# CALEDONIAN TRUST PLC

# Directors' Report and Financial Statements 30 June 2004

Registered number: 1040126

# Contents

# Company Information

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| **Board of Directors** | I. D. Lowe (Chairman and Chief Executive)<br>M. J. Baynham L.L.B.(Hons)<br>J. N. Little<br>B. J. Rankin C.A. |
| **Secretary** | M. J. Baynham L.L.B.(Hons) |
| **Head Office** | 61 North Castle Street<br>Edinburgh<br>EH2 3LJ |
| **Registered Office** | St Ann's Wharf<br>112 Quayside<br>Newcastle upon Tyne<br>NE99 1SB |
| **Auditors** | KPMG Audit Plc<br>Saltire Court<br>20 Castle Terrace<br>Edinburgh<br>EH1 2EG |
| **Nominated Advisers** | Noble & Company Limited<br>76 George Street<br>Edinburgh<br>EH2 3BU |
| **Nominated Brokers** | Numis Securities Limited<br>Cheapside House<br>138 Cheapside<br>London<br>EC2V 6LH |
| **Bankers** | Bank of Scotland<br>Head Office<br>PO Box 5<br>The Mound<br>Edinburgh<br>EH1 1YZ |
| **Registrars** | Lloyds TSB Registrars Scotland<br>PO Box 28448<br>Finance House<br>Orchard Brae<br>Edinburgh<br>EH4 1WQ<br>www.shareview.co.uk |
| **Registered No.** | 1040126 |

# Chairman's Statement

*for the year ended 30 June 2004*

**Introduction**
The Group made a profit of £434,662 in the year to 30 June 2004 compared to £507,967 last year. NAV per share rose by 3.3p to 173.9p.

Income from rent and service charges was £614,735, less than the £962,587 received last year which included £426,000 income from St Margaret's House, Edinburgh before the lease determined in November 2002. The margin from trading property sales was £408,943, almost wholly from our Weir Court residential development, compared to £199,670 last year and this year there was an investment property sale, Clark Street, Paisley, yielding a profit of £584,291. Administrative expenses rose by £459,993, due primarily to an increase of almost £305,000 in property costs of which £228,000 relates to the vacancy of St Margaret's, and increased insurance and professional fees of which St Margaret's accounted for £80,000.

Net interest payable rose by £35,500 due to the temporary reduction in cash balances to fund investment and trading but sales have resulted in a cash balance of £6,312,760 on 30 June 2004 compared to £5,233,211 last year. The weighted average base rate was 3.83%, marginally lower than the 3.90% for the year to 30 June 2003.

On 30 June 2004 the Group's portfolio comprised by value 49.3% office investment property (of which 68.4% is open plan) 22.9% retail property, 3.1% industrial property, 19.2% development property and 5.5% trading property.

**Review of Activities**
The Group's current property activities, which are primarily directed towards niche opportunistic investments with medium-term development prospects, continue to be varied and the result of our shift in strategy over the last few years is becoming evident.

There have been no significant changes to our Edinburgh New Town investment portfolio. The La Tasca restaurant in South Charlotte Street appears to continue to trade well and is highly reversionary and the first review of the 25 year lease is in 2006. In 61 North Castle Street work started in October 2003 on a complex structural overhaul and the redevelopment of the upper two floors and the attic into two large flats entering off the original staircase at 59 North Castle Street. The lower flat sold soon after completion in July 2004 for £295,500 and the upper flat is currently under offer. Plans are being considered for the remaining two floors in 61 North Castle Street which await refurbishment.

Our largest investment property in Edinburgh, St Margaret's House, a 92,845ft$^2$ open plan office was let to the Scottish Ministers until November 2002. Plans for refurbishment to varying office specifications have been prepared together with proposals to remodel the façade. We have been advised that the property could most advantageously be marketed in smaller units into which the building could be easily sub-divided, as each floor of about 11,000ft$^2$ is virtually self-contained and could be divided into two wings of 4,500ft$^2$ and 6,500ft$^2$, both capable of further sub-division. The building's specification is similar to that of St Magnus, Aberdeen, where we previously carried out a full refurbishment including air handling, suspended ceilings, and raised floors to create the British Council of Offices award winning "best office fit out" in 2001. Total occupation costs, rents, rates and services are budgeted to be significantly below the current new Grade "A" Edinburgh prices. As St Margaret's is located near the new Parliament and the city centre, has a prominent frontage to the A1 and a very generous parking ratio of one space per 550ft$^2$, the refurbished building should be attractive to a wide range of occupiers.

Unfortunately progress at St Margaret's has been delayed by the outstanding dilapidations claim for over £4m. We served a draft final dilapidations schedule on the Scottish Ministers in December 2002 and raised an action in January 2003 for damages in the Commercial Court.

After various and protracted legal procedures Lord McKay set a proof for 18 January 2005 in the Commercial Court. We are now working with Colin Campbell QC, formerly Dean of the Faculty of Advocates, Junior Counsel, our solicitors and a wide range of expert witnesses to prepare for the proof. Our advice, and our understanding of the contract and the established practical interpretation of the meaning of "full repairing and

# Chairman's Statement (continued)

insuring leases" all favour our contention. Legal precedents are however few, usually ancient and sometimes ambiguous.

Our investment property near Waterloo, London at Baylis Road/Murphy Street offers similar refurbishment potential to St Margaret's. Plans had been made for its refurbishment, but in view of the tenant's request for a further lease extension until 2005 and the very weak office market in that part of London, we have delayed work until market conditions improve. Like St Margaret's the properties are suitable for letting as a whole or in part and, as Murphy Street is open plan with good access, it is suitable for either office or distribution use.

Planning and design work is nearly complete for our proposed development of 202 flats on our property at 100 West Street, Tradeston, Glasgow which is currently let to Western, a Saab franchise. Tradeston is a rapidly improving area adjacent to the M8 and to its junction with the proposed extension of the M74 and less than 600 yards from the Broomielaw development, Glasgow's "square kilometre" financial services zone. 100 West Street is adjacent to a very a successful development by Barratt of 370 flats which is due for completion next year.

I reported in the Interim Statement in March that we had completed two purchases in January 2004. In Paisley we acquired a 133,00ft$^2$ warehouse on a 5.7 acre site off the market. This site, across the M8 from Glasgow Airport, is highly visible and easily accessible from the motorway. Shortly after marketing the property to let we received an attractive proposal from a neighbouring airport-related user to purchase the site and in April 2004 we completed a £2.0m sale of the property, yielding a profit on the transaction of £584,291. The second purchase from PPL Therapeutics PLC, was of St Clements Wells, a 200 acre East Lothian farm bordering the A1 just east of the A1/City Bypass interchange. The farm has two large modern sheds totaling 28,000ft and planning permission for an additional 32,000ft$^2$. While marketing the sheds to let during the summer we received an unsolicited approach from a local livestock farmer to purchase the farm for about £5,000 per acre, or 47% above the cost, to which we agreed and the sale completed in July 2004.

Three further investment property purchases have been completed. In June, after a two year negotiation, we purchased a small industrial investment in Dyce, Aberdeen with a large frontage to the A947 on the roundabout between the existing BP HQ and their previously proposed new HQ on our former Stoneywood Business Park site. This site may become strategically important and currently yields almost 9%. In July 2004 we purchased a vacant warehouse in Ashton Road, Rutherglen for refurbishment and re-letting. The property is adjacent to the line of the proposed M74 extension in South Glasgow to join the M8 at the Kingston Bridge. Total costs are expected to be approximately £1m and the yield 10% on current values. In September 2004 we purchased for £295,500 a very small industrial/retail investment yielding about 9% in an improving residential area on the edge of Kirkcaldy adjacent to the A92 dual carriageway.

Our site in Wallyford, where we are seeking planning permission for eight detached houses, borders Musselburgh and is within 400 yards of the main line station with easy access to the A1 near the City Bypass. Planning permission followed by a site start in a contiguous area for 280 houses is expected shortly which should greatly enhance our site.

We expect to gain planning consent for a much larger development near Dunbar next year. We own one site which should accommodate 17 houses and have under option two other sites for 29 and 22 houses respectively. In common with many other sites in Scotland water and sewerage services are inadequate and require upgrading, which in order to expedite consent we have agreed to fund. The dual carriageway section of the A1 from Edinburgh has recently been extended from Haddington to Dunbar and a further small section is nearly complete. Plans have been proposed for a superstore and a budget hotel adjacent to the A1 immediately south of Dunbar which, if implemented, would be beneficial. Over the last few years housing developments comprising several hundred houses have been completed on the south side of Dunbar and the existing sites are largely "built out".

In Edinburgh at Belford Road, where we hold a consent for 22,500ft$^2$ Grade A office development, we continue to consider residential proposals for this difficult site. The most recent proposal for about 18,000ft$^2$ of

# Chairman's Statement (continued)

residential development plus car parking is almost within the existing planning envelope but necessitates extensive structural site works to provide car parking.

**Economic Prospects**

The Economist reports that World GDP is growing at its fastest rate for almost 30 years and that for the first time since 1980 the 55 economies monitored are all growing. Growth rates in these different countries are much more synchronised than previously with only ±1% point growth from the mean covering 67% of economies compared with about ±4% points in the 1980s. Next year even more synchrony is expected as the fast-growing American and Asian economies slow and some European economies improve. The Economist Intelligence Unit (EIU) expects world economic growth to be 4.9% in 2004 before slowing to 4.3% in 2005 and 4.0% in 2006.

The EIU report states that persistently high oil prices threaten economic activity and their forecasts are based on average Brent Oil prices of $36 in 2004 and $32 and $28 in subsequent years. The oil price which was briefly below $20 in late 2001, averaged $25.0 and $28.8 in 2002 and 2003 respectively, but in 2004 rose from about $30 to $52.20 in October 2004 before falling back to below $40.62 recently. Recently some "spot crude" was available at $32.

Early in 2004 most forecasts were that oil would average $22-28, significantly below current estimates. The Bank of England suggests that higher recent and future estimated oil prices are not based primarily on supply restrictions or shorter term supply interruptions resulting from, for example, the Iraq war, but on further increases in world oil demand which is now estimated to grow by 3.5% this year as opposed to the earlier estimate of 1.5%. This increase in demand cannot easily be met by non-OPEC producers, where because of higher costs and taxes, up to 15% of producers require over $30 a barrel for an 8% return. Futures currently reflect a long-term oil price of about $35, the price forecast by Consensus Economics, up $15 from the average level in the 1990s.

Fortunately any rise in oil prices should be much less damaging than the shocks of 1973-74 and 1978-80 when prices quadrupled and then trebled, as even at the recent peak, real oil prices were less than half previous levels. Oil is priced in US Dollar and the fall in the Dollar since 31 December 2002 has reduced the Sterling price by 22.3%. Moreover the economy is less reliant on oil as about a third less is used per unit GDP than in the 1980s. Oil prices in the mid-$30s are above those used in the EIU forecast, but as Goldman Sachs estimate that a 10% rise only reduces world GDP by 0.3% points lagged by a year, the expected change in the oil market is consistent with the EIU's positive world growth forecast.

The other major risks to the world economy are both related to economic conditions in the US. The US economy has enjoyed the biggest monetary and fiscal stimulus in decades leading to a large rise in consumption supported by debt whose servicing costs comprise a record 20% of disposable income. Recently almost two thirds of GDP growth came from a fall in the savings rate to 0.4% of disposable income. However as this stimulus is withdrawn and interest rates and taxes rise there is a risk that private savings will rise sharply provoking a contraction in private consumption and delivering a major demand shock to the world economy. Fortunately a recent survey shows retail spending, housing sales and confidence rising and industrial production was up 5.2% in October and growth is forecast to fall slowly from 4.3% this year to 3.4% in 2005 as a slow adjustment takes place.

A larger threat to the world economy is from a sharp adjustment of the US current-account deficit linked to the massive monetary and fiscal stimulus which has grown to nearly 6% of GDP and which has coincided with a recent fall in the Dollar average exchange rate of about 17%. On 19 November 2004 Alan Greenspan said "given the size of the US current account deficit, a diminished appetite for adding to dollar balances (i.e. foreign holdings of dollars) must occur at some point" and he rejected a possible central bank alliance to support the Dollar saying "such intervention does not have a large impact on exchange rates". These comments led many economists to predict further larger Dollar falls, say 15%, but at differing rates between currencies. A quarter of the US $124 billion trade gap is with China but the Renminbi is subject to Government

# Chairman's Statement (continued)

exchange control and any adjustment is likely to be small, possibly up to 3%. The largest fall is likely to be against the Euro where the current rate of $1.30 per Euro could rise to $1.50 or even $1.70 with Sterling showing a lesser appreciation from $1.86 to $2.00.

Reduction of the US current account deficit will require a shift in resources from domestic consumption into exports which could only partly be achieved by depressing consumption and GDP. According to a recent study a 6% reduction in demand, equal to the current account deficit, would only reduce the current account deficit to 4.2%, but as it would also lower the demand for domestic products not traded, i.e. not in the current account, it would reduce GDP by 4.2%. The reduction in demand required to eliminate the deficit by suppressing demand is 17% which would result in an unthinkable 1930s type depression.

A US Dollar devaluation, possibly with some demand reduction, is a less dramatic means of reducing the deficit. Some forecasters expect falls of 15% but economists at UCLA suggest that a depreciation of up to 34% would be required if the deficit were to be eliminated by exchange rate adjustment alone. The current deficit is financed by the rest of the world's "dollar balances". Provided the rest of the world accepts the deficit level or the speed of change, the depreciation of the Dollar can be smaller or slower or both. The US economy has adapted to large swings in the Dollar value frequently over the last 20 years including a drop of 40% in the mid 1980s which had few ill effects. Thus, provided a steep fall is avoided, precedence indicates the US economy should adjust relatively easily.

The effects on other economies however may be more serious. For instance while in the 1980s the effect of the Dollar fall on the US was relatively benign it had a significant role in creating Japan's economic bubble as Japan lowered interest rates to mitigate the deflationary effect of the rising Yen. In the current Dollar realignment the Euro seems likely to make the largest percentage rise against the Dollar but unfortunately the Euro group contains Germany and France, the least flexible of the developed economies with already the highest unemployment, where even a slow rebalancing of the US economy will have unfavourable deflationary consequences. Fortunately Sterling's rise against the Dollar is likely to be lower than the Euro's which, combined with the current greater flexibility of the UK economy, will limit the damage.

Economic forecasts for the coming year discount a major economic shock, but a not insignificant risk remains. It is salutary to note that the IMF has shown that of the 60 recessions around the world in the 1990s only two were predicted by private sector forecasts a year in advance.

The likely good outlook for the world economy provides a benign background for the UK economy. UK growth was estimated by independent economists to be 3.5% in the first half of 2004 but was expected to slow gradually to 1.9% in the second half of 2005. The main domestic risk to the economy comes from the household sector, specifically from a possible collapse in house prices. In recent years consumer spending has been supported by rising levels of debt and the ratio of household debt to income exceeds levels reached in the late 1980s prior to the last recession. Due to current lower interest rates debt servicing costs are lower than in the 1980s but a significant drop in house prices caused by further increases in interest rates, rising unemployment or, more likely, a change in perception or sentiment on the future course of house prices could initiate a consumer retrenchment

Credible predictions of imminent falls in house prices have been made for at least a year when for example Capital Economics, who analysed UK prices as being 50% overvalued, forecast a 20% drop over three years, but most other forecasters were guardedly optimistic. Nationwide have suggested a gentle slow down, Bradford & Bingley a 7% rise and Hometrack a 4% rise adding, colourfully: "There is more chance of finding Elvis on the moon than there is of a price crash next year".

Confusingly, the optimists appear to have been both right and wrong. In the year to September 2004 Halifax reported a rise of 20.5%, Nationwide 17.8% Academetrics 16.8%, Lloyds TSB Scotland 20.4% and Edinburgh Solicitors Property Centre 11.2%. However, recent month to month comparisons from the Halifax and the Nationwide surveys showed price falls in September 2004. Indeed, Hometrack, which surveys house prices about 12 weeks prior to the stage used by the building societies, has reported declining prices for the last four

# Chairman's Statement (continued)

months. Almost all economic analysis now suggests that the housing market is overvalued, but there is no consensus as to how far house prices are from fair value, and large declines of 10-15% have been forecast by Deutsche Bank, of 20% by Capital Economics and of 30% by the National Institute of Economic and Social Research.

This time the pessimists seem likely to be proved correct as the factors producing the current slow down will not be easily reversed. Interest rates as measured by Sterling futures are unchanged until at least December 2007; and projected economic growth falls in 2005 and 2006; Hometrack report "reducing consumer confidence in the future housing market suggesting more house price falls over the coming months".

In the RICS September survey 56% of surveyors reported price falls and only 3% reported rises, the worst result since 1992, and, although until recently the Bank of England predicted house price growth would slow to zero over the next two years, in the November review the Governor cautioned that the downward adjustment of house prices might continue for two-to-three years, a statement viewed as further undermining confidence in the housing market.

A minority of commentators, including Capital Economics and HSBC view the current housing market as an asset bubble, and the continued growth in bubbles depends crucially on the expectation of future growth, which once removed tends to prick the bubble: pricked bubbles do not "plateau". The housing market has produced bubbles before as every previous sharp real rise since 1960 has been followed by a burst. The monthly profile of real house price inflation up to and including the first monthly drop in price in 1988-1990 is remarkably similar to the profile up to the first drop in price in August 2004 in the current cycle indicating the start of steeper falls.

House "wealth" is by far the most important asset for the majority of the population and it seems self evident that feeling "poorer", usually significantly so due to gearing, would have a direct affect on confidence and consumption. The Bank of England, which describes the housing market as "unsustainably high" has however recently demonstrated that, despite there being a high correlation between annual real house price inflation and annual consumption growth until as recently as 2001, there is now a low correlation. Thus in the Inflation Report the Bank concludes "spending growth is therefore expected to ease only moderately despite a sharp slowing in house price inflation". The Bank has cogent arguments for the dramatic change in correlation. However, the recent correlation has not been substantiated by a downturn in the housing market and only appears quite suddenly from 2002! Indeed the Bank's Chief Economist regards the change in correlation as "untested". Falling house prices, lower consumer confidence, increased savings and reduced Mortgage Equity Withdrawal will reduce consumption and this will occur even when other economic conditions are relatively stable.

Capital Economics takes a contrary view to the Bank of England stating: "as and when the bubble bursts in the UK, the consequences will be . . . serious" and savings will rise and consumer spending growth will slow sharply from 3.0% now to 1.0% next year and 1.5% in 2006 leading to a lower growth in GDP than the consensus forecasts of 2.5%. The EIU also thinks it is likely that house prices will fall in nominal terms and that consumers will retrench.

The analysis of the housing market and its effect on the UK economy yields a remarkable consensus: whether the housing market is stable or falls rapidly the overall immediate economic consequences are not overwhelming – an undesirable movement of up to 1% point in GDP growth, but no recession. Bank of England longer term growth forecasts are favourable, showing GDP growth rising for two years after a dip in 2005, and the central case inflation rate to be about 2% based on market interest rate expectations showing interest rates close to their peak for this cycle.

UK economic conditions are favourable. Externally, prospective high oil prices and a very rapid change in the structure of the American currency appear unlikely and even if these conditions are realised they are likely to be of limited damage to the UK. Internally, the prospective fall in house prices, which is likely to be severe in some areas, will at worst lead to reduced growth in GDP.

# Chairman's Statement (continued)

**Property Prospects**

In the year to September 2004 the CB Richard Ellis (CBRE) All Property Yield Index fell 0.8% points to 6.4% as all component sectors of the index fell, notably in shops by 1.1% points to 5.6%. The 10 year Gilts' yield was 4.8% giving a narrower yield gap of 1.6% points compared to 2.6% points last year. The rental index, which had fallen for six consecutive quarters until earlier this year, has now risen 1.1%, the highest annual growth rate since 2002. The five year compound growth rate is only 2.9%, barely above inflation. Since the 1990 market peak the All Property rental index has risen 16.0% but in real terms has fallen by 20.4%. In real terms offices have fallen furthest, 37.8%, with most central London areas half their previous peak except for Docklands where real rental values have been maintained. Retail warehouses rentals have risen by a very remarkable 64.1%.

The fall in yield to 6.4% together with a return to rental growth except for offices, has produced excellent total returns. In the 12 months to October 2004 the IPD index showed total returns of 17.4%, retail 20.4%, office 11.9% and industrial 16.6%. These returns compare with 11.6% for equities and 7.0% for gilts. In the last three, five and ten years total returns in property have been higher than the other two categories, the difference from equities being most marked over five years i.e. from 1999 before the Stock Market crash. The difference from gilts has been most marked over the last 12 months as gilt yields are broadly unchanged since September 2003 (4.63% – 4.79% September 2004). Over all the above review periods retail returns have been the highest, with the single exception of industrials over ten years (11.6.%), and office returns the lowest.

The stock of investment property changes only very slowly, and an increase in demand quickly affects prices. The high returns from property compared to equities, especially following the Stock Exchange crash, have increased demand for investment property. Before the recent rises in Bank Base Rate Knight Frank reported that demand was largely fuelled by debt-driven investors arbitraging between interest rates and yields. From 2001 until early 2004 UK institutional investment in property was almost absent. However, this year institutional investors have returned and UK institutional net investment which was £500bn in late 2003 was £1,500bn in the most recent quarter.

Property returns comprise an income return (rent) combined with changes in capital value, the capital value being the product of the yield and the ERV. Rental growth is dependent on but lags economic growth which is forecast at 2% to 3%. Cluttons expect only the retail sector to experience any rental growth, a nominal 2%. CCRE expect 2.4% rental growth overall with the All Retail ERV up 3.9%. Both forecasters expect no further drop in yields in 2005 producing overall returns of 8.0% to 9.5%. Investment Property Forum surveys 24 property advisors, fund managers and equity brokers whose average projected total returns are 9.0.% for 2005 and 8.2% for 2006 resulting from 2.1% to 2.6% rental growth and continuing small falls of 0.1% to 0.2% in yields.

All Property yields have stayed constant from year to year only once in the last 28 years – at 8% from 1982 to 1984. There was a golden age from the earliest CBRE record in 1973 until Q4 1997 when, apart from a brief period following the UK's expulsion from the ERM in 1992, property yields were below gilt yields. However, with gilts yielding about 4.8% the "golden age" is unlikely to recur unless rental growth is spectacular and quite contrary to forecasts and seems unlikely in a low inflationary environment with GDP growth already past its peak for this cycle.

Indeed, factors which have limited the recovery of real rental growth since the last "peak" continue to operate and also impinge on yield. Obsolescence and depreciation have become of increasing importance, significantly reducing returns but, with costs hidden or long delayed, are often not priced into the current market, particularly for offices. For instance the ERV of a newly built UK office building falls 20% compared to new prices within five years and reduces growth in ERV in a widely based portfolio by about 1.2% to 1.4% annually.

Compared to the 1980s supply has often become less restricted. Planning consents particularly for offices have been eased, increasing supply and in some cases traditional/locational prejudices and preferences have weakened, increasing the appeal of previously shunned areas. Free of localised restrictions, low cost supply

# Chairman's Statement (continued)

outside established areas reduces rents in established areas, as has happened to the City Centre office markets in London and Edinburgh with the development of Docklands and Edinburgh Park respectively. Supplies of retail space have also increased out of town while shopping parades form an alternative to the High Street and provide appropriate layouts and scale often unavailable in the High Street. Such increased supply together with some obsolescence limits High Street rental growth.

In spite of the likelihood of restricted rental growth some forecasters expect property yields to drop marginally in 2005 and 2006 even without any substantial fall in interest rates. However yields are likely to rise again shortly thereafter. The current wave of investment is partially resulting from the beneficial yield effect from the waves of previous investment, a momentum effect which tends to reverse over time. There is considerable anecdotal evidence that a larger than usual percentage of investment has taken place both by private individuals and by institutions into properties where conventional analysis would have required higher yields to achieve target returns.

The Scottish Office Investment market in the 12 months to August 2004 has performed less well than other Scottish markets and returned 9.5%, as a result of falling yields more than offsetting lower ERVs. Ryden's report indicates that Edinburgh has been the best performing market and Glasgow the worst. Take up in Edinburgh in the six months to September 2004 was 500,447ft$^2$ above the 401,469ft$^2$ of last year but still less than the 600,000ft$^2$ averaged for four years from 1997. Supply is down 564,554ft$^2$ to 2,310,197ft$^2$ or about two years uptake at recent rates. City headline asking rents are unchanged at £27 but down 10% from the recent peak and West Edinburgh shows a further weakening to £18 and £19, thus reverting to the previous one third discount to the City Centre. Actual rents after incentives are probably significantly less. The asking rent of £27 is similar to the previous peak but only represents 73% of it in real terms. Prospects for rental growth do not appear favourable, especially for larger Grade A properties. Some traditional occupiers such as Royal Bank of Scotland and Standard Life are more likely to release space than to take it up; the Royal Bank of Scotland are completing their own large HQ at Gogar in West Edinburgh, while Standard Life are in the process of reducing staff. Supply will also be increased by buildings under construction in the City Centre and increasingly by more building in areas peripheral to Edinburgh, but serving a proportion of traditional Edinburgh occupiers, such as Livingston, Fife and North Midlothian.

Glasgow rents are also broadly unchanged. However, take-up for the last six months is the lowest in this period since September 1993 and the average 12 months take-up for the last two years is the worst since the trough in the office market in 1993 and not surprisingly, supply is at the highest level since 1993. Unlike Edinburgh the supply in Glasgow comprises a wider range of qualities including refurbished second hand space priced at 20% to 30% discount.

In Aberdeen recent uptake of 180,992ft$^2$ has been just above last year's uptake while supply at 1,140,633ft$^2$ is below last year's peak. The recent rise in oil prices and the prospect of future prices of $30 and above will understandably make currently marginal reserves worth extracting and increased economic activity is likely. However, North Sea Oil and Gas output which peaked in 1999 at 4.5m bpd is expected to be 3.7m bpd this year and 2.5m bpd by 2010 indicating long term decline

In contrast to the commercial property investment market, particularly the office market, the residential market continues to offer long term attractions. In the residential market supply in new locations is usually restricted, primarily by planning restrictions and the slow administration of the planning system. Government planning policy is ambivalent: on the one hand streamlining and simplification is proposed; but on the other hand third party appeals are proposed and wider consultation is required. Consumer groups are becoming increasingly vocal and better organised, supporting environmental and green policies, nimbys and mobilising specific *ad hoc* opposition.

The planning system is convoluted, often under-staffed and frequently without direction, or with conflicting policies. This all adds to the probability of delay and to the length of any such delay. A fundamental liberalisation of the planning system appears unlikely and without such a change the supply of residential property will continue to be restricted.

# Chairman's Statement (continued)

The long-term requirement for new houses is considerable although variable among areas. In the Edinburgh area, for instance, households are expected to rise by 65,600 in the 15 years to 2015 or by 19.3%. A huge rise in households is expected in the South East of England. In contrast, in a very few areas reduced house numbers are required, usually in declining industrial cities.

A large long-term requirement for houses facing a restricted supply results in rising prices, as indeed has been occurring. However, short-term considerations such as high unemployment, rising or high interest rates, lower rents and lower future price expectations reduce shorter term demand, leading to falling prices, as is becoming evident.

Dresdner Kleinwort, who are expecting significant price falls, have undertaken an analysis of house price "overvaluation" based on traditional price/earning ratios. This analysis estimates that low earnings areas in England such as the North East and the South West are over 50% overvalued and high earnings areas such as London and the South East are 40% and 37% overvalued respectively. In contrast Scotland's overvaluation is only 12%, so even if significant overall falls do take place Scotland's downturn should be limited. The housing market continues to offer good long-term prospects, especially in Scotland.

**Future Progress**
The Group expects the current year's results to be satisfactory but, as ever, there is a wide range of possible outcomes. Rental income has stabilised while development and trading profits are likely to be similar. Property costs, due to the vacancy at St Margaret's, continue at high levels, and professional fees are being incurred at a higher rate than last year. The full outcome for the current financial year will be dependent upon any net change in valuation.

We continue to pursue our claim for over £4m damages against the Scottish Ministers. A proof is set in the Court of Session commencing on 18 January 2005 and the judgment can reasonably be expected next year. Our future interests are concentrated on the acquisition or creation of more development opportunities, realisable within a five-year period, and their subsequent development. We continue to assess and negotiate for such opportunities and we expect to be able to add to this development portfolio during the course of the year.

The mid-market price is currently 135p, a discount of 22.4% to the NAV of 173.9p. The Board recommends an increased final dividend of 1.25p, making a total dividend of 2.25p for the year, and we intend to increase the dividend at a rate consistent with profitability and with consideration for other opportunities.

No tax is provided for in the current year. The Group currently has tax losses and allowances carried forward of almost £977,000.

**Conclusion**
In spite of higher oil prices the UK economy should continue to grow next year at a rate of over 2%, about trend level, but below this year's estimated 3.2%, unless there is a unexpected major shock associated with the US economy or an adverse response to the expected house price falls. In general investment property seems highly priced and rental growth is likely to continue to be limited. The longer-term market conditions for residential property are very attractive, notwithstanding a prospective short-term downturn in price the extent of which should be limited in Scotland.

I. D. LOWE

Chairman

21 December 2004

# 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 2004.

**Review of year**

The results for the year before taxation are a profit of £434,662 (2003 – £502,870).

**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 £434,662. An interim dividend of 1.0p (2003 – 1.0p) was paid during the year and the directors propose the payment of a final dividend of 1.25p (2003 – 1.1p) per ordinary share.

**Share capital**

On 21 December 2004, I. D. Lowe and M. J. Baynham held 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 | 18 December 2004 | 30 June 2004 | 30 June 2003 |
|---|---|---|---|---|
| I. D. Lowe | 81.7 | 9,324,582 | 9,064,582 | 9,064,582 |
| M. J. Baynham | 6.4 | 730,191 | 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 – Floating rate loan stock 2003/2005 | | | | |
| I. D. Lowe | 100.0 | £1,000,000 | £1,000,000 | — |

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 2003 | Options exercised during year | Options granted during year | No of shares at 30 June 2004 | 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 could be exercised from 24.3.1998 to 24.3.2005 and the options to subscribe for shares at 60p could be exercised from 8.4.2000 to 8.4.2007. The options to subscribe were exercised in full on 8 October 2004.

At 30 June 2004 the Company's share prices was 120.0p. The highest price during the year was 150.0p and the lowest price was 90p at 1 July 2003.

# Directors' Report (continued)

**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
21 December 2004

# 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 13 to 18.

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

**Respective responsibilities of directors and auditors**
The directors are responsible for preparing the directors' report and, as described on page 11, 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 2004 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

21 December 2004

# Consolidated Profit and Loss Account

*for the year ended 30 June 2004*

| | Note | 2004 £ | 2003 £ |
|---|---|---|---|
| INCOME – CONTINUING OPERATIONS | | | |
| Rents and service charges | | 614,735 | 962,587 |
| Trading property sales | | 1,541,833 | 360,000 |
| Other trading sales | | 375,866 | 367,243 |
| | | 2,532,434 | 1,689,830 |
| OPERATING COSTS | | | |
| Cost of trading property sales | | (1,132,890) | (160,330) |
| Cost of other sales | | (363,642) | (346,761) |
| Administrative expenses | 2 | (1,129,258) | (669,265) |
| | | (2,625,790) | (1,176,356) |
| OPERATING PROFIT | | (93,356) | 513,474 |
| Profit on disposal of investment property | | 584,291 | — |
| Profit on sale of other fixed assets | | — | 10,169 |
| Interest receivable | | 229,731 | 344,264 |
| Interest payable | 3 | (286,004) | (365,037) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 434,662 | 502,870 |
| Taxation | 6 | — | 5,097 |
| PROFIT FOR THE FINANCIAL YEAR | | 434,662 | 507,967 |
| DIVIDENDS | 7 | (263,434) | (241,716) |
| RETAINED PROFIT FOR THE FINANCIAL YEAR | 16 | 171,228 | 266,251 |
| Earnings per ordinary share | 18 | 3.78p | 4.41p |
| Diluted earnings per ordinary share | 18 | 3.63p | 4.24p |
| PROFIT FOR THE FINANCIAL YEAR IS RETAINED AS FOLLOWS: | | | |
| In holding company | | 367,287 | 221,669 |
| In subsidiaries | | (196,059) | 44,582 |
| | | 171,228 | 266,251 |

# Statement of Total Recognised Gains and Losses

*for the year ended 30 June 2004*

| | 2004 | 2003 |
|---|---|---|
| | £ | £ |
| Profit for the financial year | 434,662 | 507,967 |
| Unrealised surplus on revaluation of properties | 160,649 | 556,575 |
| Total gains recognised since the last annual report | 595,311 | 1,064,542 |

# Note of Historical Cost Profits and Losses

*for the year ended 30 June 2004*

| | 2004 | 2003 |
|---|---|---|
| | £ | £ |
| Reported profit on ordinary activities before taxation | 434,662 | 502,870 |
| Realised surplus on previously revalued property | 128,298 | — |
| Historical cost profit on ordinary activities before taxation | 562,960 | 502,870 |
| Taxation on profit for year | — | 5,097 |
| Historical cost profit for the year after taxation | 562,960 | 507,967 |
| Historical cost profit for the year retained after taxation | 299,526 | 266,251 |

# Consolidated Balance Sheet

*at 30 June 2004*

| | Note | 2004 £ | 2004 £ | 2003 £ | 2003 £ |
|---|---|---|---|---|---|
| FIXED ASSETS | | | | | |
| Tangible assets: | | | | | |
| Investment properties | 8 | | 19,301,974 | | 18,607,844 |
| Other assets | 9 | | 4,190 | | 8,575 |
| | | | 19,306,164 | | 18,616,419 |
| Investments | 10 | | 90,898 | | 20 |
| | | | 19,397,062 | | 18,616,439 |
| CURRENT ASSETS | | | | | |
| Debtors | 11 | 122,031 | | 306,648 | |
| Cash at bank and in hand | 12 | 6,312,760 | | 5,233,211 | |
| | | 6,434,791 | | 5,539,859 | |
| CREDITORS: Amounts falling due within one year | 13 | (3,726,095) | | (2,215,551) | |
| NET CURRENT ASSETS | | | 2,708,696 | | 3,324,308 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | 22,105,758 | | 21,940,747 |
| CREDITORS: Amounts falling due after more than one year | 13 | | (2,252,500) | | (2,302,500) |
| NET ASSETS | | | 19,853,258 | | 19,638,247 |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 14 | | 2,282,584 | | 2,302,053 |
| Share premium account | 15 | | 2,530,753 | | 2,530,753 |
| Capital redemption reserve | 15 | | 175,315 | | 155,846 |
| Revaluation reserve | 15 | | 376,221 | | 563,460 |
| Profit and loss account | 15 | | 14,488,385 | | 14,086,135 |
| SHAREHOLDERS' FUNDS – EQUITY | 16 | | 19,853,258 | | 19,638,247 |

These financial statements were approved by the Board of Directors on 21 December 2004 and were signed on its behalf by:

M. J. BAYNHAM

Director

# Company Balance Sheet

*at 30 June 2004*

| | Note | 2004 £ | 2004 £ | 2003 £ | 2003 £ |
|---|---|---|---|---|---|
| FIXED ASSETS | | | | | |
| Tangible assets: | | | | | |
| Investment properties | 8 | | 5,646,605 | | 4,578,156 |
| Equipment and vehicles | 9 | | 670 | | 5,055 |
| | | | 5,647,275 | | 4,583,211 |
| Investments | 10 | | 13,217,543 | | 13,237,075 |
| | | | 18,864,818 | | 17,820,286 |
| CURRENT ASSETS | | | | | |
| Debtors | 11 | 9,852,553 | | 10,841,349 | |
| Cash at bank and in hand | 12 | 6,238,439 | | 5,135,560 | |
| | | 16,090,992 | | 15,976,909 | |
| CREDITORS: Amounts falling due within one year | 13 | (12,850,052) | | (12,856,448) | |
| NET CURRENT ASSETS | | | 3,240,940 | | 3,120,461 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | 22,105,758 | | 20,940,747 |
| CREDITORS: Amounts falling due after more than one year | 13 | | (2,252,500) | | (1,302,500) |
| NET ASSETS | | | 19,853,258 | | 19,638,247 |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 14 | | 2,282,584 | | 2,302,053 |
| Share premium account | 15 | | 2,530,753 | | 2,530,753 |
| Capital redemption reserve | 15 | | 175,315 | | 155,846 |
| Revaluation reserves | | | | | |
| Property | 15 | | 1,274,256 | | 1,199,256 |
| Investments | 15 | | 3,274,428 | | 3,384,838 |
| Profit and loss account | 15 | | 10,315,922 | | 10,065,501 |
| SHAREHOLDERS' FUNDS – EQUITY | 16 | | 19,853,258 | | 19,638,247 |

These financial statements were approved by the Board of Directors on 21 December 2004 and were signed on its behalf by:

M. J. BAYNHAM

Director

# Consolidated Cash Flow Statement

*for the year ended 30 June 2004*

| | Note | 2004<br>£ | 2003<br>£ |
|---|---|---|---|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | (a) | 71,312 | 691,545 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | (b) | (18,323) | (62,658) |
| CORPORATION TAX | | — | (769,902) |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | (b) | 368,875 | (1,387,610) |
| EQUITY DIVIDENDS PAID | | (241,636) | (230,206) |
| CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING | | 180,228 | (1,758,831) |
| FINANCING | (b) | 909,321 | (1,760,193) |
| INCREASE/(DECREASE) IN CASH IN PERIOD | | 1,089,549 | (3,519,024) |
| RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS | (c) | £ | £ |
| INCREASE/(DECREASE) IN CASH IN PERIOD | | 1,089,549 | (3,519,024) |
| Cash (outflow)/inflow from decrease in debt | | (1,026,187) | 1,760,193 |
| MOVEMENT IN NET FUNDS IN THE PERIOD | | 63,362 | (1,758,831) |
| NET FUNDS AT THE START OF THE PERIOD | | 1,753,228 | 3,512,059 |
| NET FUNDS AT THE END OF THE PERIOD | | 1,816,590 | 1,753,228 |

# Notes to the Cash Flow Statement

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

| | 2004 | 2003 |
|---|---|---|
| | £ | £ |
| Operating (loss)/profit | (93,356) | 513,474 |
| Profit on disposal of trading property | (408,943) | (200,000) |
| Depreciation charges | 4,385 | 4,384 |
| Decrease in debtors | 184,617 | 174,500 |
| Increase in creditors | 384,609 | 199,187 |
| Net cash inflow from operating activities | 71,312 | 691,545 |

(b) ANALYSIS OF CASH FLOWS

| | 2004 | 2004 | 2003 | 2003 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| RETURNS ON INVESTMENT AND SERVICING OF FINANCE | | | | |
| Interest received | 229,731 | | 344,265 | |
| Interest paid | (248,054) | | (406,923) | |
| | | (18,323) | | (62,658) |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | | |
| Purchase of tangible fixed assets | (3,081,201) | | (3,809,029) | |
| Sale of investment property | 3,540,954 | | 2,411,250 | |
| Purchase of investments | (90,878) | | — | |
| Sale of fixed assets | — | | 10,169 | |
| | | 368,875 | | (1,387,610) |
| FINANCING | | | | |
| Purchase of ordinary share capital | (116,866) | | — | |
| Debt due within a year | | | | |
| Increase/(Decrease) in short-term | 1,076,187 | | (998,635) | |
| Debt due beyond a year | | | | |
| (Decrease) in long-term borrowings | (50,000) | | (761,558) | |
| | | 909,321 | | (1,760,193) |

# Notes to the Cash Flow Statement (continued)

(c) ANALYSIS OF NET FUNDS

| | At beginning of year | Cash flow | Other non-cash changes | At end of year |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Cash at bank and in hand | 5,233,211 | 1,079,549 | — | 6,312,760 |
| Overdrafts | (99,729) | 10,000 | — | (89,729) |
| | | 1,089,549 | | |
| Debt due after one year | (2,302,500) | - | 50,000 | (2,252,500) |
| Debt due within one year | (1,077,754) | (1,026,187) | (50,000) | (2,153,941) |
| | | (1,026,187) | — | |
| TOTAL | 1,753,228 | 63,362 | — | 1,816,590 |

# Notes *(forming part of the financial statements)*

*30 June 2004*

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 2004, 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 20 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 2004*

2 ADMINISTRATIVE EXPENSES

| | 2004 | 2003 |
|---|---|---|
| | £ | £ |
| Directors' emoluments (see note 4) | 297,453 | 271,474 |
| Management expenses | 804,870 | 366,270 |
| Auditors' remuneration | | |
| —audit – company | 10,000 | 10,000 |
| —audit – subsidiaries | 8,750 | 11,887 |
| —non audit | 3,800 | 5,250 |
| Depreciation | 4,385 | 4,384 |
| | 1,129,258 | 669,265 |

3 INTEREST PAYABLE

| | 2004 | 2003 |
|---|---|---|
| | £ | £ |
| Bank loans and overdrafts | 216,240 | 236,672 |
| Loan stock repayable within five years | 69,764 | 128,365 |
| | 286,004 | 365,037 |

4 REMUNERATION OF DIRECTORS

| | 2004 | 2003 |
|---|---|---|
| | £ | £ |
| Directors' emoluments | 229,252 | 230,474 |
| Company contributions to money purchase pension schemes | 68,201 | 40,965 |

The aggregate of emoluments of the highest paid director was £114,282 (2003 – £112,491), and Company pension contributions of £27,500 (2003 – £20,465) were made to a money purchase scheme on his behalf.

| | Number of directors | |
|---|---|---|
| | 2004 | 2003 |
| Retirement benefits are accruing to the following number of directors under: | | |
| Money purchase schemes | 2 | 2 |

5 EMPLOYEES

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

| | 2004 | 2003 |
|---|---|---|
| | Number | Number |
| Management | 4 | 4 |
| Administration | 2 | 2 |
| Other | 15 | 15 |
| | 21 | 21 |

The aggregate payroll costs of these persons were as follows:

| | 2004 | 2003 |
|---|---|---|
| | £ | £ |
| Wages and salaries | 365,587 | 406,605 |
| Social security costs | 38,277 | 29,724 |
| Other pension costs | 71,121 | 40,965 |
| | 474,985 | 477,294 |

# Notes *(continued)*

*30 June 2004*

6 TAXATION

| | 2004 £ | 2003 £ |
|---|---|---|
| Analysis of change in period: | | |
| UK corporation tax | | |
| Current tax on income for the period | — | — |
| Overprovision in respect of previous year | — | (5,097) |
| Tax on profit on ordinary activities | — | (5,097) |

The current tax charge for the period is lower (2003 – lower) than the standard rate of corporation tax in the UK (30%, 2003 – 30%). The differences are explained below:

Current tax reconciliation

| | 2004 £ | 2003 £ |
|---|---|---|
| Profit on ordinary activities before tax | 434,662 | 502,870 |
| Current tax at 30% | 130,399 | 150,861 |
| Effects of: | | |
| Expenses not deductible for tax purposes | — | 5,574 |
| Capital allowances for period in excess of depreciation | (38,676) | (55,037) |
| Capital gains tax indexation | (5,880) | — |
| Utilisation of tax losses | (85,843) | (101,398) |
| Prior year revaluations | — | — |
| | (130,399) | (150,861) |
| Tax over/(under) provision | — | (5,097) |
| Tax charged to prior years in respect of revaluation realised | — | — |
| Total current tax charge (see above) | — | (5,097) |

Taxation losses amounting to £977,558 (2003 – £965,964) are available to relieve future taxable profits of the Group.

7 DIVIDENDS

| | 2004 £ | 2003 £ |
|---|---|---|
| Interim dividend for year 1.0p (2003 – 1.0p) per share | 115,023 | 115,103 |
| Final dividend for year 1.25p (2003 – 1.1p) per share | 148,411 | 126,613 |
| | 263,434 | 241,716 |

# Notes *(continued)*

*30 June 2004*

8 INVESTMENT PROPERTIES

| | Freehold Group £ | Freehold Company £ |
|---|---|---|
| Investment properties: | | |
| Valuation at 1 July 2003 | 13,447,265 | 4,400,000 |
| Revaluation in year | 160,649 | 75,000 |
| Acquired in year | 3,030,094 | 993,448 |
| Sold in year | (1,415,709) | — |
| Valuation at 30 June 2004 | 15,222,299 | 5,468,449 |
| Properties held for development: | | |
| Valuation at 1 July 2003 | 5,160,579 | 178,156 |
| Sold in year | (1,132,011) | — |
| Purchased in year | — | — |
| Additions in year | 51,107 | — |
| Valuation at 30 June 2004 | 4,079,675 | 178,156 |
| Net book amount at 30 June 2004 | 19,301,974 | 5,646,605 |
| Net book amount at 1 July 2003 | 18,607,844 | 4,578,156 |

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 2003.

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

| | Group 2004 £ | Group 2003 £ | Company 2004 £ | Company 2003 £ |
|---|---|---|---|---|
| Investment properties | 17,936,632 | 17,274,853 | 3,909,632 | 2,916,183 |

The cumulative amount of interest capitalised in respect of the Group's investment properties is £989,121 (2003 – £989,121). The cumulative amount of such interest capitalised for the Company is £462,717 (2003 – £462,717).

9 OTHER ASSETS

| | Motor vehicles £ | Office equipment £ | Total £ |
|---|---|---|---|
| GROUP | | | |
| Cost at 1 July 2003 and 30 June 2004 | 12,750 | 195,076 | 207,826 |
| Depreciation at 1 July 2003 | 8,499 | 190,752 | 199,251 |
| Charged in year | 4,251 | 134 | 4,385 |
| Depreciation at 30 June 2004 | 12,750 | 190,886 | 203,636 |
| Net book amount at 30 June 2004 | — | 4,190 | 4,190 |
| Net book amount at 1 July 2003 | 4,251 | 4,324 | 8,575 |
| COMPANY | | | |
| Cost at 1 July 2003 and 30 June 2004 | 12,750 | 43,836 | 56,586 |
| Depreciation at 1 July 2003 | 8,499 | 43,032 | 51,531 |
| Charged in year | 4,251 | 134 | 4,385 |
| Depreciation at 30 June 2004 | 12,750 | 43,166 | 55,916 |
| Net book amount at 30 June 2004 | — | 670 | 670 |
| Net book amount at 1 July 2003 | 4,251 | 804 | 5,055 |

# Notes *(continued)*

*30 June 2004*

10 INVESTMENTS

| | Shares in subsidiary undertakings £ | Listed investments £ | Other unlisted investments £ | Total £ |
|---|---|---|---|---|
| GROUP | | | | |
| Cost at 1 July 2003 | — | — | 20 | 20 |
| Additions in year | — | 90,878 | — | 90,878 |
| At 30 June 2004 | — | 90,878 | 20 | 90,898 |
| COMPANY | | | | |
| Cost at 1 July 2003 | 4,932,978 | — | — | 4,932,978 |
| Additions in year | — | 90,878 | — | 90,878 |
| At 30 June 2004 | 4,932,978 | 90,878 | — | 5,023,856 |
| Revaluation surplus at 1 July 2003 | 8,304,097 | — | — | 8,304,097 |
| Revaluation in year | (110,410) | — | — | (110,410) |
| At 30 June 2004 | 8,193,687 | — | — | 8,193,687 |
| Net book amount at 30 June 2004 | 13,126,665 | 90,878 | — | 13,217,543 |
| Net book amount at 1 July 2003 | 13,237,075 | — | — | 13,237,075 |

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 |
| Melville Management 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 | | Company | |
|---|---|---|---|---|
| | 2004 £ | 2003 £ | 2004 £ | 2003 £ |
| Amounts falling due within one year | | | | |
| Amounts owed by subsidiary undertakings | — | — | 9,818,989 | 10,828,366 |
| Other debtors | 24,104 | 4,158 | 18,994 | 4,159 |
| Prepayments and accrued income | 97,927 | 302,490 | 14,570 | 8,824 |
| | 122,031 | 306,648 | 9,852,553 | 10,841,349 |

# Notes *(continued)*

*30 June 2004*

12 CASH AT BANK AND IN HAND

Group bank balances totalling £79,861 (2003 – £75,698) 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 | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | £ | £ | £ | £ |
| Bank loans and overdrafts | 2,243,670 | 1,177,483 | 139,729 | 149,729 |
| Amounts owed to subsidiary undertakings | — | — | 12,325,800 | 12,454,533 |
| Final dividend | 148,411 | 126,613 | 148,411 | 126,613 |
| Other creditors and accruals | 1,334,014 | 911,455 | 236,112 | 125,573 |
| | 3,726,095 | 2,215,551 | 12,850,052 | 12,856,448 |

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

CREDITORS: Amounts falling due after more than one year:

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | £ | £ | £ | £ |
| Bank loans | 1,252,500 | 2,302,500 | 1,252,500 | 1,302,500 |
| Floating rate unsecured loan stock | 1,000,000 | — | 1,000,000 | — |
| | 2,252,500 | 2,302,500 | 2,252,500 | 1,302,500 |

Analysis of debt

Debt can be analysed as falling due:

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | £ | £ | £ | £ |
| In one year or less, or on demand | 2,243,670 | 1,177,483 | 139,729 | 149,729 |
| Between one and two years | 1,050,000 | 1,050,000 | 1,050,000 | 50,000 |
| Between two and five years | 1,202,500 | 1,252,500 | 1,202,500 | 1,252,500 |
| | 4,496,170 | 3,479,983 | 2,392,229 | 1,452,229 |

Bank loans of £1,300,250 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 $1\frac{2}{5}\%$ to 3% over the prevailing London Interbank Offer Rate with the exception of a mortgage loan of £275,000 at a fixed rate of 12.302%.

# Notes *(continued)*

*30 June 2004*

## 14 EQUITY SHARE CAPITAL

| | 2004 No. | 2004 £ | 2003 No. | 2003 £ |
|---|---|---|---|---|
| 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 | 11,412,921 | 2,282,584 | 11,510,267 | 2,302,053 |

During the year the company bought in 97,346 ordinary shares at a cost of £116,866, which was charged against the profit and loss reserve.

## 15 RESERVES

| GROUP | Share premium account £ | Revaluation reserve £ | Capital redemption reserve £ | Profit and loss account £ | Total £ |
|---|---|---|---|---|---|
| Balance at 1 July 2003 | 2,530,753 | 563,460 | 155,846 | 14,086,135 | 17,336,194 |
| Net revaluation in year | — | 160,649 | — | — | 160,649 |
| Transferred to profit and loss on sale of property | — | (128,298) | — | 128,298 | — |
| Transferred in year | — | (219,590) | — | 219,590 | — |
| Profit for the financial year | — | — | — | 434,662 | 434,662 |
| Dividend for year | — | — | — | (263,434) | (263,434) |
| Ordinary shares bought in | — | — | 19,469 | (116,866) | (97,397) |
| Balance at 30 June 2004 | 2,530,753 | 376,221 | 175,315 | 14,488,385 | 17,570,674 |

| COMPANY | Share premium account £ | Revaluation reserves Property £ | Revaluation reserves Investments £ | Capital redemption reserve £ | Profit and loss account £ | Total £ |
|---|---|---|---|---|---|---|
| Balance at 1 July 2003 | 2,530,753 | 1,199,256 | 3,384,838 | 155,846 | 10,065,501 | 17,336,194 |
| Net revaluation in year | — | 75,000 | (110,410) | — | — | (35,410) |
| Profit for the financial year | — | — | — | — | 630,721 | 630,721 |
| Dividend for year | — | — | — | — | (263,434) | (263,434) |
| Ordinary shares bought in | — | — | — | 19,469 | (116,866) | (97,397) |
| Balance at 30 June 2004 | 2,530,753 | 1,274,256 | 3,274,428 | 175,315 | 10,315,922 | 17,570,674 |

Of the balance on profit and loss account £319,812 is not distributable.

## 16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2004 £ | 2003 £ |
|---|---|---|
| Retained profit for the financial year | 171,228 | 266,251 |
| Revaluation surplus | 160,649 | 556,575 |
| Ordinary shares bought in | (116,866) | — |
| Net addition to shareholders' funds | 215,011 | 822,826 |
| Opening shareholders' funds | 19,638,247 | 18,815,421 |
| Closing shareholders' funds | 19,853,258 | 19,638,247 |

## 17 TRANSACTIONS WITH DIRECTORS

B. J. Rankin received £13,650 in respect of consultancy fees in the year in addition to his emoluments as a director.
I. D. Lowe is the controlling shareholder of Leafrealm Limited which received £69,764 interest in respect of its holding of Floating Rate Unsecured Loan Stock 2003/2005.

# Notes *(continued)*

*30 June 2004*

18 EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on the reported profit of £434,662 (2003 – £507,967) and on the weighted average number of ordinary shares in issue in the year, as detailed below. The weighted average number of shares has been adjusted for the deemed exercise of share options outstanding.

| | 2004 | 2003 |
|---|---|---|
| Weighted average of ordinary shares in issue during year – undiluted | 11,496,244 | 11,510,267 |
| Weighted average of ordinary shares in issue during year – fully diluted | 11,966,244 | 11,980,267 |

19 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 which is at a fixed rate.

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

| | 2004 | 2003 |
|---|---|---|
| | £ | £ |
| Fixed Rate | 275,000 | 300,000 |
| Floating Rate | 4,221,170 | 3,179,983 |
| | 4,496,170 | 3,479,983 |

The weighted average interest rate of the fixed rate borrowings was 12.302% pa fixed for a weighted average of 1.67 years.

The weighted average interest rate of the floating rate borrowings was 5.52% pa fixed for a weighted average of 0.87 years.

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

| | 2004 | 2003 |
|---|---|---|
| | £ | £ |
| Floating Rate | 6,312,760 | 5,233,142 |
| | 6,312,760 | 5,233,142 |

# Notes *(continued)*

*30 June 2004*

19 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:

| | 2004 | 2003 |
|---|---|---|
| | £ | £ |
| In one year or less, or on demand | 2,243,670 | 1,177,483 |
| Between one and two years | 1,050,000 | 1,050,000 |
| Between two and five years | 1,202,500 | 1,252,500 |
| | 4,496,170 | 3,479,983 |

A comparison of book values and fair values of the Group's financial assets and liabilities at 30 June 2004 is as follows:

| | Book Value | Fair value |
|---|---|---|
| | £ | £ |
| Fixed rate borrowings | 275,000 | 311,997 |
| Floating rate borrowings | 4,221,170 | 4,221,170 |
| Cash and short-term deposits | 6,312,760 | 6,312,760 |

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 2004 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 Monday 17 January 2005 at 10.00 am for the following purposes:

1. To receive the Report of the Directors and the Financial Statements for the year ended 30 June 2004 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 allotment otherwise than pursuant to sub-paragraph (b) 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 2004; and

   *(b)* 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 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:

# Notice of Meeting (continued)

(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 570,646 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 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

By Order of the Board
M. J. BAYNHAM
Secretary

21 December 2004

*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 14 January 2005 and also for 15 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.



**Pillans & Waddies,** Edinburgh 77646