CALEDONIAN TRUST PLC

Directors' Report and Financial Statements 30 June 2005

Registered number: 1040126

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Company Information

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Bankers	Bank of Scotland Head Office PO Box 5 The Mound Edinburgh EH1 1YZ
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Registered No.	1040126

Chairman's Statement

for the year ended 30 June 2005

Introduction
The Group made a profit of £412,150 in the year to 30 June 2005 compared to £434,662 last year. Earnings per share were 3.51p and NAV per share rose by 31.9p from 173.9p last year to 205.8p.

The dilapidations claim at St Margaret's House against the Scottish Ministers was settled on a favourable basis for £2,100,000 on 8 February 2005, agreement having been reached a few days before the proof. The Ministers agreed to meet the expenses of the action, which are being determined by the Auditor of Court. Income from rent and service charges was £707,009 a small rise from the £614,735 recorded last year. There were no trading property sales this year whereas last year there were trading profits of £408,943. The profit from investment property sales was £501,420 compared to £584,291 last year. The group gained £85,522 from the sale of its holding in UA Group PLC. Administrative expenses fell by £278,515 to £850,743 due primarily to lower property costs and professional fees at St Margaret's. Net interest payable was £12,638 down from £56,273 last year and our cash balance at 30 June 2005 was £4,761,664. The weighted average base rate was 4.72%, almost one percentage point higher than the 3.83% for the year to June 2004.

On 30 June 2005 the Group's portfolio comprised by value 39.2% office investment property (of which 71.6% is open plan) 32.2% retail property, 7.6% industrial property and 21% development property.

Review of Activities
The Group's property activities reflect our current strategies of purchasing assets with medium-term development prospects and of making niche and opportunistic investments. Investment assets will probably be sold when they "mature".

The only significant change to our Edinburgh New Town investment portfolio has been the sale of two flats created out of unusable office space on the top three floors of 61 North Castle Street for £295,000 and £330,000. The leases on two properties in Young Street determine in August 2006. One is currently unoccupied and a dilapidations claim is being negotiated. On determination we expect to re-let the properties at or above current rentals.

Our largest investment property in Edinburgh, St Margaret's House, was let to the Scottish Ministers until November 2002. We served a writ in the Commercial Court for damages in January 2003 and after protracted and complex procedures the Ministers made an acceptable offer a few days before the proof set down for 18 January 2005. The settlement of the litigation has opened up wider opportunities. Discussions with the City of Edinburgh Council over the years have indicated that Council officials insist that any redevelopment of St Margaret's be part of a wider master plan. Such a plan would necessarily involve Meadowbank House, the 125,000ft^2 1970s' office block owned and occupied by the Registers of Scotland, with which St Margaret's shares the island site between the A1 and the main railway line and the existing access off "Smokey Brae". Consequently, we are having continuing discussions with the Registers to optimise our mutual interests. However, Registers, who like all Scottish Agencies and Departments are subject to a policy of dispersal away from Edinburgh, are currently in "Phase II" of their discussions with the Scottish Ministers on the future location of the functions currently carried out at Meadowbank House. A decision was previously expected in late 2005 but it is not now expected before 2006. A comprehensive redevelopment incorporating any requirement of the Registers for a new modern office in Edinburgh would be attractive. We are currently examining redevelopment schemes specific to St Margaret's and have commissioned a roads study which shows that an independent access directly off the A1 appears technically feasible. Such an access is compatible with previous proposals to form a "piazza" and to complete the "streetscape". The carrying cost of St Margaret's has been minimized and we are seeking to offset this cost by letting the car park and by obtaining outdoor advertising.

The lease on our investment property near Waterloo, London, at Baylis Road/Murphy Street has been extended for two years subject to mutual breaks. As both the office and the residential markets continue to be weak, but appear likely to improve considerably in the medium term, no further plans for refurbishment or redevelopment have been made. We receive unsolicited enquiries regularly for the property.

Chairman's Statement (continued)

Planning and redesign work continues for our proposed development of 192 flats and 10,000ft^2 commercial space at 100 West Street, Tradeston, Glasgow. Due to changed planning requirements the virtually completed original plans had to be revised to bring the building into line with the newly completed adjacent development by Barratt of 370 flats, now nearing completion and virtually sold out. 100 West Street is currently let to Eastern/Western, a Saab franchise, and the review in 2006 should increase the annual rent to at least £202,000.

During the year the Group made five property sales. In addition to the two converted Castle Street flats referred to above the Group sold two flats at Powderhall Rigg, giving a 15% margin, and in July 2004 we sold St Clements Wells, a 200 acre East Lothian farm, purchased in January 2004, for almost £5,000 per acre, 47% above cost. The Old Pier public house in Portobello, east Edinburgh, was sold for £300,000 or £100,000 above book value.

Several purchases have been made and several more are being negotiated. In January 2005 we bought a small parade of shops with one vacancy in Scotland Street, Tradeston, an area likely to benefit from the extension of the M74. The vacancy has been filled and the parade now yields 8%. In July 2004 we purchased a vacant warehouse for refurbishment and letting also near the line of the proposed M74 in Rutherglen, for £700,000. Work had just started on the refurbishment when an offer, substantially above the purchase price, was made for the property in its present condition and a sale is currently being negotiated. In September 2004 we acquired a small industrial/ retail investment yielding about 9% in an improving residential area in Kirkcaldy, Fife.

Several other properties have been acquired where we expect to obtain or to improve existing planning permission. In central Perthshire, just off the A9 at Bankfoot, we have bought a farm house, a farm steading and adjacent land on which we expect to gain planning consent for 10 to 12 houses. In east Edinburgh, adjacent to the Brunstane Rail Station, we have bought a development package of six cottages for refurbishment, a steading with planning permission which we hope to augment, two further farm buildings and two-and-a-half acres of land, adjacent to other residential property but at present in the Green Belt fringe. At Comrie in west Perthshire we have bought a smallholding containing two modern detached houses, a steading and an acre of land zoned industrial development within the settlement boundary and thirty acres of pastureland adjacent to the settlement, bounded to the north by the A85 main road to Crieff and to the south by the River Earn. We expect to gain permission for up to twelve houses within the curtilage of the existing buildings. The industrial land may be rezoned for housing or rezoned subsequent to obtaining an industrial site elsewhere in the holding.

Eight other rural development properties are under offer. Most of these represent similar opportunities to those recently acquired and are in desirable and accessible areas. We expect these acquisitions to complete before Easter.

The planning process is both tortuous and lengthy. For some of our projects we have now travelled this long and convoluted course and, almost surprisingly, completed it. In Belford Road, Edinburgh, we have undertaken limited site works sufficient to implement the long-standing 22,500ft^2 office consent which otherwise would have lapsed on 12 October 2005. On that day we obtained a new planning consent for 20,000ft^2 of residential development together with parking for 20 cars. Belford Road is less than 500m from Charlotte Square and the West End of Princes Street and has recently become a quiet cul-de-sac. Residential values should average above £350/ft^2, the spectacular views from the upper floors commanding much higher values.

Planning permission has recently been received for 45 large detached houses near Dunbar, which has a station on the main east coast railway line. The dual carriageway section of the A1 from Edinburgh has recently been further extended and our site, just off the A1, is now only four miles beyond the dual carriageway. We expect to receive planning permission for a further 28 houses, including four "affordable" on a second site nearby shortly. The report of an enquiry into a proposed superstore and a budget hotel on the A1 just south of Dunbar is awaited.

We are also expecting planning permission soon for eight detached houses at our site at Wallyford, which borders Musselburgh and is within 400 yards of the east coast mainline station with easy access to the A1 near the City Bypass. Building has recently started on a contiguous area on which 250 houses are to be built, predominantly for private sale.

Chairman's Statement (continued)

Lastly I report a quite different venture. We are participating in a development of 39 small detached and semi-detached houses at Herne Bay in Kent, a seaside Victorian town that is becoming increasingly accessible to the major employment areas to the west. Our partners are an experienced local team and at present the project is on time and on budget.

Over the year we have assessed a very wide range of opportunities, viewed a small proportion of those assessed and bid for some of them with a success rate approaching 50%. Several similar properties are currently under consideration.

Economic Prospects

Over the last few years the world economy has usually been overshadowed by the threat of various catastrophic or apocalyptic events. Fortunately the four horsemen of the Apocalypse appear quartered at a safer distance this year. In 2002 the blood-red horse, ridden by a swordsman, foreshadowed the war in Iraq; in 2004 the black horse, whose rider's scales weigh famine and scarcity, threatened the world's oil supplies; in 2000 the white horse with its crowned rider brought the false testimony of world recession and deflation; and in 2001, with later sightings, the pale horse, the colour of the sickly or recent dead, bearing a horseman wielding a scythe of terror and death materialized unexpectedly. The threats represented by the horsemen are at worst now latent.

There are challenges to the western world but at present they are of a different type and scale. The world economy grew by 5.1% in 2004, the strongest period of growth in 20 years, and the EIU expects 4.3% growth this year and 4% in both 2006 and 2007. The slowdown is due to continued high oil prices and further rises in US official interest rates. Growth at these levels is conditional on no oil shock and on no dramatic unfavourable changes in two critical US economic parameters: private savings and the current account deficit, at present over 6% of GDP.

Brent oil futures indicate that the spot price will remain at about current levels over the next few years, double the 2004 price, but this average indication conceals a very wide spread of forecasts. Estimates derived from options show that there is now a one-in-four chance of the oil price being $10 higher or $10 lower than the average six-month price. In contrast in February 2004, prior to the marked rise in oil prices, the chance of so large a change was less then one in fifty.

High oil prices have had and are predicted to have only a limited effect on economic growth. Even at $60 crude oil is half the real price reached in the 1978-80 oil shock which followed the Iranian revolution, when oil prices trebled after quadrupling in the 1973/74 shock. Oil prices now have less influence on the economy as the world economy uses about a third less oil per unit of output now than in the 1980s and the US uses less than half the oil per unit of output than in the late 1970s. Oxford Economic Forecasting estimates that a $10 increase in oil prices reduces the rate of growth of the UK economy by 0.25 percentage points lagged one year and Goldman Sachs estimates the effect on the world economy as 0.3 percentage points. The Bank of England reports futures prices at around $60, a price Goldman Sachs expects to be maintained for the rest of the decade but other forecasters expect prices below $50. The EIU bases its estimate of 4% growth in world output in 2006 and 2007 on oil prices of around $50.

The twin US "imbalances" in savings and balance of payments are potentially a greater threat to the world economy than oil price rises. US consumers were already net dissavers before the recent oil price rises which are likely to have increased such dissaving. The US federal budget was already in deficit before the costs of rectifying the hurricane damage increased federal expenditure and the fall in corporate profits caused by higher oil costs reduced federal income. The US net national savings rate, which has been at a record low of 1.5% of GDP since early 2002, could drop to nil or even become negative over the next year. Fortunately surplus savings, primarily from Japan, Germany and China, have been used to buy US $ assets, but several factors might upset the symmetry of US dissaving being matched by non-US savings. Economic recoveries in Japan and Germany seem likely to reduce their savings and China – the third largest world saver – has indicated that it intends to stimulate domestic demand, reducing its savings. If, as seems likely, the US deficit continues to increase but the supply of overseas saving falls, then the US would be exposed to a run on the $ almost certainly resulting in higher interest rates. Such a marked adjustment could result from one or more of several triggers: a marked exacerbation of

Chairman's Statement (continued)

existing trends outlined above; a further severe energy shock; a bursting of the US housing boom; or a concatenation of political and economic events associated with political confidence, the Iraq war and a sudden change in economic circumstances. Morgan Stanley comment "the history of economic crises is clear: the longer the delay any economy holds off in facing its imbalances, the greater the possibility of a hard landing ..." and conclude" there is now about a 40% probability of a hard landing in the next 12 months."

Similar arguments have been advanced for at least two years. Last year Alan Greenspan said: "given the size of the US current account deficit, a diminished appetite for adding to dollar balances (ie foreign holding of dollars) must occur at some point". At that time the exchange rate was about \$1.86/£ and \$1.30/€ and several commentators expected further \$ depreciation to \$2.00/£ and a much larger depreciation to \$1.50/€ against the Euro. Perversely the \$ has strengthened to \$1.721/£ and \$1.179/€ , almost at two year \$ highs.

Until recently the \$'s strength resulted from foreign central banks buying Treasury Bonds. However in the third quarter of 2005 foreign private investors bought Bonds valued at \$360bn compared with \$42bn of net buying from central banks, possibly partly because both US short and long-term rates are now higher than other reserve currencies. Thus \$ devaluation is delayed, albeit now increasingly supported by shorter-term investors. However "over valuations" can persist for a long time – several years in the dot.com equity boom, as in all other bubbles, and according to some commentators in the Sterling exchange rate for the past ten years. However, as an FT leader says "a long-term requirement does not make a short-term bet. The current account dynamic may not bite for several years yet".

Alan Greenspan suggests that the US housing boom will slow and "equity extraction will cease" giving rise to a significant rise in savings, reducing imports and improving the current account. Alternatively or additionally Samuel Brittan suggests that once "the rise in asset prices is well and truly over" US interest rates will stabilise or fall and "nudge the dollar in the correct direction without heroics or unlikely international concordats". There appears a reasonable chance that a sudden dramatic realignment of the \$ will not take place, or if it does, it could be long delayed.

The UK economy has enjoyed a long period of sustained growth since the first quarter of 1993, when the economy was emerging from the last recession. However in Q2 of 2005 GDP expanded by only 1.5%, the slowest rate of expansion since 1993, but private sector growth was only 1.3%. The slowdown in private sector output growth since early 2004 has been more pronounced than that of the economy as a whole and the recent fall in GDP growth is due primarily to a reduction in household consumption growth which, having grown markedly faster than GDP for much of the last eight years, has dropped back to the same level of growth as GDP growth, only 0.4% in Q2 2005, the weakest growth in consumption since 1995. Thus the consumer boom which had provided the principal stimulus to growth for over ten years is waning as employment growth slows and rising oil and utility prices and higher interest costs reduce disposable income.

The spending slowdown has occurred without a rise in savings which remains around 4% even below the low levels in the late 1980s. The EIU expects savings to rise accompanied by a rise in direct taxes restricting growth in private consumption and contributing to GDP growth of only 1.5% in 2006. Other private forecasts are less pessimistic. The average forecast for 2006 of economists polled by The Economist was 2.1% and Deloitte forecast 2.0% rising to 2.5% in 2007. In contrast the MPC estimates that it is 50% likely that growth will be between 2% and 3.5% until 2009 and the Chancellor's pre-Budget Report forecasts 2.25% in 2006 rising to 3% in 2007 and 2008.

Changes in consumption growth related to changes in saving will influence overall growth. Deloitte has demonstrated that savings and house price inflation are inversely correlated. Savings dropped to around 4% in both the house price booms of the late 1980s and the early 2000s when house prices rose 20% per annum. Last year, when house price rises were still above 15% some commentators, notably Capital Economics and HSBC, argued that a house price bubble existed which, when pricked, would lead to sharp falls in house values, greatly increased saving and reduced consumption. Fortunately this extreme outcome has not been realised, at least so far, although the OECD calculates that British property is 35% overvalued.

The FT House Price Index MA uses data from the Land Registry, the ODPM and the Halifax and Nationwide to compute a house price index for England and Wales, seasonally and mix adjusted. This index shows that annual

Chairman's Statement (continued)

house inflation was 2.5% in October 2005, the lowest level after a steady decline from 12.4% in January 2005. Monthly price inflation, which was "negative" in April 2005 and May 2005, has been nil or slightly positive since then. The B of E reports "that there are signs of modest recovery in the housing market ... and an average of lenders' monthly data suggests ... that the pace of house price inflation may have ticked up recently". Deloitte's figures for the inverse correlation between house savings and house prices indicate that a 5% annual house price inflation is in line with a rise in the saving ratio from the current 4% to a "more normal" 6% or 7%, an increase consistent with a recent survey showing that the balance of households expecting to save more in the year ahead had risen to 15% from the nil or "minus" figure in 1999-2003. A fortunate equilibrium seems to exist between slightly rising house prices, moderately increased saving and marginal reductions in consumption growth. The EIU, factoring in weakening consumption, estimates growth of 1.5% in 2006. If house prices fall and savings rise further, growth will be significantly lower. Fortunately current indications are that house prices will have a "soft landing".

There are two separate but inter-related possible constraints to economic growth – tax and productivity. Tax brackets have not been adjusted in line with incomes and the number of taxpayers in higher tax brackets has increased, resulting in a 10% rise in income taxes in the year to April 2005. This tax increase, "fiscal drag", together with higher interest rates has reduced growth in real disposable income to a six-year low.

Unfortunately taxes seem likely to rise by stealth or otherwise, further restraining consumption. The March Budget estimate of Public Sector Net Borrowing (PSNB) of £32bn was predicated on growth of 3% to 3.5% in 2005/6 and according to the Treasury each percentage point reduction in GDP growth increases borrowing by about £7bn. The Pre Budget Report (PBR) estimates growth at only 1.75% and net debt is now forecast to be 36.5% of GDP compared to 35.5% at the Budget. The PBR forecasts growth to rise to 2¼% in 2006 and to 3% in both 2007 and 2008 but net debt is set to move closer to the 40% of GDP level set by the Chancellor's second golden rule. The rise in growth to 3%, above the trend 2.25%, is predicated on estimates of productivity showing an output gap, between actual and potential output, of 1.5% next year. Unfortunately most other forecasters are less optimistic about productivity and the NIESR estimates that the output gap will be 0.2% and the OECD 0.7%. A lower output gap reduces the possible level of non-inflationary growth. For example, Deloitte state that, if their estimates of GDP growth over the next few years are correct, PSNB will be about £10bn higher in each year and conclude "taxes will have to rise sooner or later". The Institute for Fiscal Studies, summed up the current position succinctly:

> "[The Chancellor's] overspent – an almost £20bn surplus is now a deficit of £30bn. He's got his economic forecasts wrong, so there is less money coming in to cover his spending .... and he's [only] managed to keep his own borrowing rules by ingenious accounting ..."

"Imprudent" economic and political policies will not only result in higher taxes but will also prejudice growth as a result of a misallocation of resources. A huge stimulus, resembling an old fashioned Keynesian boom, is being given to an already growing economy, but directed to the public services. In recent years the UK public sector rose 4.5 percentage points of GDP faster than in any other developed country and UK Public Sector employment has risen 13.2%, over twice as fast as the private sector. Unsurprisingly this investment has yielded very low returns. In Healthcare public expenditure in real terms rose 60% between 1997 and 2004 but output rose only 30%; and in Education real expenditure rose 42% but output rose only 10%. Thus Public Sector productivity has continued to fall. The Sunday Times concludes: "the outcome [of the investment boost] was entirely predictable: we discovered long ago that large public sector organisations are incapable of efficient delivery ...."

The favourable economic circumstance inherited by Labour together with its enlightened delegation of monetary policy has permitted a long period of uninterrupted growth in the UK economy. Growth is now at a lower level and will continue below historic trends. Productivity growth which had reached a peak of 3% in the five years to 1996 is now only 1.4% and forecast to fall. A significant factor in this deterioration has been the slow growth of output from the public services.

Property Prospects
In the year to September 2005 the CB Richard Ellis All Property Yield Index fell 0.8 percentage points to 5.6% as all components of the index fell. Last year I reported a similar fall, 0.8 percentage points in the All Property Yield

Chairman's Statement (continued)

Index, from 7.2% to 6.4%. The ten year Gilt yield was 4.3% giving a 1.3 percentage points yield gap, smaller than the 1.6 percentage points gap last year and the 2.6 percentage points gap the previous year. The All Property Rental Index rose 2.3%, although it slowed to 0.4% for Q3, due primarily to a fall in Central London Shops and South East Industrials. Over the year Scottish Shops and Retail Warehouses were the second worst or worst performers in their sectors but Scottish Offices' and Industrials' rental growth was average.

Over the last five years the All Property Rental Index has grown by 1.1% per annum, significantly below the rate of inflation. Since the 1990 market peak the Index has risen 19.1% but has fallen 20.2% in real terms. Offices have fallen furthest , 30.7%, but less than last year's 37.8%, with most central London office locations only half their previous peak, inflation adjusted, except for Docklands where rents have grown 2.7% in real terms. Real retail warehouse rentals have risen by a very remarkable 62.4%.

The fall in yield of 0.8 percentage points to 5.6% together with a rise in the rents of 2.3% has again produced excellent total returns. In the twelve months to October 2005 the IPD Index showed total property returns of 17.5% with all the three constituent sectors, Retail, Office and Industrial, providing almost similar returns. Unsurprisingly, given the drop in yields, capital growth has accounted for about 10% of the total return. These returns compare with 19.8% for equities but only 7.3% for gilts. Over the last three, five and ten years total returns from property have exceeded those in all other asset classes. The return for equities over three years, 15.0%, is only a fraction below property, 15.1%, but over five years the total equity return is only 0.2%. Over all the review periods retail returns have been the highest and offices the lowest.

The supply of investment property is relatively inelastic and even a small increase in demand results in large price rises. In 2004 net institutional investment totalled £2.3bn, the highest level since the 1970s. Bank lending for property investment in the first half of 2005 was £30bn compared with £20bn in the first half of 2004, the average LTV for retail property has risen to 82% and the margin charged has fallen! National statistics appear contradictory, as they show lower investment levels in 2005, but these figures exclude the recently-created offshore and other indirect investment vehicles. Knight Frank point to a "weight of money in the market", an increased demand raising investment prices. Unsurprisingly, listed property companies' shares have also performed well showing a 27.4% rise over the last 12 months compared with 13.8% for the All Share Index.

The immediate prospects for investment property appear good, although recent performances are unlikely to be emulated. Recent good performance has created a "momentum" effect, buying on the back of recent good performance or buying with "the herd". This investment policy has recently been the subject of research demonstrating that price series show positive serial correlation in the short-run i.e. if prices rose last period, they will probably rise in the next period. However, in the long run they show negative serial correlation ie a period of time when they have risen by more than average is generally followed by a period of similar length in which prices rise by less than the average. The question is: for property how long is the long run?

Commentators including Cluttons, Colliers CRE and the Estates Gazette predict 2006 and 2007 returns to be generally 7% – 9%, based on moderate rental growth but no further fall in yield. Colliers CRE expects the highest All Property return, 9.5%, and all surveys expect offices to offer the highest returns – with high street shops usually providing the lowest return, 6.4% forecast by Estates Gazette. Only once in the last 29 years have All Property yields remained constant from year to year – at 8% from 1982 to 1984. This precedent was quoted in last year's report and yields changed: they fell, but will they fall further? The momentum effect, the weight of money and the normal uncertainties about asset allocation are likely to support current yields. The key elements for a market turning point are reported to be first, an element of forced selling or irrational buying, second, a story or narrative that convinces investors they are right and, third, signs of unusually high or low valuations. Present valuations may seem too high but property may prove the new "bubble".

Ryden report Scottish Investment Property performed well in the year to September 2005 with retail returns of 19.8%, offices 14.4% and industrials 15.5%, appreciably better than last year. Retail returns were 1.5 percentage points above the UK average but office returns were about 1 percentage point lower.

The Scottish office market has provided improved returns over the last twelve months returning 14.4% compared with 10.7% last year, primarily due to a reduction in prime yields to under 6%. Headline rents in Edinburgh are

Chairman's Statement (continued)

similar to last year – £27per sq ft in the City Centre and £19 in west Edinburgh. The unchanged rental level reflects a relatively steady ratio between supply and take-up. The moving average supply over four six-monthly periods has been 2,400,000ft^2 since March 2004, while the same moving average uptake figures have been about 450,000ft^2. A discernible trend has been the reduction in supply of peripheral space from 1,470,548ft^2 to 879,310ft^2 over the last two years. Ryden report that take-up has been predominantly from indigenous organisations with little significant inward relocation. With the new schemes being built, traditional occupiers such as the Royal Bank of Scotland now occupying their new campus site at Gogar, certain insurance companies releasing space and with the transfer of professional firms from traditional space to modern open plan space virtually complete, it is unlikely that rents will increase significantly unless new occupiers are attracted to the City. Offices are being built or planned in areas peripheral to Edinburgh, such as Bathgate, Livingston, and Fife, and north Midlothian and East Lothian, these latter areas abutting the city boundary, which will compete for occupiers with City locations.

Ryden report that Glasgow is enjoying a period of strong demand having attracted several large occupiers, presumably because of lower costs and a wider and more available labour pool than Edinburgh. Take-up in the year to 30 September 2005 was 1,020,000ft^2, almost double that of the previous twelve months and the highest since 1999. Supply however is almost unaltered at about 2,600,000ft^2. The recent take-up has included landmark buildings such as 200 Broomielaw, Central Exchange, Optima and 6 Atlantic Quay, some of which have been empty for over two years. Rents remain unchanged at £21.50 – £23 but incentives have been curtailed. The recent success of the Broomielaw will be a significant benefit to our development site for 192 flats at Tradeston, 600 yards away on the south bank of the Clyde.

The smallest of the three main Scottish Office Markets, Aberdeen, has outshone its larger rivals. Rents have risen to over £20/ft^2 from £19/ft^2 last year and take up of 461,507ft^2 in the year to September 2005 was similar to the period to September 2004, then the highest for over 20 years, but supply remains close to the five year average of about 1,000,000ft^2. Ryden report the ever-escalating price of North Sea crude oil has "fuelled frantic activity" within the office markets. The number of development wells and exploration and appraisal wells has risen rapidly and production is scheduled to start on sixteen new fields in 2005, up from eleven in 2004. Increased activity is likely to support the Aberdeen market for a few years, but UK oil production is now projected to halve by 2020. The current conditions may represent a bull rally in a bear market.

The residential property market continues to offer long-term attractions. Over the year to October 2005 house price inflation in England and Wales slowed to 2.5%, its lowest level since June 1996. In Scotland house prices have risen 17.7% but in the Edinburgh area, although some types or locations show small declines, prices are generally 5% – 8% higher.

The changes in the value of houses over the last year are primarily due to changes in demand. Short-term considerations such as higher unemployment, rising or high interest rates, lower rents and lower future price expectations reduce short term demand, leading to slower rises in prices or to falling prices. The apartment/"flat" market represents an exception. Due to the release of large areas of brownfield city land for residential development the supply of new flats has increased very significantly. This sudden increase in supply, accentuated by the less attractive location of many such current developments, has led to some significant price falls.

The critical difference between most commercial property investments and most residential property lies in the parameters of supply. Supply constraints in commercial property, except for some retail property, have been considerably reduced over the last few years. Planning consents for offices have been eased and in some cases traditional or locational prejudices and preferences have been modified increasing effective supply. The easing of the conditions for consent and the wider acceptability of the non-traditional areas has produced a much flatter supply curve in which supply responds more quickly to demand, and where demand can be satisfied in less specialised areas, usually at reduced rents, thus limiting the rental value of previously established areas. The most notable example of supply loosening is the development of out-of-town offices locations such as Docklands in London or Edinburgh Park in Edinburgh. Similarly out-of-town shopping of all kinds has restricted rental growth in the high street and reduced city centre retail development.

The supply constraints in most sectors of the residential market are different. Supply is usually limited by planning restrictions, by the slow administration of the planning system, by the need for wider consultation, by

Chairman's Statement (continued)

the increasingly vocal and better organised pressure groups supporting environmental and green policies, by Nimbys and by other specific *ad hoc* opposition groups. In spite of some current initiatives the situation is unlikely to change in the foreseeable future and supply restrictions will continue to produce premium prices for most consented land.

The uplift from obtaining consent can be realised through various separate or overlapping routes. Change of use can be obtained by promoting existing land in the local plan process, by buying land likely to be rezoned, by buying land that lies within an area with a variety of uses, or by buying land where planning criteria are about to change. The increase in value of the consent can be greatly enhanced if it is obtained in an area for which demand is growing as, for example, where new communications or transport systems are likely to be established, or where upgrading or improvements are likely to take place. The Group has been researching, bidding for and investing in all such avenues. In some instances up to 80% of the price paid is covered by present value, with 20% invested in an opportunity with an estimated 50% probability of being worth ten times that marginal investment. Even with a low success rate the returns on capital are very attractive. A wide portfolio of such investments held over a reasonable time and managed skillfully should yield very considerable profits.

Future Progress

The Group expects the current year's results to be satisfactory, but there is a wide range of possible outcomes. Rental income is likely to rise marginally and vacancy costs and professional fees related to St Margaret's House are likely to be lower than previously.

The Group has a much larger development portfolio than previously, the full value of which will be delivered over the coming years. We continue to concentrate on the acquisition and creation of more development opportunities but we will become increasingly involved in the realisation of such opportunities when planning consents are obtained, provided market conditions are favourable. The full outcome for the current financial year will be dependent upon any net change in valuation.

The mid-market share price as at 19 December 2005 was 173p, a discount of 15.9% to the NAV of 205.8p. The Board recommends an increase in the final dividend to 1.5p making a total dividend of 2.5p for the year, and we intend to increase the dividend at a rate consistent with profitability and with consideration for other opportunities.

Tax of only £34,702 is provided in the current year. The Group has tax losses and allowances accrued carried forward of £993,042 which we hope to utilise over the next few years.

Conclusion

In spite of high oil prices and of other risks the UK economy should continue to grow next year but at below the trend rate of 2.5%. Investment property seems fully priced as rental growth is likely to be limited and yields are unlikely to fall further. Short-term market conditions for residential property are not attractive in some limited areas but medium to long-term prospects for most types of residential property are excellent. There are highly profitable niche opportunities to create substantial value by effecting planning change.

I. D. LOWE

Chairman

21 December 2005

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 2005.

Review of year

The results for the year before taxation are a profit of £446,852 (2003 – £434,662).

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 £412,150. An interim dividend of 1.0p (2004 – 1.0p) was paid during the year and the directors propose the payment of a final dividend of 1.50p (2004 – 1.25p) per ordinary share.

Share capital

On 21 December 2005, 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	20 December 2005	30 June 2005	30 June 2004
I. D. Lowe	81.7	9,324,582	9,324,582	9,064,582
M. J. Baynham	6.4	730,191	730,191	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	£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 2004	Options exercised during year	Options granted during year	No of shares at 30 June 2005	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 were exercised in full on 8 October 2004.

At 30 June 2005 the Company's share prices was 120.0p. The highest price during the year was 186.0p and the lowest price was 107.5p on 10 September 2004.

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 2005

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 28.

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, of 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 2005 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 2005

Consolidated Profit and Loss Account

for the year ended 30 June 2005

	Note	2005 £	2004 £
INCOME – CONTINUING OPERATIONS			
Rents and service charges		707,009	614,735
Trading property sales		—	1,541,833
Other trading sales		278,406	375,866
		985,415	2,532,434
OPERATING COSTS			
Cost of trading property sales		—	(1,132,890)
Cost of other sales		(262,124)	(363,642)
Administrative expenses	2	(850,743)	(1,129,258)
		(1,112,867)	(2,625,790)
OPERATING LOSS		(127,452)	(93,356)
Profit on disposal of investment property		501,420	584,291
Profit on sale of investments		85,522	—
Interest receivable		279,854	229,731
Interest payable	3	(292,492)	(286,004)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		446,852	434,662
Taxation	6	(34,702)	—
PROFIT FOR THE FINANCIAL YEAR		412,150	434,662
DIVIDENDS	7	(297,073)	(263,434)
RETAINED PROFIT FOR THE FINANCIAL YEAR		115,077	171,228
Earnings per ordinary share	18	3.51p	3.78p
Diluted earnings per ordinary share	18	3.51p	3.63p
PROFIT FOR THE FINANCIAL YEAR IS RETAINED AS FOLLOWS:			
In holding company		322,797	367,287
In subsidiaries		(207,720)	(196,059)
		115,077	171,228

Statement of Total Recognised Gains and Losses

for the year ended 30 June 2005

	2005	2004
	£	£
Profit for the financial year	412,150	434,662
Unrealised surplus on revaluation of properties	4,178,082	160,649
Total gains recognised since the last annual report	4,590,232	595,311

Note of Historical Cost Profits and Losses

for the year ended 30 June 2005

	2005	2004
	£	£
Reported profit on ordinary activities before taxation	446,852	434,662
Realised (deficit)/surplus on previously revalued property	(92,605)	128,298
Historical cost profit on ordinary activities before taxation	354,247	562,960
Taxation on profit for year	(34,702)	—
Historical cost profit for the year after taxation	319,545	562,960
Historical cost profit for the year retained after taxation	22,472	299,526

Consolidated Balance Sheet

at 30 June 2005

	Note	2005 £	2005 £	2004 £	2004 £
FIXED ASSETS					
Tangible assets:					
Investment properties	8		23,142,302		19,301,974
Other assets	9		4,056		4,190
			23,146,358		19,306,164
Investments	10		20		90,898
			23,146,378		19,397,062
CURRENT ASSETS					
Debtors	11	1,018,560		122,031	
Cash at bank and in hand	12	4,761,664		6,312,760	
		5,780,224		6,434,791	
CREDITORS: Amounts falling due within one year	13	3,761,616		(3,726,095)	
NET CURRENT ASSETS			2,018,608		2,708,696
TOTAL ASSETS LESS CURRENT LIABILITIES			25,164,986		22,105,758
CREDITORS: Amounts falling due after more than one year	13		(710,319)		(2,252,500)
NET ASSETS			24,454,667		19,853,258
CAPITAL AND RESERVES					
Called up share capital	14		2,376,584		2,282,584
Share premium account	15		2,745,003		2,530,753
Capital redemption reserve	15		175,315		175,315
Revaluation reserve	15		4,646,908		376,221
Profit and loss account	15		14,510,857		14,488,385
SHAREHOLDERS' FUNDS – EQUITY			24,454,667		19,853,258

These financial statements were approved by the Board of Directors on 21 December 2005 and were signed on its behalf by:

I. D. LOWE

Director

Company Balance Sheet

at 30 June 2005

	Note	2005 £	2005 £	2004 £	2004 £
FIXED ASSETS					
Tangible assets:					
Investment properties	8		4,782,030		5,646,605
Equipment and vehicles	9		536		670
			4,782,566		5,647,275
Investments	10		13,126,665		13,217,543
			17,909,231		18,864,818
CURRENT ASSETS					
Debtors	11	12,762,714		9,852,553	
Cash at bank and in hand	12	4,721,280		6,238,439	
		17,483,994		16,090,992	
CREDITORS: Amounts falling due within one year	13	(14,423,920)		(12,850,052)	
NET CURRENT ASSETS			3,060,074		3,240,940
TOTAL ASSETS LESS CURRENT LIABILITIES			20,969,305		22,105,758
CREDITORS: Amounts falling due after more than one year	13		—		(2,252,500)
NET ASSETS			20,969,305		19,853,258
CAPITAL AND RESERVES					
Called up share capital	14		2,376,584		2,282,584
Share premium account	15		2,745,003		2,530,753
Capital redemption reserve	15		175,315		175,315
Revaluation reserves					
Property	15		1,796,256		1,274,256
Investments	15		3,274,428		3,274,428
Profit and loss account	15		10,601,719		10,315,922
SHAREHOLDERS' FUNDS – EQUITY			20,969,305		19,853,258

These financial statements were approved by the Board of Directors on 21 December 2005 and were signed on its behalf by:

I. D. LOWE
Director

Consolidated Cash Flow Statement

for the year ended 30 June 2005

	Note	2005 £	2004 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	(a)	(1,959,437)	71,312
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(b)	(35,889)	(18,323)
CORPORATION TAX		—	—
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(b)	1,015,574	368,875
EQUITY DIVIDENDS PAID		(267,240)	(241,636)
CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		(1,246,992)	180,228
FINANCING	(b)	(294,104)	909,321
INCREASE/(DECREASE) IN CASH IN PERIOD		(1,541,096)	1,089,549
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS	(c)	£	£
INCREASE/(DECREASE) IN CASH IN PERIOD		(1,541,096)	1,089,549
Cash (outflow)/inflow from decrease in debt		602,354	(1,026,187)
MOVEMENT IN NET FUNDS IN THE PERIOD		(938,742)	63,362
NET FUNDS AT THE START OF THE PERIOD		1,816,590	1,753,228
NET FUNDS AT THE END OF THE PERIOD		877,848	1,816,590

Notes to the Cash Flow Statement

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

	2005	2004
	£	£
Operating (loss)	(127,452)	(93,356)
Profit on disposal of trading property	—	(408,943)
Depreciation charges	134	4,385
(Increase)/decrease in debtors	(896,527)	184,617
(Decrease)/increase in creditors	(935,592)	384,609
Net cash inflow from operating activities	(1,959,437)	71,312

(b) ANALYSIS OF CASH FLOWS

	2005	2005	2004	2004
	£	£	£	£
RETURNS ON INVESTMENT AND SERVICING OF FINANCE				
Interest received	279,854		229,731	
Interest paid	(315,743)		(248,054)	
		(35,889)		(18,323)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
Purchase of tangible fixed assets	(3,446,816)		(3,081,201)	
Sale of investment property	2,236,414		3,540,954	
Contribution to dilapidations received	2,049,576		–	
Purchase of investments	—		(90,878)	
Sale of investments	176,400		—	
		1,015,574		368,875
FINANCING				
Purchase of ordinary share capital	—		(116,866)	
Issue of ordinary share capital	308,250		—	
Debt due within a year				
Increase/(Decrease) in short-term	939,827		1,076,187	
Debt due beyond a year				
(Decrease) in long-term borrowings	(1,542,181)		(50,000)	
		(294,104)		909,321

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	6,312,760	(1,551,096)	—	4,761,664
Overdrafts	(89,729)	10,000	—	(79,729)
		(1,541,096)		
Debt due after one year	(2,252,500)	1,542,181	—	(710,319)
Debt due within one year	(2,153,941)	(939,827)	—	(3,093,768)
		602,354	—	
TOTAL	1,816,590	(938,742)	—	877,848

Notes *(forming part of the financial statements)*

30 June 2005

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

(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 2005.

(c) Income

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

(d) 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.

(e) Investments

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

(f) 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%

(g) 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.

(h) Post retirement benefits

The group makes payments to defined contribution pension schemes on behalf of certain employees. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

Notes *(continued)*

30 June 2005

2 ADMINISTRATIVE EXPENSES	2005	2004
	£	£
Directors' emoluments (see note 4)	277,831	297,453
Management expenses	549,350	804,870
Auditors' remuneration		
—audit – company	10,528	10,000
—audit – subsidiaries	9,900	8,750
—non audit	3,000	3,800
Depreciation	134	4,385
	850,743	1,129,258

3 INTEREST PAYABLE	2005	2004
	£	£
Bank loans and overdrafts	214,486	216,240
Loan stock repayable within five years	78,007	69,764
	292,493	286,004

4 REMUNERATION OF DIRECTORS	2005	2004
	£	£
Directors' emoluments	230,331	229,252
Company contributions to money purchase pension schemes	47,500	68,201

The aggregate of emoluments of the highest paid director was £114,311 (2004 – £114,282), and Company pension contributions of £27,500 (2004 – £27,500) were made to a money purchase scheme on his behalf.

	Number of directors	
	2005	2004
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:

	2005	2004
	Number	Number
Management	4	4
Administration	2	2
Other	14	15
	20	21

The aggregate payroll costs of these persons were as follows:

	2005	2004
	£	£
Wages and salaries	389,068	365,587
Social security costs	63,050	38,277
Other pension costs	50,420	71,121
	502,538	474,985

Notes *(continued)*

30 June 2005

6 TAXATION

	2005	2004
	£	£
Analysis of change in period:		
UK corporation tax		
Current tax on income for the period	34,702	—
Overprovision in respect of previous year	—	—
Tax on profit on ordinary activities	34,702	—

The current tax charge for the period is lower (2004 – lower) than the standard rate of corporation tax in the UK (30%, 2004 – 30%). The differences are explained below:

Current tax reconciliation

	2005	2004
	£	£
Profit on ordinary activities before tax	446,852	434,662
Current tax at 30%	134,056	130,399
Effects of:		
Expenses not deductible for tax purposes	4,427	—
Capital allowances for period in excess of depreciation	(29,232)	(38,676)
Capital gains tax indexation	(34,490)	(5,880)
Utilisation of tax losses	(11,111)	(85,843)
Prior year revaluations	(27,782)	—
	(98,188)	(130,399)
Marginal relief	(1,166)	—
Total current tax charge (see above)	34,702	—

Taxation losses amounting to £933,042 (2004 – £977,558) are available to relieve future taxable profits of the Group.

A deferred tax asset has not been recognised due to uncertainty over future recoverability.

7 DIVIDENDS

	2005	2004
	£	£
Interim dividend for year 1.0p (2004 – 1.0p) per share	118,829	115,023
Final dividend for year 1.50p (2004 – 1.25p) per share	178,244	148,411
	297,073	263,434

Notes *(continued)*

30 June 2005

8 INVESTMENT PROPERTIES

	Freehold Group	Freehold Company
	£	£
Investment properties:		
Valuation at 1 July 2004	15,222,299	5,468,449
Revaluation in year	3,817,803	485,000
Acquired in year	2,463,774	—
Contribution to dilapidations received	(2,049,576)	—
Sold in year	(1,171,419)	(1,171,419)
Valuation at 30 June 2005	18,282,881	4,782,030
Properties held for development:		
Valuation at 1 July 2004	4,079,675	178,156
Revaluation in year	360,279	—
Sold in year	(563,574)	(178,156)
Purchased in year	929,980	—
Additions in year	53,061	—
Valuation at 30 June 2005	4,859,421	—
Net book amount at 30 June 2005	23,142,302	4,782,030
Net book amount at 1 July 2004	19,301,974	5,646,605

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 2005	Group 2004	Company 2005	Company 2004
	£	£	£	£
Investment properties	19,555,865	17,936,631	2,523,056	3,909,631

The cumulative amount of interest capitalised in respect of the Group's investment properties is £869,467 (2004 – £989,121). The cumulative amount of such interest capitalised for the Company is £343,063 (2004 – £462,717).

9 OTHER ASSETS

	Motor vehicles	Office equipment	Total
GROUP	£	£	£
Cost at 1 July 2004 and 30 June 2005	12,750	195,076	207,826
Depreciation at 1 July 2004	12,750	190,886	203,636
Charged in year	—	134	134
Depreciation at 30 June 2005	12,750	191,020	203,770
Net book amount at 30 June 2005	—	4,056	4,056
Net book amount at 1 July 2004	—	4,190	4,190
COMPANY			
Cost at 1 July 2004 and 30 June 2005	12,750	43,836	56,586
Depreciation at 1 July 2004	12,750	43,166	55,916
Charged in year	—	134	134
Depreciation at 30 June 2005	12,750	43,300	56,050
Net book amount at 30 June 2005	—	536	536
Net book amount at 1 July 2004	—	670	670

Notes *(continued)*

30 June 2005

10 INVESTMENTS

	Shares in subsidiary undertakings	Listed investments	Other unlisted investments	Total
GROUP	£	£	£	£
Cost at 1 July 2004	—	90,878	20	90,898
Sold in year	—	(90,878)	—	(90,878)
At 30 June 2005	—	—	20	20
COMPANY				
Cost at 1 July 2004	4,932,978	90,878	—	5,023,856
Sold in year	—	(90,878)	—	(90,878)
At 30 June 2005	4,932,978	—	—	4,932,978
Revaluation surplus at 1 July 2004	8,193,687	—	—	8,193,687
At 30 June 2005	8,193,687	—	—	8,193,687
Net book amount at 30 June 2005	13,126,665	—	—	13,126,665
Net book amount at 1 July 2004	13,126,665	90,878	—	13,217,543

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 principal subsidiary undertakings of the Company 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	
	2005	2004	2005	2004
	£	£	£	£
Amounts falling due within one year				
Amounts owed by subsidiary undertakings	—	—	12,762,379	9,818,989
Other debtors	723,593	24,104	—	18,994
Prepayments and accrued income	294,967	97,927	335	14,570
	1,018,560	122,031	12,762,714	9,852,553

Notes *(continued)*

30 June 2005

12 CASH AT BANK AND IN HAND

Group bank balances totalling £51,065 (2004 – £79,861) 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	
	2005	2004	2005	2004
	£	£	£	£
Bank loans and overdrafts	2,173,497	2,243,670	1,173,229	139,729
Amounts owed to subsidiary undertakings	—	—	11,808,702	12,325,800
Floating rate unsecured loan stock	1,000,000	—	1,000,000	—
Final dividend	178,244	148,411	178,244	148,411
Other creditors and accruals	409,875	1,334,014	263,745	236,112
	3,761,616	3,726,095	14,423,920	12,850,052

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

CREDITORS: Amounts falling due after more than one year:

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Bank loans	710,319	1,252,500	—	1,252,500
Floating rate unsecured loan stock	—	1,000,000	—	1,000,000
	710,319	2,252,500	—	2,252,500

Analysis of debt
Debt can be analysed as falling due:

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
In one year or less, or on demand	3,173,497	2,243,670	2,173,229	139,729
Between one and two years	710,319	1,050,000	—	1,050,000
Between two and five years	—	1,202,500	—	1,202,500
	3,883,816	4,496,170	2,173,229	2,392,229

Bank loans of £329,729 are repayable in instalments. Of this £329,729 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 of £250,000 at a fixed rate of 12.302%.

Notes *(continued)*

30 June 2005

14 EQUITY SHARE CAPITAL

	2005 No.	2005 £	2004 No.	2004 £
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	11,412,921	2,282,584
Issued in year	470,000	94,000	—	—
	11,882,921	2,376,584	11,412,921	2,282,584

During the year the company bought in 470,000 ordinary shares at a cost of £308,250 in respect of options exercised by two Directors.

15 RESERVES

	Share premium account £	Revaluation reserve £	Capital redemption reserve £	Profit and loss account £	Total £
GROUP					
Balance at 1 July 2004	2,530,753	376,221	175,315	14,488,385	17,570,674
Net revaluation in year	—	4,178,082	—	—	4,178,082
Transferred to profit and loss on sale of property	—	92,605	—	(92,605)	—
Profit for the financial year	—	—	—	412,150	412,450
Dividend for year	—	—	—	(297,073)	(297,073)
Ordinary shares bought in	214,250	—	—	—	214,250
Balance at 30 June 2005	2,745,003	4,646,908	175,315	14,510,857	22,078,083

	Share premium account £	Revaluation reserves Property £	Revaluation reserves Investments £	Capital redemption reserve £	Profit and loss account £	Total £
COMPANY						
Balance at 1 July 2004	2,530,753	1,274,256	3,274,428	175,315	10,315,922	17,570,674
Net revaluation in year	—	485,000	—	—	—	485,000
Transferred to profit and loss on sale of property	—	37,000	—	—	(37,000)	—
Profit for the financial year	—	—	—	—	619,870	619,870
Dividend for year	—	—	—	—	(297,073)	(297,073)
Ordinary shares bought in	214,250	—	—	—	—	214,250
Balance at 30 June 2005	2,745,003	1,796,256	3,274,428	175,315	10,601,719	18,592,721

Of the balance on profit and loss account £319,182 is not distributable.

16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 £	2004 £
Retained profit for the financial year	115,077	171,228
Revaluation surplus	4,178,082	160,649
Ordinary shares issued	308,250	—
Ordinary shares bought in	—	(116,866)
Net addition to shareholders' funds	4,601,409	215,011
Opening shareholders' funds	19,853,258	19,638,247
Closing shareholders' funds	24,454,667	19,853,258

17 TRANSACTIONS WITH DIRECTORS

B. J. Rankin received £13,950 (2004 – £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 £78,007 (2004 – £69,764) interest in respect of its holding of Floating Rate Unsecured Loan Stock 2003/2006.

Notes *(continued)*

30 June 2005

18 EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on the reported profit of £412,150 (2004 – £434,662) 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.

	2005	2004
Weighted average of ordinary shares in issue during year – undiluted	11,754,154	11,496,244
Weighted average of ordinary shares in issue during year – fully diluted	11,754,154	11,966,244

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:

	2005	2004
	£	£
Fixed Rate	250,000	275,000
Floating Rate	3,633,816	4,221,170
	3,883,816	4,496,170

The weighted average interest rate of the fixed rate borrowings was 12.302% pa fixed for a weighted average of 0.67 years.

The weighted average interest rate of the floating rate borrowings was 6.86% pa fixed for a weighted average of 0.51 years.

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

	2005	2004
	£	£
Floating Rate	4,761,664	6,312,760
	4,761,664	6,312,760

Notes *(continued)*

30 June 2005

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:

	2005	2004
	£	£
In one year or less, or on demand	3,173,497	2,243,670
Between one and two years	710,319	1,050,000
Between two and five years	—	1,202,500
	3,883,816	4,496,170

A comparison of book values and fair values of the Group's financial assets and liabilities at 30 June 2005 is as follows:

	Book Value	Fair value
	£	£
Fixed rate borrowings	250,000	269,541
Floating rate borrowings	3,633,816	3,633,816
Cash and short-term deposits	4,761,664	4,761,664

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 2005 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 20 January 2006 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 2005 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 to Resolution No 4 as an Ordinary Resolution and as to Resolutions Nos 5 and 6 as Special Resolutions:

4. That the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £1,623,416 to such persons at such times and on such terms as they think proper provided that such authority shall expire on the date preceding the date of the fifth anniversary of the passing of this Resolution, save that the Company may before such expiry make any offer or agreement which would require or might require relevant securities to be allotted after such expiry and, accordingly, the Directors may allot relevant securities pursuant to any such offer or agreement as if such authority had not expired.

5. That, subject to and conditional upon the passing of Resolution No 4 above, 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 such Resolution 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 2005; 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.

Notice of Meeting (continued)

6. 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:

   (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 594,146 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 2005

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 19 January 2006 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.

Pillans & Waddies, Edinburgh 308755