITAL AND RESERVES					
Called up share capital	15		2,302,053		2,403,554
Share premium account	16		2,530,753		2,530,753
Capital redemption reserve	16		155,846		54,345
Revaluation reserve	16		6,885		7,091,568
Profit and loss account	16		13,819,884		4,579,004
SHAREHOLDERS' FUNDS – EQUITY			18,815,421		16,659,224

These financial statements were approved by the Board of Directors on 20 December 2002 and were signed on its behalf by:

I. D. LOWE

Director

Company Balance Sheet

at 30 June 2002

	Note	2002 £	2002 £	2001 £	2001 £
FIXED ASSETS					
Tangible assets:					
Investment properties	8		3,800,000		3,650,000
Equipment and vehicles	9		9,439		9,406
			3,809,439		3,659,406
Investments	10		15,297,884		13,404,932
			19,107,323		17,064,338
CURRENT ASSETS					
Debtors	11	6,821,500		10,801,030	
Cash at bank and in hand	12	8,354,951		1,237,242	
		15,176,451		12,038,272	
CREDITORS: Amounts falling due within one year	13	(12,324,295)		(10,700,886)	
NET CURRENT ASSETS/(LIABILITIES)			2,852,156		1,337,386
TOTAL ASSETS LESS CURRENT LIABILITIES			21,959,479		18,401,724
CREDITORS: Amounts falling due after more than one year	13		(3,064,058)		(1,742,500)
NET ASSETS			18,895,421		16,659,224
CAPITAL AND RESERVES					
Called up share capital	15		2,302,053		2,403,554
Share premium account	16		2,530,753		2,530,753
Capital redemption reserve	16		155,846		54,345
Revaluation reserves					
Property	16		617,290		467,290
Investments	16		5,445,647		3,552,695
Profit and loss account	16		7,843,832		7,650,587
SHAREHOLDERS' FUNDS – EQUITY			18,895,421		16,659,224

These financial statements were approved by the Board of Directors on 20 December 2002 and were signed on its behalf by:

I. D. LOWE

Director

Consolidated Cash Flow Statement

for the year ended 30 June 2002

	Note	2002 £	2001 £
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(a)	1,972,072	(535,720)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(b)	(808,758)	(1,199,093)
CORPORATION TAX		(450,000)	—
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(b)	18,994,560	(1,065,211)
EQUITY DIVIDENDS PAID		(117,653)	(61,147)
CASH (OUTFLOW)/INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		19,590,221	(2,861,171)
FINANCING	(b)	(12,197,601)	2,343,275
(DECREASE)/INCREASE IN CASH IN PERIOD		7,392,620	(517,896)

	Note	2002	2001
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT	(c)	£	£
(DECREASE)/INCREASE IN CASH IN PERIOD		7,392,620	(517,896)
Cash outflow from decrease in debt		11,699,736	(2,489,119)
MOVEMENT IN NET DEBT IN THE PERIOD		19,092,356	(3,007,015)
NET DEBT AT THE START OF THE PERIOD		(15,580,298)	(12,573,283)
NET DEBT AT THE END OF THE PERIOD		3,512,058	(15,580,298)

Notes to the Cash Flow Statement

(a) RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002 £	2001 £
Operating profit	1,759,138	1,265,182
Profit on disposal of property	538,102	—
Depreciation charges	12,717	33,922
Decrease in stocks	—	—
Decrease/(increase) in debtors	(266,189)	158,894
(Decrease)/increase in creditors	(71,696)	(1,993,718)
Net cash (outflow)/inflow from operating activities	1,972,072	(535,720)

(b) ANALYSIS OF CASH FLOWS

	2002 £	2002 £	2001 £	2001 £
RETURNS ON INVESTMENT AND SERVICING OF FINANCE				
Interest received	158,527		62,153	
Interest paid	(967,285)		(1,261,246)	
		(808,758)		(1,199,093)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
Purchase of tangible fixed assets	(194,907)		(1,064)	
Purchase of investment property	—		(1,122,603)	
Sale of investment property	19,189,467		—	
Sale of investments	—		58,456	
		18,994,560		(1,065,211)
FINANCING				
Purchase of ordinary share capital	(497,865)		(145,844)	
Debt due within a year				
(Decrease)/increase in short-term	(11,536,331)		(7,172,344)	
Debt due beyond a year				
Increase/decrease in long-term	(163,405)		9,661,463	
		(12,197,601)		2,343,275

Notes to the Cash Flow Statement (continued)

(c) ANALYSIS OF NET DEBT

	At beginning of year £	Cash flow £	Other non-cash changes £	At end of year £
Cash at bank and in hand	1,369,614	7,392,620	—	8,762,234
Overdrafts	(109,729)	—	—	(109,729)
		7,392,620		
Debt due after one year	(2,515,905)	1,163,405	(1,711,558)	(3,064,058)
Debt due within one year	(14,324,278)	10,536,331	1,711,558	(2,076,389)
		11,699,736	—	
TOTAL	(15,580,298)	19,092,356	—	3,512,058

Notes *(forming part of the financial statements)*

30 June 2002

1 ACCOUNTING POLICIES

The following are the main accounting policies of the Group:

(a) Basis of preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain tangible fixed assets and in accordance with applicable accounting standards. The Company has not presented its own profit and loss account in accordance with section 230 of the Companies Act 1985.

(b) Basis of consolidation

The consolidated financial statements combine the results of the Company and its subsidiary undertakings for the year ended 30 June 2002, and reflect events occurring up until the date of approval of the financial statements.

(c) Goodwill

Negative goodwill purchased prior to the implementation of Financial Reporting Standard 10 has been transferred to the profit and loss reserve and is credited to the profit and loss account on subsequent disposal of the business or assets to which it relates.

(d) Income

Rental income represents rent and service charges receivable without taking into account any expenditure borne direct by tenants.

(e) Properties

Properties held by the Group are classified within fixed assets, as either investment properties or properties held for development, or current assets if held as trading stock.

Investment properties

Investment properties are stated at their open market valuation at the balance sheet date, valued either by the directors or by independent professional advisers. Independent professional valuations are prepared at least once every three years.

Surpluses or deficits arising on revaluations are taken to the revaluation reserve except in the case of deficits which are considered to be permanent which are taken to the profit and loss account. The revaluation reserve is not distributable.

On disposal of an investment property the profit and loss account includes the effect of comparing sales proceeds and the book amount of the asset sold. Any previous revaluation surplus or deficit realised on disposal is transferred from revaluation reserve to accumulated profit and loss reserves.

Properties held for development

Properties held for development are shown at open market valuation at the balance sheet date as described above. When development commences, costs of such development (including interest thereon) are aggregated in the book amount provided that the anticipated overall book amount following completion would not exceed the anticipated valuation of the property at that date.

Properties held as stock

Properties held as trading stock are stated at the lower of cost or net realisable value.

(f) Investments

Investments in subsidiary undertakings are included in the balance sheet of the Company at net asset value of the undertaking concerned.

(g) Depreciation

In accordance with SSAP 19 no depreciation or amortisation is provided in respect of freehold investment properties (including investment properties held for development) or leaseholds with over twenty years to run, including equipment therein. This treatment, as regards certain of the Group's investment properties, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount, which might otherwise have been shown, cannot be separately identified or quantified.

Other tangible fixed assets are depreciated by equal instalments over their estimated useful lives at the following rates:

Fixtures and fittings	10%
Office equipment	11 – 33%
Motor vehicles	33⅓%

(h) Taxation

The charge for taxation is based on the profit for the tax year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Notes *(continued)*

30 June 2002

2 ADMINISTRATIVE EXPENSES

	2002	2001
	£	£
Directors' emoluments (see note 4)	263,165	252,191
Management expenses	512,581	553,258
Auditors' remuneration		
—audit – company	9,500	12,500
—audit – subsidiaries	9,650	7,675
—non audit	8,500	4,350
Depreciation	12,717	33,922
	816,113	863,896

3 INTEREST PAYABLE

	2002	2001
	£	£
Bank loans and overdrafts	720,039	1,053,496
Loan stock repayable within five years	165,250	209,908
	885,289	1,263,404

4 REMUNERATION OF DIRECTORS

	2002	2001
	£	£
Directors' emoluments	225,165	216,191
Company contributions to money purchase pension schemes	38,000	36,000

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £106,800 (2001 – £109,110), and Company pension contributions of £20,000 (2001 – £20,000) were made to a money purchase scheme on his behalf.

	Number of directors	
	2002	2001
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	2
The number of directors who exercised share options was	—	—
The number of directors in respect of whose services shares were received or receivable under long-term incentive schemes was	2	2

5 EMPLOYEES

The average number of persons, including directors, employed by the Group during the year was:

	2002	2001
	Number	Number
Management	4	4
Administration	2	2
Other	19	16
	25	22

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£	£
Wages and salaries	384,809	357,452
Social security costs	37,399	33,933
Other pension costs	40,320	38,200
	462,528	429,585

Notes *(continued)*

30 June 2002

6 TAXATION

	2002	2001
	£	£
Analysis of change in period:		
UK corporation tax		
Current tax on income for the period	1,245,000	—
Less: charged to prior years in respect of revaluation realised	(860,849)	—
Tax on profit on ordinary activities	384,151	—

Current tax reconciliation

	2002	2001
	£	£
Profit on ordinary activities before tax	3,621,729	88,047
Current tax at 30%	1,086,518	26,414
Effects of:		
Expenses not deductible for tax purposes	12,361	17,286
Capital allowances for period in excess of depreciation	(819,715)	(1,346)
Capital gains tax indexation	(1,298,085)	—
Utilisation of tax losses	—	(42,354)
Prior year revaluations	2,258,823	—
	153,384	(26,414)
Tax over provision	5,098	—
Tax charged to prior years in respect of revaluation realised	(860,849)	—
Total current tax charge (see above)	384,151	—

7 DIVIDENDS

	2002	2001
	£	£
Interim dividend for year 0.5p (2001 – 0p) per share	57,564	—
Final dividend for year 1.0p (2001 – 0.5p) per share	115,103	60,089
	172,667	60,089

Notes *(continued)*

30 June 2002

8 INVESTMENT PROPERTIES

	Freehold Group £	Freehold Company £
Investment properties:		
Valuation at 1 July 2001	28,651,852	3,650,000
Revaluation in year	150,000	150,000
Sold in year	(18,501,852)	—
Valuation at 30 June 2002	10,300,000	3,800,000
Properties held for development:		
Valuation at 1 July 2001	3,622,602	—
Revaluation in year	300,000	—
Sold in year	—	—
Purchased in year	182,157	—
Revaluation surplus arising in year	—	—
Valuation at 30 June 2002	4,104,759	—
Net book amount at 30 June 2002	14,404,759	3,800,000
Net book amount at 1 July 2001	32,274,454	3,650,000

Investment properties and properties held for development have been stated at directors' valuation at the balance sheet date based on independent valuations at open market value made by Montagu Evans at 30 June 2000.

The historical cost of properties included at valuation is as follows:

	Group 2002 £	Group 2001 £	Company 2002 £	Company 2001 £
Investment properties	13,628,344	24,413,356	2,719,993	2,719,993

The cumulative amount of interest capitalised in respect of the Group's investment properties is £989,121 (2001 – £989,121). The cumulative amount of such interest capitalised for the Company is £462,717 (2001 – £462,717).

9 OTHER ASSETS

	Fixtures and fittings £	Motor vehicles £	Office equipment £	Total £
GROUP				
Cost at 1 July 2001	248,005	62,605	201,588	512,198
Sold in year	(248,005)	(27,495)	(9,032)	(284,532)
Additions in year	—	12,750	—	12,750
Cost at 30 June 2002	—	47,860	192,556	240,416
Depreciation at 1 July 2000	99,201	54,271	198,807	352,279
Charged in year	—	12,583	134	12,717
Sold in year	(99,201)	(27,495)	(8,323)	(135,019)
Depreciation at 30 June 2001	—	39,359	190,618	229,977
Net book amount at 30 June 2002	—	8,501	1,938	10,439
Net book amount at 1 July 2001	148,804	8,334	2,781	159,919
COMPANY				
Cost at 1 July 2001		62,605	43,836	106,441
Sold in year		(27,495)	—	(27,495)
Additions in year		12,750	—	12,750
Cost at 30 June 2002		47,860	43,836	91,696
Depreciation at 1 July 2001		54,271	42,764	97,035
Sold in year		(27,495)	—	(27,495)
Charged in year		12,583	134	12,717
Depreciation at 30 June 2002		39,359	42,898	82,257
Net book amount at 30 June 2002		8,501	938	9,439
Net book amount at 1 July 2001		8,334	1,072	9,406

Notes *(continued)*

30 June 2002

10 INVESTMENTS

	Shares in subsidiary undertakings £	Listed investments £	Other unlisted investments £	Total £
GROUP				
Cost at 1 July 2001	—	—	20	20
At 30 June 2002	—	—	20	20
COMPANY				
Cost at 1 July 2001	4,932,978	—	—	4,932,978
At 30 June 2002	4,932,978	—	—	4,932,978
Revaluation surplus at 1 July 2001	8,471,954	—	—	8,471,954
Surplus arising during year	1,892,952	—	—	1,892,952
At 30 June 2002	10,364,906	—	—	10,364,906
Net book amount at 30 June 2002	15,297,884	—	—	15,297,884
Net book amount at 1 July 2001	13,404,932	—	—	13,404,932

The Company's investment in unlisted investments is as follows:

	% held	Activity
Bedrocks Limited	19.9%	Leisure activity operator

The Company is registered in Scotland.

The Company's investments in the ordinary share capital of its principal subsidiary undertakings are included at net asset value of the undertakings which are as follows:

Subsidiary Undertaking	% held	Activity
Caledonian Scottish Developments Ltd	100%	Property Development
South Castle Properties Ltd	100%	Property Investment
Caledonian Stoneywood Ltd	100%	Investment Holding Company
Caledonian City Developments Ltd	100%	Property Development
West Castle Properties Ltd	100%	Property Investment

All the principal subsidiary undertakings are registered in Scotland except Caledonian City Developments Limited and Caledonian Stoneywood Ltd, which are registered in England and Wales.

11 DEBTORS

	Group 2002 £	Group 2001 £	Company 2002 £	Company 2001 £
Amounts falling due within one year				
Amounts owed by subsidiary undertakings	—	—	6,813,928	10,787,744
Other debtors	2,074,126	187,183	7,572	13,286
Prepayments and accrued income	458,272	561,883	—	—
	2,532,398	749,066	6,821,500	10,801,030

Notes *(continued)*

30 June 2002

12 CASH AT BANK AND IN HAND

Group bank balances totalling £376,269 (2001 – £657,987) were held by the Group's bankers as collateral against loans provided to subsidiary undertakings.

13 CREDITORS: Amounts falling due within one year:

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
Bank loans and overdrafts	2,186,118	12,672,449	161,289	159,729
Amounts owed to subsidiary undertakings	—	—	11,809,626	8,462,774
7.5% convertible unsecured loan stock	—	1,761,558	—	1,761,558
Final dividend	115,103	60,089	115,103	60,089
Other creditors and accruals	1,529,151	883,848	238,277	256,736
	3,830,372	15,377,944	12,324,295	10,700,886

Bank loans and overdrafts are secured on certain of the Group's properties.

CREDITORS: Amounts falling due after more than one year:

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
Bank loans	1,352,500	2,175,905	1,352,500	1,402,500
Floating rate unsecured loan stock	—	340,000	-	340,000
7.5% convertible unsecured loan stock	1,711,558	—	1,711,558	—
	3,064,058	2,515,905	3,064,058	1,742,500

Analysis of debt
Debt can be analysed as falling due:

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
In one year or less, or on demand	2,186,118	14,434,007	161,289	1,921,287
Between one and two years	50,000	1,163,405	50,000	390,000
Between two and five years	3,014,058	1,352,500	3,014,058	1,352,500
In five years or more	—	—	—	—
	5,250,176	16,949,912	3,225,347	3,663,787

Bank loans of £1,105,000 are repayable in instalments. Of this £50,000 is due within one year and is included in current liabilities. The loans are secured by standard securities and floating charges over the assets of certain subsidiaries and by an unlimited guarantee from Caledonian Trust. Interest charged on these loans is based on margins ranging from 1⅖% to 3% over the prevailing London Interbank Offer Rate with the exception of a mortgage loan at a fixed rate of 12.302%.

The 7.5% convertible unsecured loan stock is repayable on 2 July 2004 and carries a coupon of 7.5%. It is convertible at the option of the holders into 20p shares at the rate of 1 ordinary 20p share for each 125p nominal of loan stock.

14 DEFERRED TAXATION

There is an unprovided potential Group deferred taxation liability at 30% of £189,565 (2001 – 30%) in respect of unrealised chargeable gains at 30 June 2002 (2001 – £908,483), Company £107,792 (2001 – £Nil).

Notes *(continued)*

30 June 2002

15 SHARE CAPITAL

	2002 No.	2002 £	2001 No.	2001 £
Authorised:				
Ordinary shares of 20p each	20,000,000	4,000,000	20,000,000	4,000,000
Allotted, called up and fully paid:				
Ordinary shares of 20p each	11,510,267	2,302,053	12,017,767	2,403,554

During the year the Company bought in 507,505 ordinary shares at a cost of £497,865 which was charged against the profit and loss reserve.

16 RESERVES

	Share premium account £	Revaluation reserve £	Capital redemption reserve £	Profit and loss account £	Total £
GROUP					
Balance at 1 July 2001	2,530,753	7,091,568	54,345	4,579,004	14,255,670
Net revaluation in year	—	450,000	—	—	450,000
Transferred to profit and loss on sale of property	—	(7,534,683)	—	7,534,683	—
Taxation in respect of prior year revaluation realised	—	—	—	(860,849)	(860,849)
Profit for the financial year	—	—	—	3,237,578	3,237,578
Dividend for year	—	—	—	(172,667)	(172,667)
Ordinary shares bought in	—	—	101,501	(497,865)	(396,364)
Balance at 30 June 2002	2,530,753	6,885	155,846	13,819,884	16,513,368

	Share premium account £	Revaluation reserves Property £	Revaluation reserves Investments £	Capital redemption reserve £	Profit and loss account £	Total £
COMPANY						
Balance at 1 July 2001	2,530,753	467,290	3,552,695	54,345	7,650,587	14,255,670
Net revaluation in year	—	150,000	—	—	—	150,000
Revaluation of interests in subsidiaries in year	—	—	1,892,952	—	—	1,892,952
Profit for the financial year	—	—	—	—	863,777	863,777
Dividend for year	—	—	—	—	(172,667)	(172,667)
Ordinary shares bought in	—	—	—	101,501	(497,865)	(396,364)
Balance at 30 June 2002	2,530,753	617,290	5,445,647	155,846	7,843,832	16,593,368

Of the balance on Profit and Loss Account £319,812 is not distributable.

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £	2001 £
Retained profit for the financial year	3,064,911	27,958
Revaluation surplus/(deficit)	450,000	525,454
Taxation in respect of prior year revaluation realised	(860,849)	—
Ordinary shares bought in	(497,865)	(145,844)
Net (decrease)/addition to shareholders' funds	2,156,197	407,568
Opening shareholders' funds	16,659,224	16,251,656
Closing shareholders' funds	18,815,421	16,659,224

18 TRANSACTIONS WITH DIRECTORS

B. J. Rankin received £13,000 in respect of consultancy fees in the year in addition to his emoluments as a director.

Notes *(continued)*

30 June 2002

19 EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on the reported profit of £3,237,578 (2001 – £88,047) and on the weighted average number of ordinary shares in issue in the year, as detailed below. The calculation of diluted earnings per ordinary share is calculated adjusting the profit for the period in respect of interest on loan stock deemed to have been converted. The weighted average number of shares has been adjusted for deemed conversion of loan stock and deemed exercise of share options outstanding.

	2002	2001
Weighted average of ordinary shares in issue during year – undiluted	11,747,541	12,204,577
Weighted average of ordinary shares in issue during year – fully diluted	13,586,787	14,776,194

20 FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise bank loans, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has in addition trade debtors and trade creditors, which arise directly from its operation and are not considered in this note.

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.

INTEREST RATE RISK

The Group borrowings are at floating rates of interest based on LIBOR or Base Rate with the exception of one bank loan and the 7.5% convertible unsecured loan stock 1994/04 which are at fixed rates.

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

	2002	2001
	£	£
Fixed Rate	2,036,558	2,111,558
Floating Rate	3,213,618	14,838,354
	5,250,176	16,949,912

The weighted average interest rate of the fixed rate borrowings was 10.37% pa fixed for a weighted average of 2.27 years.

The weighted average interest rate of the floating rate borrowings was 5.76% pa fixed for a weighted average of 0.78 years.

The interest rate profile on the Group's financial assets was as follows:

	2001	2000
	£	£
Non-interest bearing	—	—
Floating Rate	8,762,235	1,369,614
	8,762,235	1,369,614

Notes *(continued)*

30 June 2002

20 FINANCIAL INSTRUMENTS (continued)

LIQUIDITY RISK

The Group's policy is to maintain a balance between continuity of funding and flexibility through loans secured on its property assets from banks and unsecured loan stocks held by third parties sufficient to enable it to meet its commitments and to make further investments.

The maturity profile of the Group's financial liabilities was as follows:

	2002	2001
	£	£
In one year or less, or on demand	2,186,118	14,434,007
Between one and two years	50,000	1,163,405
Between two and five years	3,014,058	1,352,500
In five years or more	—	—
	5,250,176	16,949,912

A comparison of book values and fair values of the Group's financial assets and liabilities at 30 June 2002 is as follows:

	Book Value	Fair value
	£	£
Fixed rate borrowings	2,036,558	2,119,838
Floating rate borrowings	3,213,618	3,213,618
Cash and short-term deposits	8,762,235	8,762,235

The fair value of the fixed rate borrowings has been arrived at by calculating the cash flows which would arise if the commitments at 30 June 2002 had been entered into at that date. The difference between such cash flows and the actual committed cash flows was then discounted at the prevailing market interest rate.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of CALEDONIAN TRUST PLC will be held at 61 North Castle Street, Edinburgh EH2 3LJ on Friday 17 January 2003 at 12.30 pm for the following purposes:

1. To receive the Report of the Directors and the Financial Statements for the year ended 30 June 2002 and the Report of the Auditors thereon.

2. To re-appoint KPMG Audit Plc, Chartered Accountants and Registered Auditors, as Auditors and to authorise the Directors to fix their remuneration.

3. To declare a dividend.

As special business to consider and, if thought fit, pass the following Resolutions which will be proposed as Special Resolutions:

4. That the Directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of that Act) pursuant to the authority conferred by the Ordinary Resolution of the Company passed on 19 January 2001 as if Section 89 of the Companies Act 1985 did not apply to any such allotment provided that this power shall be limited:

   (a) to the issue of up to £279,387 7½% Convertible Unsecured Loan Notes 1994/2004;

   (b) to the allotment of up to 223,510 new Ordinary Shares of 20p each arising upon conversion of the Loan Notes referred to in sub-paragraph *(a)* above;

   (c) to the allotment otherwise than pursuant to sub-paragraph *(d)* below of equity securities which are, or are to be, wholly paid up in cash having an aggregate nominal amount equal to 5% of the issued Ordinary Share capital of the Company as shown in the audited consolidated accounts of the Company and its subsidiaries for the year ended 30 June 2002; and

   (d) to the allotment of equity securities in connection with an offer to Ordinary Shareholders in proportion (as nearly as may be) to the respective numbers of Ordinary Shares held by them, subject to the Directors having a right to aggregate and sell for the benefit of the Company all fractions of a share which may arise in apportioning equity securities among the Ordinary Shareholders of the Company and subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to legal or practical problems under the law of, or the requirements of, any regulatory body or any stock exchange in any overseas territory;

and shall expire on the date of the next Annual general Meeting of the Company after the passing of this Resolution provided that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power hereby conferred had not expired.

5. That authority be and is hereby generally and unconditionally given pursuant to Section 166 of the Companies Act 1985, for the Company to make one or more market purchases as defined in

Notice of Meeting (continued)

Section 163(3) of the Companies Act 1985 of any of its own Ordinary Shares of 20p each in such manner and on such terms as the Directors may from time to time determine provided that:

(a) the authority hereby given shall, unless previously varied, revoked or renewed expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution, save that the Company shall be entitled by such authority to make at any time before the expiry thereof any contract to purchase its own Ordinary Shares which would or might become effective wholly or partly after the expiry of such authority;

(b) the maximum number of Ordinary Shares hereby authorised to be acquired is 575,500 Ordinary Shares; and

(c) the maximum price (exclusive of expenses) to be paid for each Ordinary Share of 20p each shall not be more than 5% above the average of the middle market quotation for an ordinary share as derived from the Alternative Investment Market (or such other official market as may replace the Alternative Investment Market and to which the Company's shares are or may become admitted) of the London Stock Exchange for the five business days immediately preceding the date of purchase and the minimum price is 20p.

St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 1SB

20 December 2002

By Order of the Board
M J BAYNHAM
Secretary

Notes

Copies of contracts of service between Directors and the Company will be available for inspection at the head office of the Company, 61 North Castle Street, Edinburgh EH2 3LJ during business hours on any business day from the date of this notice until 16 January 2003 and also for fifteen minutes prior to and throughout the meeting.

The register of Directors' shareholdings and transactions will be available for reference at the commencement of, and during the continuance of, the Annual General Meeting.

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote in his place. A proxy need not be a member of the Company.

A form of proxy is enclosed for the use of Ordinary Shareholders. If you do not intend being present at the meeting, please complete the form of proxy, sign it and return it so as to reach the Company at least forty-eight hours before the time of the meeting.