Caledonian Trust plc

Directors' Report and Financial Statements 30 June 2007

Registered number: 1040126

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Company Information

Board of Directors	I. D. Lowe (Chairman and Chief Executive) M. J. Baynham L.L.B.(Hons) R. J. Pearson M.A., F.R.I.C.S.
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Registered number	1040126

Chairman's Statement

for the year ended 30 June 2007

Introduction
The Group made a loss of £244,153 in the year to 30 June 2007 compared with a profit of £129,509 last year. The loss for the year comprised a loss of £398,584 for the six months to 31 December 2006 and a profit of £154,431 for the second half of the financial year. The loss per share was 2.05p and the NAV per share was 223.1p compared with 222.5p last year.

Income from rent and service charges was £684,085 compared with £870,745 last year, the reduction being principally due to the loss of the £125,000 annual rent at Baylis Road, London when the lease determined in May 2006. Gains from the sale of investment properties were £15,569 compared with £189,729 but gains from trading property sales rose to £403,069 compared with £105,500. The income earned from our successful participation in the development of 39 houses at Herne Bay, Kent was £197,826. Other operating income of £130,615 included a £108,665 recovery of costs from Enterprise Oil PLC in relation to the refurbishment of St Magnus House, Aberdeen in 2000 together with miscellaneous income from Ardpatrick Estate. Administration expenses of £1,148,378 were £155,386 higher than last year, principally due to increased professional fees.

Net interest payable, £508,093, increased by £464,587 compared with last year due to significantly higher average bank borrowings and slightly higher interest rates. The weighted average base rate for the year was 4.90%, 0.38% points higher than last year.

Review of Activities
The Group's property activities continue to give effect to our primary strategy of purchasing assets with medium-term development prospects and enhancing those assets, principally, by gaining more valuable planning consents. Investment assets will probably be sold when they mature.

The Group's Edinburgh New Town Investment portfolio is undergoing significant change. In Young Street, adjacent to Charlotte Square, the lease on our two properties determined on 28 August 2006. The smaller of the two, 17 Young Street, together with two garages, has been let to the former sub-tenants for ten years, with breaks, at a slightly enhanced rent. The larger property, 19 Young Street, also with two garages, had been unoccupied for some years. We agreed a satisfactory dilapidations settlement and then separated off the garages which we let for £3,000pa each. The vacant office was sold at a price equivalent to nearly £300/ft^2.

Residential values of New Town properties are generally higher than office values. 61 North Castle Street is a particularly elegant Georgian property and we propose to reconvert the vacant ground and first floors to residential use and to incorporate the Edwardian extension at the rear of 61 North Castle Street into the contiguous office space in Hill Street for which planning and listed building consents have been granted.

In South Charlotte Street the first five-year rent review of the 4,500ft^2 restaurant let to La Tasca for 25 years was due in December 2006 and was determined by arbitration at £94,800, a 46% increase.

Our largest property in Edinburgh, St Margaret's House, was let to the Scottish Ministers until November 2002 and was the subject of a long dilapidations litigation in the Commercial Court until an acceptable offer was made in January 2005. Discussions with the City of Edinburgh Council planning officials have indicated that any redevelopment proposals for St. Margaret's would require to be considered in the context of a master plan for the island site which St. Margaret's shares with, *inter alia*, Meadowbank House, the 125,000ft^2 1970s office block owned and occupied by the Registers of Scotland, between the A1 and the main east-coast railway line and ''Smokey Brae''. In consequence we have had discussions for several years with Registers to enhance our mutual interests. Unfortunately Registers, like many Scottish Government Agencies and Departments, are subject to a policy of dispersal away from Edinburgh and they have been engaged in a relocation review process for five years. Stage 1 of the review was delivered to the Ministers in December 2004 and, in line with the review's recommendations, Ministers ruled out the relocation of the whole Meadowbank operation and requested the Registers to undertake a Stage 2 appraisal comparing a phased partial move from Edinburgh with the ''status quo''-ie no move. Registers submitted their Appraisal to the Ministers on 8 July 2005 whose decision was delayed several times until on 21 September 2006, in response to a question in the Chamber, the Minister, George Lyon, replied: ''The Executive will announce the outcome of the Stage 2 of the location review of the Registers of Scotland shortly''. On 24 November 2006, bizarrely, the Executive ''deferred'' a decision.

While the Group's preferred option was to undertake a development in conjunction with, or for the benefit of, Registers, we are now promoting a phased development in which the St Margaret's site provides the first phase. In June 2007 our architects produced an Urban Analysis report and in July 2007 they compiled Development Proposals which have formed the basis of discussions with the City of Edinburgh Council. We have agreed with the Council to produce an overall Development Brief which is expected to be published in the spring and, if acceptable, approved this year.

Chairman's Statement (continued)

In our London property at Baylis Road in the Borough of Lambeth, the tenants, occupying the premises on short-term leases since the early 1990's, vacated them in May 2006. Colliers CRE's London office is advising us on several options for the property. A moderate upgrade before re-letting is the least attractive option. A mixed redevelopment on our existing site of about 30,000ft^2 is very attractive. Residential values in Lambeth have risen by 18.9% in the year to October 2007 and are reported to be now nearly £700/ft^2, but this rise is offset by a fall in office values of about 10% and a rise of 0.5% point in yield. A significantly larger development, incorporating adjoining property for which we have offered, is even more attractive.

In Belford Road, Edinburgh, a quiet cul-de-sac, less than 500m from Charlotte Square and the West End of Princes Street, we have a long-standing office consent for 22,500ft^2 and 14 cars which has been implemented. We also have a separate residential consent for 20,000ft^2 and 20 cars. We are seeking to improve the existing residential consent and to re-design the structure to simplify construction and to increase the usable space. The prospective improvement in the central Edinburgh office market is encouraging.

East of Edinburgh, near Dunbar which has a station on the east coast mainline, we have two sites with planning permission, one for 45 large detached houses and one for a further 28 houses, including four ''affordable''. The dual carriageway from Edinburgh has recently been extended and these sites are now only four miles further east, just off the A1. An ASDA superstore with a petrol station recently opened near the east end of the dual carriageway. At present we are redesigning the layouts to increase the number of houses and undertaking engineering works to drain a portion of our site that could accommodate up to 22 additional houses.

At Tradeston, Glasgow, on the south side of the Clyde opposite the Broomielaw we hold a planning consent for a development of 191 flats, predominantly two and three bedroom, together with associated parking and open space and 10,000ft^2 of commercial space. Tradeston was for a long time a considerably ''run-down'' area, but has recently benefited from some major redevelopments. The pace of redevelopment has recently increased considerably as the proposed extension to the M74, for which enabling works are being undertaken, will pass through the district before joining the existing M8 at the Kingston Bridge. To facilitate the construction of the motorway a swathe of primarily derelict and long-blighted industrial buildings has been demolished. The rent review due in May 2006, which is subject to a minimum RPI uplift, is still being negotiated.

Planning consents have been obtained on two of our development sites in or near Edinburgh, where construction should start next year. In August 2006, five years after our original application, consent has been granted for eight detached houses at Wallyford which borders Musselburgh and is within 400 yards of the east- coast mainline station and has easy access to the A1 near its junction with the City Bypass. On a contiguous site where two national house builders are developing over 250 houses nearly all the houses are complete and sold. In East Edinburgh at Brunstane Farm, adjacent to the rail station, planning and listed building consents were granted on 13 December 2006 to convert the listed steading to provide ten houses of varying sizes totalling 14,000ft^2. The necessary demolition work has been carried out and specialist contractors are being appointed. Adjacent to the steading we own five stone-built, two-storey cottages suitable for refurbishment and possible extension, two ruined farm buildings, one built of stone and likely to gain consent for residential conversion and two-and-a-half acres of scrub land in the Green Belt fringe adjacent to established residential property. The inclusion of this isolated uncultivated area within the Green Belt seems anomalous and we have entered an objection in the current local plan review.

The Group now owns fifteen separate rural development opportunities, nine in Perthshire, three in Fife, two in Argyll and Bute and one in East Dunbartonshire of which a very varied six have been acquired since 30 June 2006. In Fife near Anstruther, eight miles from St Andrews, we acquired an extensive steading with stone buildings set in about four acres with a southern aspect to the sea. Redevelopment of the stone buildings should provide at least fifteen houses with more possible within the ''footprint''. On the Isle of Mull, near the village of Lochdon, we bought a two-acre greenfield site with long-term prospects behind some existing cottages overlooking the sea.

In Strathtay, Perthshire, we bought a 4.6 acre site in March 2006 partly within the settlement boundary of the village with the balance adjoining the village. In May 2007 an elegant house with a very large garden marching with our site was offered for sale which we purchased and immediately sold on the house, retaining 1.7 acres of its garden within the settlement boundary and adjacent to our existing 4.6 acre site.

Two large properties were acquired during the year. Near Kinross, adjacent to the M90, we bought Chance Inn Farm, a 257 arable acre farm with a very extensive steading of c27,500ft^2 standing in three acres and a modern farmhouse. Near Kirkintilloch, only eight miles from the Kingston Bridge in central Glasgow, we have bought the remnants of the Gartshore

Chairman's Statement (continued)

Estate, extending to over 203 acres, including about 77 acres of formally-designed woodland garden with an unusually large walled garden near the former mansionhouse site. There are several ruined properties previously forming part of the walled garden, two occupied cottages and a handsome Victorian stable block of about 15,000ft^2 already partially converted to residential use. After the year end we bought a farmhouse at Carnbo, four miles east of the M90 at Kinross with an one-acre garden within the settlement and a three-acre field just outside it. Many new houses are currently being built in Carnbo.

In 2005 there was a slight relaxation in central planning policy for development in rural areas which was outlined in Scottish Planning Policy 15: Planning for Rural Development. In particular the first sentence of paragraph 23 states: ''opportunities to replace rundown housing and steadings with designs using new materials should also be embraced''. The majority of our rural development opportunities are steadings for conversion in accessible locations set in attractive countryside. Most of these steading developments lie within Perth and Kinross where the Council has issued ''planning guidance'' taking into account SPP15 to supplement the local plan. Three of the steading developments are in Fife where no specific acknowledgement of SPP15 has yet taken place and the preparation of Local Plans is delayed. Consequently detailed development proposals for such steadings have not yet been prepared.

In Perth and Kinross plans are far advanced for four of the five steading developments there. The fifth one, West Camghouran by Loch Rannoch, could accommodate only up to three or four units, and detailed plans will be prepared shortly. At Ardonachie steading, Bankfoot, near Perth, after extensive and detailed discussions with the planning authority, we have submitted an application for twelve houses over about 20,000ft^2. At Tomperran, a smallholding near Comrie, Perthshire, we have just applied for planning permission to develop the steading and an adjoining area within the settlement to provide twelve houses on 19,047ft^2. The smallholding includes two acres zoned for industrial land and about 34 acres adjacent to the settlement which will be promoted for a housing allocation in the now overdue Strathearn Local Plan. At Chance Inn an application has been made for 23 houses including four affordable units in replacement of the extensive buildings previously used for pig fattening: a considerable possible improvement to the amenity of the area! The farm lies within the Loch Leven catchment area and consent will be conditional on meeting the strict control of phosphate emissions. At Myreside farm in the Carse of Gowrie between Perth and Dundee we have applied for planning consent for eight houses of 12,410ft^2 on the site of the existing steading adjacent to the existing attractive listed farmhouse. In addition to the steading developments plans are far advanced for our development site at Balnaguard, near Strathtay, where a planning application has been submitted for nine houses. This application was modified from an original detailed proposal for ten houses whose layout breached the recently established 1:200 year flood rule for the Balnaguard burn running along one side of the site. Further modifications to the layout will almost certainly be required.

The development of our estates at Ardpatrick and Gartshore presents both medium and short-term opportunities. The Ardpatrick estate occupies a peninsula in West Loch Tarbert and comprised a mansionhouse, based on a Georgian house built in 1769, ten estate houses or former houses, a farmhouse and a farm steading and other buildings for potential residential development, and a number of possible new housing sites in locations considered suitable in the Finalised Draft Local Plan. The property extends over 1,000 acres, has over 10km of coastline, commands striking views and includes a grassland farm, an oak forest, a private beach, a named island and coastal salmon fishing and other sporting rights.

Three of the outlying cottages have been repaired, redecorated and brought to a saleable standard. The smallest one was sold in February 2007, the largest one in June 2007 and the remaining cottage, set back from the others, has just been sold. A fourth property in this group, Keeper's Cottage, at present uninhabitable, has gained planning approval for conversion and for a large extension, subject to the provision of an additional and separate access. A fifth cottage, at the northern extremity of the Estate, the former Ardpatrick post office, has been undergoing extensive repairs but should be marketable in the late spring. The South Lodge cottage on the shore drive gained planning consent in June 2007 for an equal-sized extension and a large detached garage.

Ardpatrick House enjoys a beautiful setting looking SE over West Loch Tarbert to the Kintyre peninsula and is built to a splendid classic Georgian design, originally comprising a central three-storey building with two flanking pavilions. The walled garden to the north west and the multi-faceted stone elevations to the NW provide an excellent setting for the stone-built estate houses around the walls of the garden. Fortunately, because of its construction in three separate portions and the existence of three staircases, a natural division is possible without disrupting the principal rooms. A further partition can be easily achieved by introducing another staircase in the Victorian servants' quarters towards the rear of the house, currently a maze of storage and preparation rooms. Ardpatrick will then become four separate houses ranging from 1760ft^2 to 3478ft^2, each with its own front door, one of which will be a reinstated 1769 entrance. Planning and listed building consents for the conversion have been granted and the necessary remedial works have started.

Chairman's Statement (continued)

Around Ardpatrick House we have obtained consents that enhance the existing property and mirror existing buildings, creating a coherent whole. Permission has been obtained to convert and extend the gardener's building into a three bedroom house, to extend the existing coach house into two 3/4 bedroom flats and to create two large new detached houses. The creation of this ''garden village'' is subject to the provision of appropriate roads, water and services, all of which are well below standard. Considerable design work has been done but further work remains. Needless to say progress is hindered by distance and remoteness.

Gartshore Estate presents an unusual opportunity. The estate lies within a designed landscape, containing a very large walled garden, a magnificent stone-built Georgian pigeonnier and the site of the huge former Victorian mansionhouse in a country setting, but with a mainline station nearby and only seven miles from the centre of Glasgow. Detailed planning work has been commissioned to reconcile restoration and maintenance of the landscape with an appropriate use including possibly a ''care village''. Separately, designs for the conversion of the 15,000 ft^2 stable block and restoration of the stone buildings together with appropriate conversions are being undertaken.

In quite a different setting and in a very different part of Britain, Herne Bay, Kent, our joint venture development of 39 modern 2/4 bedroom houses concluded very successfully.

Economic Prospects

A large star burns, explodes into a supernova and collapses into a dense mass of increasing gravitational attraction which becomes so great that not even light travelling at 186,000 miles *per se*cond can escape: a black hole. The financial market presently resembles a black hole into which increasing quantities and categories of credit are disappearing.

The stellar phase, preceding the credit black hole, has been fuelled by several sources and has burned for a long time. Paradoxically, a major fuel source has been the success of the central banks in achieving their primary objective of lower inflation and stable growth. However this new stability created a strong incentive to seek higher returns, higher returns whose higher risk was not fully assessed or was judged to be sterilised by the central banks' control of the inflationary risk

A second potent fuel of the stellar growth of credit has been its artificially low cost. The 1998 credit crisis, caused primarily by the collapse of Long-Term Capital Management, created a precedent for future monetary policy. Although the extent of that crisis turned out to be insignificant by the present standards, some $3bn, mostly borne by the hedge fund investors, the monetary authorities reacted strongly. The Fed, under Alan Greenspan, cut interest rates by 0.25% points in three consecutive months, and the Bank of England cut base rates seven times in the ten subsequent months by a total of 2.5%. Cheap money was also used, and to great effect, in combating the US recession caused by the collapse of the dot-com bubble in 2001 and reinforced by the terrorist attacks of 11 September 2001. Interest rates, which were 6.5% at the beginning of 2001, fell to 1.75% by the year end and fell further to 1% in January 2003, this low rate persisting until June 2004. Negative real interest rates from 2002 to 2005 assisted the US economy to recover to 2.5% growth in 2003. Even after the recovery from the dot-com bubble cheap money continued to be made available. The economies of Japan, China and the Middle East oil producers produced large savings – in the case of oil, surplus ''petro-dollars'' sucked by high prices out of US consumers' hands. The fear that the resulting lower domestic demand might in extreme circumstances lead to deflation caused the monetary authorities to continue a policy of cheap money. The then fear of deflation and the investment preferences of the foreign savers for long bonds over equities gave rise to what Alan Greenspan termed a ''conundrum'', the exceptional low returns on conventional investments. In the UK this conundrum was manifested by nominal long term Gilt returns falling below 4% per annum. Another change in investment thinking caused by the Fed's supportive policy was the emergence of the markets' belief in the ''Greenspan put'', the notion that the central bank would rescue tumbling markets: the penalty for being wrong was reduced thus making higher risk returns more attractive. Lower returns, coupled with a perception of lower risk, increased the demand for higher risk assets. Thus spreads of emerging country bonds over US Treasury Bonds fell, UK spreads for variable mortgages fell and the quality of the covenants acceptable to lenders for any given margin deteriorated significantly. Increased credit reduced the premium for risk.

Credit availability was also increased by the financial innovation undertaken by commercial banks and finance houses. Traditionally banks ''intermediate'' between short-term deposits and longer-term lending. Using ''securitisation'' banks originate the loans and then distribute them, usually retaining fees but not obligations or only residual obligations, allowing banks' capital to be recycled and their balance sheets unencumbered or conditionally so. The assets ''securitised'' include residential mortgages, credit cards, trade and loan receivables, car loans and other financial bonds. The key to securitisation was to provide ''structures'' whose assets were securitised loans paying a significant margin above LIBOR but financed by LIBOR-based bond funds at close to LIBOR. Such structures can be further refined by stratifying the borrowing into separate layers of senior debt, junior debt, mezzanine and equity or creating Specialised Investment Vehicles ''SIVs''. Thus a

Chairman's Statement (continued)

package of low-covenant, high-risk loans, such as personal credit can be converted into several slices of which the senior slice is of the highest investment grade: effectively a financial philosopher's stone that transmutes low grade credit into investment grade loans. Between 1997 and 2004 the value of asset based US commercial paper in these structures rose from $270bn to $650bn, or from 28% of all commercial paper to 51%. Over the same period the Euro commercial paper market rose from $10bn to $100bn, from 71/2% of the market to 20%.

Clever and elaborate financial systems allowed for a burgeoning increase in credit. However, the resulting debt was not primarily in the hands of the originating banks but sold down by them into a myriad of conduits, SIVs and other such ''structures'' sliced and packaged into different degrees of risk, mostly as commercial paper or Collateralised Loan Obligations, ''CLOs'', refinanced on the inter bank markets. In consequence, as risk became attenuated and dispersed away from the original lender, the standard of borrowers' covenants could be relaxed with impunity and higher returns for the originating banks could be obtained by increasing turnover, even at the expense of increased risk. Such financial engineering has further fuelled the credit boom.

A principal source of fuel for the new exploding credit supernova was the US mortgage market, particularly the sub-prime market. US house prices were already rising at 10%, when the Fed started cutting rates in the dot-com crisis of 2001, before rising to 15% in 2005/6. Rising house prices encouraged speculation that prices would keep rising and recently it was reported that 31.5% of house purchases were for ''investment'', including ''flipping'', buying ex-plan and selling before completion, which had become common often using wholly borrowed funds. Housing starts jumped from 1.5m/pa in August 2001 to a peak of 2.3m p.a. in January 2006. Subsequently the Case-Schiller House Price Index has fallen by over 10% and housing starts by 47%. This rapid reverse exposed short-term investors many of whom had, at best, poor credit ratings and who formed an increasing proportion of the market. The deterioration of the quality of credit is simply illustrated: in 2003 only 38% of loans were for 90% or more of value, but by 2006 56% were; in 2003 full documentation was provided by 63% of borrowers but by 2006 only by 53%. Unsurprisingly, recent loans have had the highest delinquency rates caused, according to an analysis presented to the IMF, by ''excessive and inappropriate lending''. The Federal Division of Supervision and Consumer Protection estimates that 14% of the $1.2tr sub-prime mortgages are already in default and a million sub-prime borrowers this year and a further 0.8m next year face higher interest rates, following low ''starter'' rates. Patently the default rate is set to rise further, especially if economic conditions, particularly interest rates or employment levels, deteriorate.

Thus the credit market has enjoyed a stellar expansion which culminated in an exploding supernova before collapsing into the current ''black hole''. The influence of the ''black hole'' is pervasive, operating directly by reducing the supply of credit and by increasing its price: the US asset backed commercial paper market, worth $1,173bn in July 2007, dropped to $850bn in the three months to November 2007; and the three month sterling LIBOR rate, which is normally nearly equivalent to MLR, has been at a premium of about one percentage point since September 2007.

The indirect effects of the black hole on the multiple products of financial innovation, the ''structures, SIVs and conduits'' are even more serious. They are primarily designed to profit arbitrage between the normally low short-term LIBOR rates and the higher margin long-term loans. Now, when credit is available, it is at rates that reduce or reverse the expected arbitrage and the credit ratings of some of these structures and of their components are being downgraded, and asset realisations, usually at a loss, are being undertaken to meet liquidity requirements, a vicious cycle with each downgrade potentially undermining other positions. Many fund managers do not expect the fundamentally flawed SIV model or that of other similar structures to survive.

Total loss estimates vary greatly, as in any one credit sector there are layers of interdependent variables. In the US ''sub-prime'' sector, where foreclosures on 2m or more homes are expected, estimates of mortgage losses vary from $100bn to several hundred billion. The destination and the full effect of such mortgage defaults is unclear as most of these loans have been sold by the originators, usually packaged as Asset Backed Securities (ABS) to investors. The Bank estimates there are $1,300bn of bonds worldwide backed by poorer quality mortgage credit. However, some of these mortgage bonds have been included in diversified packages of loans, CLOs and other structures tainting, them all. As the FT puts it ''the multi-layered nature of these complex financial flows means it is hard to assess how defaults by homeowners will affect the value of related securities'': surely a Delphic understatement! The CLOs affected by this contagion are having their credit rating downgraded and, as there is now virtually no market in CLOs, there is no external market value. Values based on ''models'' are unreliable, as tiny changes have been shown by the Bank of England to reduce the price of mortgage-linked debt by as much as 35%. Valuations can be derived from traded derivative indices such as ABX. US mortgage backed securities of mid-quality debt traded on the index in September at 40% of face value, and BBB debt at 20%. Notwithstanding these external indicators certain US banks are still valuing mid quality debt at 63% to 90% of face value.

Chairman’s Statement (continued)

Good news spreads quickly; bad news leaks out slowly: thus it is now. The current crisis manifested itself on 9 August 2007 with a ‘‘credit shock’’ in the world banking system, in particular, a withdrawal of funding for collateralised mortgage securities. Early estimates of $20- $30bn losses in September 2007 increased to $60 – $70bn by October, to at least $100bn by early November, and by mid-November the Royal Bank of Scotland predicted losses rising to $250 -$500bn. The Hudson Institute now estimates write-offs in America will be $600bn – $800bn. It seems incredible that in 1998 it was considered a crisis when LTCM collapsed leaving total debts of ... just $3bn!

The present crisis is unprecedented both in scale and in type as credit risk results in progressive economic paralysis. The American credit ‘‘hit’’, say $700bn, is patently a very large sum which, due to the securitisation, is spread over many banks and institutions, some of which are under-capitalised. Some institutions seem to be unaware of their financial exposure, as one after another they make announcements of larger and larger ‘‘write-offs’’. Clearly, if their knowledge of their own exposure is conjectural, their understanding of their exposure to many of their trading partners is, at best, peripheral. The risk of lending to or having counter parties to trade has suddenly become dramatically higher – so great, that risk exceeds return and transactions seize up. The credit crisis was transmuted into a liquidity crisis, which in turn increased the risks of further defaults, as classically exemplified by Northern Rock which, although possessing a large surplus of assets over liabilities, was unable to refinance these liabilities. Thus credit risk and liquidity risk have become mutually reinforcing.

Financial turmoil permeates the whole western economy. The investment banks at the centre of the storm have been caught holding deals completed but not sold down, including lower grade loans and assets awaiting repackaging into asset-backed securities, which will have to remain on their books. Additionally, they will be required to take back on to their own balance sheets at least some of the ‘‘conduits’’ set up to structure the SIVs. The Bank estimates that these two requirements total over $1,000bn for which the UK banks would require new funding of about £170bn. Securitisation has allowed the banks’ lending to balloon, or, as the FT puts it, ‘‘real-world lending has been artificially inflated for years’’. The securitised vehicles were outside regulatory control and any risk assessment was done by the ratings agencies, but then only in respect of credit risk, not liquidity, a very real separate risk as Northern Rock demonstrates. The Bank says ‘‘financial markets and institutions appear to be in transition’’ meaning, more bluntly, as one strategist says, ‘‘what’s at stake is the future of securitisation’’ and the current unregulated practices.

The credit shortage has already increased its price. For example the cost of ‘‘AA’’ corporate bonds is 1.58% points higher than US Treasuries, the highest margin ever, compared with a ‘‘normal’’ 0.83% spread and the previous 1.45% peak following the dot-com bubble. In October 2007 25% of banks tightened their standards on consumer loans, and 40% on prime mortgages, a more rapid adjustment than occurred early in the dot-com bust: as the Economist says ‘‘consumer pain will be intensified by a sharp credit crunch, the scale of which is just becoming clear’’. US credit and house prices have an incestuous relationship: credit facilitated price rises, price rises facilitated credit, doubling it in real terms since 1997 to a record 130% of disposable income, 50% higher than in 1997. However, housing starts have been falling and are now 47% off the peak, and house prices have fallen about 10% this year and further large falls are expected. Goldman Sachs report that, if the US avoids a recession, prices will fall by 7% in both 2008 and 2009 but by up to 30% in a recession. The effects on the economy will be deleterious as the house construction sector accounts for 6% GNP and US consumption varies with house prices at a rate of between 4% and 9% of the change, a far closer relationship than in the UK. A quite separate and additional threat to the economy is posed by the recent further increase in oil prices to over $90 which alone is likely to reduce consumption by 1.5% points.

The Fed has reacted to the credit crisis and the threat to economic growth by cutting interest rates three times, or by 1% point to 4.25%. Previously, in the dot-com crash, nominal rates were as low as 1% but at present inflation is rising, primarily due to the increased oil price and to the 6% increase in food prices. Oil and food price increases reflect external markets rather than internal US inflationary forces and they could be considered as ‘‘one-off’’ or, for food, partly seasonal, and thus not inhibit further monetary relaxation. Indeed, as domestic conditions are likely to be deflationary due to the higher price and the lower availability of credit, falling house prices and lower economic activity, monetary policy could be eased further.

Lower interest rates would reduce the $ exchange rate which since its peak in 2002 has declined by 24% on a trade weighted basis, by 41% against the Euro and by 33% against Sterling: and, since the start of the sub-prime crisis, by 9% against the Euro. Devaluation has increased US net exports and a further modest fall will assist in ‘‘rebalancing’’ the US economy. A major fall in rates risks a wholesale rapid diversification out of US dollars, a remote possibility, brought nearer by the sudden collapse of the most sophisticated credit market in the world, the expensive emergency funding for some of its largest banks and the manifest inability of some household banking names to determine the location and extent of their liabilities. The FT puts it succinctly ‘‘the current account deficit complicates the Fed’s efforts to deal aggressively with risks

Chairman's Statement (continued)

to growth because a deficit economy is always potentially vulnerable to a loss of global investor confidence''. At present US employment continues to increase and trade and growth are little affected. However credit is a ''lag'' influence and Lehman Brothers estimate that a US recession in 2008 is 30% likely, but, ominously, Alan Greenspan's estimate is nearer 50%. Predictions should be viewed in a historical content. Of the sixty world wide recessions in the 1990's only two were predicted, according to the IMF, but, disturbingly, the Economist notes the Harvard Economic Club's 1929 assertion: ''there will be no recession''.

The UK's economic prospects are currently aligned more closely with the US than normal. The US produces 25% of world output and it has close trading relationships with the UK which shares the credit default and consequent liquidity problems with the US which are predominantly ''Anglo-sphere'' phenomena, spilling into Euroland but with lesser effects elsewhere. UK economic growth in 2007 is likely to be around 3.0%, above the UK's recent long-term average as the economy expands for a record sixty-one consecutive quarters. The credit crisis has downgraded estimates for UK growth in 2008 and made them subject to much greater variation. The Bank of England's August central forecast, based on unchanged interest rates, was for growth to slow gradually to a low of 2.5% in two years, but in November the Bank expected growth to be below 2.0% by 2008, almost 1% point lower, as a result of a drop from 1% in the third quarter of 2007 to about 0.3% in the first two quarters of 2008. Fortunately, the Bank's central expectation, based on nominal interest rates of 5.75%, is for inflation to be well below 2% in 2009, so facilitating interest rate cuts without endangering the inflation target.

The UK has faced two similar sub-prime crises, the May 1972 – November 1974 secondary banking crisis and the August 1997 – August 1999 LTCM crisis. On both occasions then, as now, base rates peaked as the crisis broke. In 1972 rates were cut three times, but only by 1%, and only from 13% to 12% after a sharp earlier rise from 8%, and GDP fell in both 1974 and 1975. In contrast from August 1997 rates were cut seven times by a total of 2.5% points, more than reversing previous rises and economic growth remained strong, before collapsing shortly afterwards when the dot-com bubble burst. It is arguable that too little intervention was undertaken in the banking crisis, although conditions were overshadowed by the inflationary impact of the 1973 oil shock and by the ''three day week'', and that too much intervention was undertaken in the LTCM crisis given the then expanding bubble of the dot-com boom. The optimal intervention lies between two differing positions. It could be construed that assisting institutions in difficulty by providing finance, by injecting money into illiquid markets and by reducing rates creates ''moral hazard'', as this action rescues those who took high risk positions based on the premise that in extremis the downside risk would be mitigated by policies for the general good. Such an asymmetric risk pattern is comfortably shared by some traders, fund managers and hedge fund dealers: higher risk can bring higher personal rewards but the possible higher losses lie mostly with their institutions' investors. The Governor, confronted with the collapse of Northern Rock PLC, wrote an elegant essay on the evils of moral hazard and fortunately, but not until valuable time had been lost, caved in and pumped money into the market for the general good, albeit too late to repair all the damage his delay occasioned. The MPC is constrained by its remit to target inflation at a low level on a specific narrow definition. Wider, broader objectives favoured by some commentators and considered more likely by them to provide enhanced economic stability and growth are normally excluded from consideration. CPI inflation, like all ''single'' targets – money supply, the gold standard, the balance of payments, the £/$ rate and the shadowing of the D-Mark – is proving necessary but not sufficient. Perhaps the Bank will surprise us all with a ''Nelsonian'' turn: ''You know, Foley, I have only one eye – and I have a right to be blind sometimes . . . I really do not see the signal''.

The Fed's role is not similarly prescribed as it has no fixed inflation target. There influential opinions, including Professor Summers of Harvard University, are advocating strong and direct intervention on policy and at a direct level. On policy he says ''maintaining economic demand must be the over-arching macro-economic priority . . . the Fed must recognise that levels of the Fed Funds rate that were neutral when the financial system was working normally are quite contradictory today .... the fiscal system needs to be on stand-by to provide immediate . . . stimulus through spending or tax benefits . . . if the situation worsens''. In the US there is a strongly based lobby for intervention, a view which circumstances may impose on the UK.

Capital Economics analyse the six components of the sub-prime crisis affecting the UK of which the most important one is the extent of any US economic slowdown. However, given the present performance of the US economy and its resilience and flexibility and the likely fiscal and monetary policy, I expect growth to be curtailed but a recession narrowly avoided and damage to the UK economy to be limited. The credit crisis will inhibit growth in the financial sector, accounting for 9% of the UK's GDP, which will slow down due to a reduction in M&A, leveraged buyouts and financial ''engineering'' but there will be partial offsets elsewhere. Many bonuses may be finessed but fewer jobs seem likely to be lost permanently and in aggregate these should have little impact on consumer spending. Consumer spending is likely to be curtailed by a fall in confidence and by lower asset prices. The image of depositors queuing round the block at Northern Rock, the first run on

Chairman's Statement (continued)

any UK bank since the Bank of Glasgow collapsed in 1878, could be severe notwithstanding the Bank's subsequent 100% guarantee, but a guarantee insufficient to stop depositors from continuing to uplift their deposits. Equity wealth has fallen as the crisis unfolded but until now has been partially compensated by rises in housing wealth, to which consumer expenditure is more sensitive. However, as further falls in house prices are likely and as consumption varies by about 3% of any house price change, interestingly half that obtaining in the US, consumption will fall, by say 0.3% point for every 10% fall in house prices. Higher inter-bank rates and tighter credit conditions are the most immediate effects of the crisis. The three month inter-bank rate is currently trading at about 1% above the repo rate, sufficient if sustained to reduce growth in GDP by about 0.35% per year. Tighter credit conditions will further increase the cost of credit and its availability, as is already evident in the housing market, leading to a further fall in house prices and the consequent effects on consumption.

UK economic growth in 2008 is forecast to be below average but with the decline limited to about to about 1% below historic trends, provided that the US economy does not slip into recession and that an inflationary straightjacket does not inhibit cuts in the repo rate.

Property Prospects

The CBRE All Property Yield Index has continued to fall from 7.1% in late 2003 to 4.8% earlier this year before rising to 5.2% in the autumn. If there had been no other changes in four years, then the underlying property values would have increased by 36.5%. Over those years shops and retail warehouses rose by approximately the average but industrials were below average at 32.2% and offices above average at 46.1%. Earlier this year Gilts yielded 4.9% compared with 4.5% in late 2003 but over the same period the All Property yield had fallen to 4.8% from 7.1%, resulting in the All Property Index yielding 0.1% points lower than Gilts this spring, compared to being 2.6% points higher than Gilts in 2003. Such low property yields are often associated with high rental growth, the increase in rent compensating for the relatively low yield. The All Property Rent Index rose only 1.1% in the latest quarter, just above the 0.9% rise in the Retail Price Index. Over the past five years the All Property Rent Index has grown by 15.9%, but, as the Retail Price Index has increased by 17.1%, it has fallen in real terms.

Since the market peak in 1990 the All Property Rent Index has grown 45% but has fallen 11.7% in real terms. In real terms both offices and industrials have fallen about 12% although Docklands' offices, by far the best performing office sector, have risen by 19%, shops have fallen a mere 1%, but, in strong contrast, retail warehouses have risen a handsome 68.5%. Interestingly, several peripheral office locations including Yorkshire and Humberside, North East, Wales and Scotland have almost maintained or increased real rents. Based on both historic and recent rental evidence past rental rises have mostly been below inflation and, unless an important change is imminent, of which there is no sign, the recently recorded low in investment yields is unlikely to have been due to prospective rental increases.

Last year I quoted an interesting historical analysis by Capital Economics of property yields compared with other asset classes. Since the 1920s there has been an average 0.31% points reverse yield gap – i.e. property yielded less than gilts. Property is an inherently riskier asset than gilts suggesting that property investors should require a premium return over gilts. A premium over gilts existed from the 1920s until the early 1970s and has again been present since the mid 1990s until a very short period earlier this year. The 1970s and 1980s were characterised by high inflation – the RPI was 25 in 1974, 50 in mid 1978 and 100 on 1 January 1987, a fourfold increase or a reduction in value of 75%! If this period of exceptional inflation is set aside, on the basis that the existence of a negative, or reverse yield gap, is anomalous, property yields have historically been 1.5 percentage points higher than gilts, a much higher premium than is currently obtained and recent property yields have been unusually low.

I reported last year that the fall in yields plus a rental income of about 5.0% together with an inflationary rise in rents had produced total returns to September 2006 of 20.7%, up from 17.5% the previous year, and that over the previous three, five and ten years total returns from property had exceeded those of all other asset classes. These excellent returns have led to considerable additional investment, notably from overseas investors, while UK property funds have tripled in size over the last two years as ''money has poured in from both retail and institutional investors''. In 2006 Bank lending to commercial property rose by 17.0% to £169.9bn, a large progressive increase from £70.0bn in 2001. Institutional net investment was £4.6bn in 2006 and the increased overseas investment, was an ''impressive'' £2.1bn in the first quarter of 2007. Patently there has been an increased demand for investment property but, as its supply is relatively inelastic, increases in demand have resulted in large price increases. Prices are positively serially correlated in the short-term – i.e. if prices rose in last period they will probably rise in the next period: good performance attracts further demand that produces further good performance – but, in the long-term, prices are negatively serially correlated.

Chairman's Statement (continued)

Last year I asked: '' the question for property is: is it still the short-term?'' The change from short-term positive correlation to long-term negative correlation is patently large and insight into its timing would be invaluable. That the switch will happen is probably known, at least subliminally, to many players in the market place. One such player, Chuck Prince, the former chairman and chief executive of Citibank, famously said ''When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you've got to get up and dance. We're still dancing''. The FT commented ''he called the top of the market'' . . . before he waltzed out!

The study of structural system changes is part of physics. Professor Sornette, author of ''Why Stock Markets Crash'', has drawn attention to some interesting analogies between physical and financial structures. When force is applied to a pure homogeneous quartz crystal, it, unlike an impure crystal, does not exhibit any change or ''foreshock'' as the force is increased until, without warning, it shatters. Similar homogeneity is evident in the structure of molecules in physical systems about to make the phase change from, say, liquid to gas or the switch from magnetism to non-magnetism, and it is such homogeneity that is consistent with instability. Normally markets are endemically heterogeneous, often appearing chaotic, and respond to ''force'' by movement in one direction or another: they do not effect sudden changes, but adjust up and down. The doctrine of singularity posits that the less homogeneous systems are the more stable they are, but when they narrow to a consensus, or singularity, instability threatens.

The behaviour of the commercial property market is consistent with the hypothesis that homogeneity is a prelude to fracture. Returns have been very high; a relatively specialised asset class has been opened up to retail investors who have invested heavily; funds have promoted commercial property investment aggressively; bank investment has increased; more and more complex and more geared investment vehicles have been created; reasonable expectation of returns has diminished progressively and depended more and more on increasing capital values rather than rental growth, while financing costs rise; and, to resort to a parochial genre, latterly taxi-drivers and student bar staff first asked advice on and then gave advice on such investments! Such behaviour appears to be a classic example of the ''principle of singularity''.

The market has now fractured. In August 2007 the IPD All Property return was nil, comprising +0.4%. Income return and – 0.4% Capital return, in September the All Property return was -1.2%, a capital return of -1.6%, in October the return was - 1.5%, a capital return of -1.9%, and in November the capital return was -3.5% giving a cumulative four month capital fall of 7.3%. In 2005 I reported that commentators including Cluttons, Colliers and the Estates Gazette IPF predicted 2006 All Property returns of 7% to 9%, based on moderate rental growth but no further fall in yields. By December 2006 the total return was 18.1%, marginally below the near record 18.8% in 2005. Last year the same commentators predicted returns of 7% – 10% in 2007 based on moderate rental growth and even lower yields. To end October 2007 IPD reported a return of 1.8% comprising 4.1% income return but a negative capital return. The year out-turn to end December 2007 is at best likely to be nil as indeed these three commentators now forecast. They were 10% points too low for 2006 and 10% points too high for 2007, as returns rose sharply to the peak from which they are now rapidly retreating. More investment, a widening of the class of investors, a market arguably based on ''momentum'', values significantly higher than traditional analysis – i.e. yields below short-term money rates with no prospective rental growth – and a peak in value are strong characteristics of a ''bubble''. Like the quartz crystal in Professor Sornette's analogy, the structure became less complex, or more singular with no longer a balance between buyers and sellers. Singular systems do not adjust, as normal markets do, they fracture.

Property ''crashes'' occurred between 1972 and 1974 and between 1988 and 1991. Yields peaked at 8.7% and 8.6% respectively, 2.7% points and 1.8% points higher than the low yields immediately preceding them, giving a fall in capital values of 31.0% and 25.6%. The CBRE All Property Yield Index recorded a low of 4.8% in July 2007 and if drops in value of 31.0% or 25.6% occur, the corresponding yields would be 6.9% and 6.5% respectively. During both these previous ''crashes'' interest rates were very high, RPI inflation averaged 12..5% and 6.5% respectively, and there were severe recessions. Although prospective economic conditions are likely to be less favourable than recently, the extreme conditions obtaining in both the previous crashes are most unlikely and, given the market propensity to exaggerate trends, I expect yields to rise to 6.5% +/- 0.5%.

The Governor of the Bank of England has recently said that the potential for a fall in commercial property and housing markets posed the greatest threat to the economy. The property crashes of early 1970s and the late 1980s were primarily the result of, but not the cause of, the severe economic dislocations at the time. The present position represents the antithesis, property posing the threat to the economy. A fall in investment property values, even the predicted severe fall, seems unlikely to have far-reaching economic effects. Bank losses would be tiny in relation to the sub-prime fallout and the equity losses, extreme in some instances, would directly affect relatively few private investors as most losses would fall on institutional funds where specific effects would be greatly diluted. The effect of a fall in house values is very different. House prices in England and Wales have risen by 112% since 2000, including a rise of 9.1% in the year to November 2007.

Chairman's Statement (continued)

There have been many incorrect predictions of an imminent rapid fall in prices, but while these cries of ''Wolf'' have proved unfounded, there are signs of a distinctly ''unlamblike'' creature in the fank now. For November 2007 the Halifax showed a 1.1% fall, Nationwide a 0.8% fall and the RICS survey a net balance of 22% report falling prices over the last three months. The background to this fall is succinctly put by Acadametrics, the compiler of the FT House Price Index: ''the expectation for a slowing market ......remains regardless of any decisions by the Bank of England. Indeed, the Bank's previous increases have now collided with the tightening in mortgage credit resulting from the sharp increase in mortgage arrears and repossessions and loss of confidence in mortgage backed securities in the US market and, to a lesser extent, in the UK''. Futures house prices have also fallen and the November expectation of house price ''growth'' over the next twelve months fell from -2% to -7%. This time the wolf is in the fank and price falls, often previously predicted, of up to or over 10% seem likely.

The extent of any price falls will vary among house types and among regions. New properties seem to be at greater risk. House building is a quasi-production line job with high operational and financial gearing. Thus there is a considerable imperative, in the short-run at least, to keep selling even at lower prices. In contrast for many house owners buying another house is discretionary. Large falls are likely among the cities' new-build flats. Historically many new-build flats were sold as buy-to-let. However rising interest rates have reduced the equity return on many mortgaged properties to low positive or negative levels and, as capital values have been falling, prospective returns are at best very poor. Even where returns appear more attractive finance is often not available or, if so, only at a low Loan to Value and or at a higher price. Thus as buy-to-let markets have collapsed and prices have fallen with some developers offering discounts of up to 25%, while recently newly built flats in some locations are selling for up to 35% off the ''new'' price.

The analysis of possible changes among the regions is more complex and different. The flat market is an investment market similar to commercial property, but, as the main housing market is not an asset class to be exchanged for another on performance criteria, this feature dampens house price volatility. The downturn in the ''commodity'' flats market is presently most marked in English provincial cities, but it seems likely to spread to all areas where house building has included a very high percentage of flatted developments, a widespread situation, as for the first time, due to Government planning policy, more flats than houses have been built.

An important key to the prospective relative performance of house prices in different regions can be ascertained from consideration of the early 1990s crash. The late 1980s inflationary boom had a disproportionately high impact on London and the South East where business, jobs and house prices boomed before the subsequent recession. The effect on house prices in the South East was amplified: they went up more and came down more with both effects ''rippling out'', as it was described. On this occasion any prospective reduction in house prices will be due to the credit and liquidity constraints that will apply more evenly throughout the UK, although areas with the most rapid rises will probably have the largest falls, including the South East.

In Scotland, historically, house prices have been less volatile than in most other UK regions. Local prejudice is that ''house prices have never dropped in Edinburgh'' but this does not bear examination. Certainly, in the 1990s recession, some areas in the City very nearly maintained nominal values but they all suffered real price falls. The Scottish house price-to-earnings ratio is the lowest in the UK giving some inherent stability. The most recent HBOS report states that prices are still rising in Scotland and predicts that prices in 2008 will rise in Scotland but not in the UK as a whole.

Future Progress

The slowdown in the investment property market and the current uncertainty in the housing market will affect the Group to differing degrees. A possible fall in investment values would have a significantly lower impact on the Group than previously. Investment value changes, by definition, do not apply to our development properties or to our trading stock. Most of our long-standing investment properties currently have a development prospect or a development ''angle'' and this insulates them from the full effects of any investment downgrade. Recently acquired investment properties have been purchased specifically to establish a development option except where they have reversionary potential.

In addition to its investment portfolio the Group now owns fifteen rural development sites, four significant city centre sites, two small sites in the Edinburgh area and seventy-three plots near Dunbar. Most of these sites can be developed over the next few years but some will be promoted through the five-year local plan process. Development of the two Edinburgh sites should start next year, a year later than expected due primarily to planning delays. Most of these sites were purchased unconditionally, ie without planning permission, and, when permission is obtained, should increase in value significantly.

Chairman's Statement (continued)

For development or trading properties no change in value is made to the company's balance sheet even when open market values have increased considerably. Naturally, however, the balance sheet will reflect the value of such properties on their sale or subsequent to their development.

The maximum value of our development properties will be realised by their development. However, our policy continues to be to maximise investment in development opportunities where at present investment returns are highest and, if cash resources become limited, to realise development sites or to release our capital through suitable financial structures to fund such development opportunities.

The current year's results will continue to reflect the early stage of the development cycle as the first development site will not be completed this year. Our property values should continue to improve as planning changes should more than outweigh any possible deleterious change in investment values or residential plot values. The full outcome of the current financial year will depend on any net change in valuation and the timing of any realisation of development properties.

The mid-market share price at 17 December 2007 was 175p a discount of 48.2p to the NAV of 223.2p. The Board does not recommend a final dividend, but intends to restore the full dividend whenever profitability and consideration for other opportunities permits.

Conclusion
The UK Economy is expected to experience a major deflationary shock resulting from an unprecedented contraction of credit. Simultaneously, stronger inflationary forces are becoming apparent primarily due to increased oil, food and other commodity prices.

The sub-prime crisis in the US is leading to a major rebalancing of the US economy with a lower $ exchange rate, a less unfavourable balance of trade and a redistribution of economic activity. This is likely to be achieved without a recession because of the expected accommodating stance of monetary and fiscal policy.

Provided there is no US recession the UK economy should continue to grow, much more slowly early in 2008 than later in the year, a growth and recovery rate that could be assisted by an adjustment of the aims of monetary policy.

UK investment property appears over-priced as rental growth is likely to be limited, yields are likely to rise further and effective interest rates will continue to be high. Residential property seems likely to fall in price in the short-term, but unless economic conditions deteriorate considerably, substantial price falls are unlikely. In the long term, provided economic growth continues and provided housing supplies continue to be allocated by rationing rather than by price, prices will continue to rise. Neither current nor prospective economic conditions will detract from the opportunity of uncovering specific situations from which substantial value can be created by effecting planning change.

I. D. Lowe

Chairman

18 December 2007

Directors' Report

The Directors present their report together with the financial statements of the Company and of the Group for the year ended 30 June 2007.

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

2. **Results and dividends**
   The Group loss for the year after taxation amounted to £244,153 (2006 – profit £129,509). The Directors do not propose a final dividend in respect of the current financial year. Dividends paid during the year comprise an interim dividend in respect of the year ended 30 June 2007 of 1p per share together with the final dividend for the year ended 30 June 2006 of 1.75p.

3. **Enhanced business review**
   The Group is required to comply with the Enhanced Business Review disclosures required by the Companies Act 1985 as amended to comply with the EU Modernisation Directive. A full review of the Group's business results for the year and future prospects is included in the Chairman's Statement commencing on page 2.

   Key performance indicators
   The key performance indicators for the Group are property valuations, planning progress and the stability of house prices, all of which are discussed in the Chairman's Statement.

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

   - Planning and development
     The increasing development profile of the Group places increased emphasis on the planning stage of each project. The Group seeks to minimise this risk with its firmly established risk control strategy, which includes detailed research and planning advice. On obtaining planning consent a decision will be taken on progressing the project on its own or with a joint development partner. At all stages the Company seeks professional advice, conducts thorough diligence and continually monitors each development.
   - Property values
     Conditions in the UK property market represent uncertainties in the operating environment rather than risks which can be managed. Nevertheless, many of the investment properties held by the Group have development prospects or a development angle which will insulate them against the full effect of any general investment downgrade of commercial property.
   - Tenant relationships
     All property companies have exposure to the covenant of their tenants as rentals drive capital values as well as providing the necessary cash flow to service debt. The Group seeks to minimise exposure to any single sector or tenant across the portfolio and continually monitors payment performance.
   - Availability of funding
     The Group is dependent upon bank borrowings for current and future property transactions. Bank facilities are negotiated and tailored to each project in terms of quantum and timing. Any intended borrowings for future projects will be at or below traditional levels of gearing and therefore will be readily available.
   - Management of funding risk
     The Group seeks to ensure that adequate resources are available to meet the short and long-term funding requirements of the Group at all times and that any funding risks arising from Group activities be effectively identified and managed.

Directors' Report (continued)

- Management of interest rate risks
  Group borrowings are primarily in relation to and secured by properties, which are held as investments or are being developed. As and when future development projects are undertaken banking facilities will be negotiated and tailored to each project. Interest rate risk is constantly monitored and reviewed. This risk is managed by securing floating rate debt, which can be fixed from time to time by the Group or by the use of interest rate swaps or other financial instruments.
- Environmental policy
  The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by the Groups' activities.

4. Directors

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

Beneficial interests – Ordinary Shares of 20p each

	Percentage held	18 December 2007	30 June 2007	30 June 2006
I. D. Lowe	81.7	9,324,582	9,324,582	9,324,582
M. J. Baynham	6.4	730,191	730,191	730,191
R. J. Pearson	Nil	Nil	Nil	Nil

Beneficial interests – Floating rate loan stock 2007/2008

I. D. Lowe	100.0	£1,000,000	£1,000,000	£1,000,000

R. J. Pearson was appointed as a director on 28 March 2007. In addition, B. J. Rankin and J. N. Little served as directors until their resignations on 19 January 2007.

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

5. Suppliers

It is the Company's policy to settle suppliers' invoices within sixty days of their receipt.

6. Employees

Details of employees and related costs can be found in note 5 to the financial statements.

7. Donations

The Group made charitable donations of £33,040.

8. Disclosure of information to auditors

The Directors who held office at the date of approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company Auditors are unaware; and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company Auditors are aware of that information.

9. Auditors

In accordance with Section 304 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
18 December 2007

Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group and the parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and parent company 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 UK 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 and parent company 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 parent 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

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 group and parent company financial statements (the 'financial statements') of Caledonian Trust PLC for the year ended 30 June 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Gains and Losses, the Consolidated Note of Historical Cost Profits and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 15.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition, we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent mis-statements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and parent company'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 mis-statement, 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.

Independent Auditors' Report (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 30 June 2007 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
18 December 2007

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Consolidated Profit and Loss Account

for the year ended 30 June 2007

	Note	2007 £	2006 £
INCOME – CONTINUING OPERATIONS			
Rents and service charges		684,085	870,745
Trading property sales		1,477,186	410,000
Other sales		32,443	108,163
Other operating income		130,615	—
		2,324,329	1,388,908
OPERATING COSTS			
Cost of trading property sales		(1,074,117)	(304,500)
Cost of other sales		(51,289)	(113,200)
Administrative expenses	2	(1,148,378)	(992,992)
		(2,273,784)	(1,410,692)
OPERATING PROFIT/(LOSS)		50,545	(21,784)
Profit on disposal of investment property		15,569	189,729
Bank interest receivable		59,050	151,329
Other interest receivable		197,826	124,315
Interest payable	3	(567,143)	(319,150)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(244,153)	124,439
Taxation	6	—	5,070
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	16	(244,153)	129,509
(Loss)/earnings per ordinary share	19	(2.05p)	1.09p
Diluted (loss)/earnings per ordinary share	19	(2.05p)	1.09p

Statement of Total Recognised Gains and Losses

for the year ended 30 June 2007

	2007 £	2006 £
(Loss)/profit for the financial year	(244,153)	129,509
Unrealised surplus on revaluation of properties	642,250	1,978,506
Total recognised gains and losses relating to the financial year	398,097	2,108,015
Prior year adjustment in respect of recognition of dividends payable	—	178,244
Total gains and losses recognised since last annual report	398,097	2,286,259

Note of Historical Cost Profits and Losses

for the year ended 30 June 2007

	2007 £	2006 £
Reported (loss)/profit on ordinary activities before taxation	(244,153)	124,439
Realised gain on previously revalued property	319,250	—
Historical cost profit on ordinary activities before taxation	75,097	124,439
Taxation on profit for year	—	5,070
Historical cost profit for the year after taxation	75,097	129,509
Historical cost loss for the year retained after taxation and dividends	(251,683)	(167,564)

Consolidated Balance Sheet

at 30 June 2007

	Note	2007 £	2007 £	2006 £	2006 £
FIXED ASSETS					
Tangible assets:					
Investment properties	8		24,075,896		24,030,896
Other assets	9		17,076		21,117
			24,092,972		24,052,013
Investments	10		43,013		43,013
			24,135,985		24,095,026
CURRENT ASSETS					
Stock of development property	11	10,766,629		7,034,258	
Debtors	12	538,947		968,314	
Cash at bank and in hand	13	823,967		2,203,611	
		12,129,543		10,206,183	
CREDITORS: amounts falling due within one year	14	(1,350,358)		(2,177,356)	
NET CURRENT ASSETS			10,779,185		8,028,827
TOTAL ASSETS LESS CURRENT LIABILITIES			34,915,170		32,123,853
CREDITORS: amounts falling due after more than one year	14		(8,400,000)		(5,680,000)
NET ASSETS			26,515,170		26,443,853
CAPITAL AND RESERVES					
Called up share capital	15		2,376,584		2,376,584
Share premium account			2,745,003		2,745,003
Capital redemption reserve			175,315		175,315
Revaluation reserve	16		6,948,414		6,625,414
Profit and loss account	16		14,269,854		14,521,537
SHAREHOLDERS' FUNDS			26,515,170		26,443,853

These financial statements were approved by the Board of Directors on 18 December 2007 and were signed on its behalf by:

I. D. Lowe

Director

Company Balance Sheet

at 30 June 2007

	Note	2007 £	2007 £	2006 £	2006 £
FIXED ASSETS					
Tangible assets:					
Investment properties	8		5,760,897		6,310,897
Equipment and vehicles	9		17,076		17,597
			5,777,973		6,328,494
Investments	10		11,200,350		11,200,350
			16,978,323		17,528,844
CURRENT ASSETS					
Stock of development property	11	2,839,358		1,670,000	
Debtors	12	23,689,127		21,834,809	
Cash at bank and in hand		792,877		2,061,612	
		27,321,362		25,566,421	
CREDITORS: amounts falling due within one year	14	(11,427,678)		(10,971,431)	
NET CURRENT ASSETS			15,893,684		14,594,990
TOTAL ASSETS LESS CURRENT LIABILITIES			32,872,007		32,123,834
CREDITORS: amounts falling due after more than one year	14		(7,400,000)		(5,680,000)
NET ASSETS			25,472,007		26,443,834
CAPITAL AND RESERVES					
Called up share capital	15		2,376,584		2,376,584
Share premium account			2,745,003		2,745,003
Capital redemption reserve			175,315		175,315
Revaluation reserves:					
Property	16		2,337,227		2,609,227
Investments	16		1,305,120		1,305,120
Profit and loss account	16		16,532,758		17,232,585
SHAREHOLDERS' FUNDS			25,472,007		26,443,834

These financial statements were approved by the Board of Directors on 18 December 2007 and were signed on its behalf by:

I. D. Lowe

Director

Consolidated Cash Flow Statement

for the year ended 30 June 2007

	Note	2007 £	2006 £
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(a)	(3,079,424)	(5,694,720)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(b)	(300,860)	(34,896)
TAX PAID		—	(29,632)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(b)	607,268	5,814
DIVIDENDS PAID ON SHARES CLASSIFIED IN SHAREHOLDERS' FUNDS		(326,780)	(297,073)
CASH OUTFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		(3,099,796)	(6,050,507)
FINANCING	(b)	1,720,152	3,572,183
DECREASE IN CASH IN PERIOD		(1,379,644)	(2,478,324)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT	(c)	£	£
DECREASE IN CASH IN PERIOD		(1,379,644)	(2,478,324)
Cash outflow from increase in debt		(1,720,152)	(3,572,183)
MOVEMENT IN NET DEBT IN THE PERIOD		(3,099,796)	(6,050,507)
NET (DEBT)/FUNDS AT THE START OF THE PERIOD		(5,172,659)	877,848
NET DEBT AT THE END OF THE PERIOD		(8,272,455)	(5,172,659)

Notes to the Cash Flow Statement

(a) RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2007 £	2006 £
Operating profit/(loss)	50,545	(21,784)
Depreciation charges	6,072	4,682
Loss on disposal of fixed assets	3,520	—
Increase in stock of development property	(3,732,371)	(5,825,167)
Decrease in debtors	429,367	50,246
Increase in creditors	163,443	97,303
Net cash outflow from operating activities	(3,079,424)	(5,694,720)

(b) ANALYSIS OF CASH FLOWS

	2007 £	2006 £
RETURNS ON INVESTMENT AND SERVICING OF FINANCE		
Interest received	256,876	275,644
Interest paid	(557,736)	(310,540)
	(300,860)	(34,896)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchase of tangible fixed assets	(5,551)	(866,776)
Sale of investment property	612,819	915,583
Purchase of investments	—	(42,993)
	607,268	5,814
FINANCING		
Debt due within a year:		
(Increase)/decrease in short-term debt	(152)	397,498
Debt due beyond a year:		
Increase in long-term debt	(1,720,000)	(3,969,681)
	(1,720,152)	(3,572,183)

(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	2,203,611	(1,379,644)	—	823,967
Debt due after one year	(5,680,000)	(1,720,000)	(1,000,000)	(8,400,000)
Debt due within one year	(1,696,270)	(152)	1,000,000	(696,422)
TOTAL	(5,172,659)	(3,099,796)	—	(8,272,455)

Notes (forming part of the financial statements)

30 June 2007

1 ACCOUNTING POLICIES

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

(a) Basis of preparation
The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties and investments 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 2007.

(c) Income
Rental income represents rent and service charges receivable without taking into account any expenditure borne directly by tenants.

(d) Properties
Properties held by the Group are classified within fixed assets as investment properties, or current assets if held as trading stock.

Investment properties
In accordance with Statement of Standard Accounting Practice No.19, investment properties are revalued annually at open market value either by the directors or by independent professional advisers. Independent professional valuations are prepared at least once every three years. All surpluses and deficits on valuation are taken directly to revaluation reserve except that any permanent diminution in the value of the investment property is taken to the profit and loss account for the year. No depreciation or amortisation is provided in respect of freehold investment properties.

This treatment may be a departure from the Companies Act requirements concerning the depreciation of fixed assets. However, the 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 accounts 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.

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

For properties previously held as investment properties which are now held for development and reclassified as current assets, cost is considered to be the latest valuation prior to their reclassification. This is not in accordance with Schedule 4 to the Companies Act 1985, which requires current assets to be included at the lower of cost and net realisable value, and which would therefore require such properties to be restated on the basis of historical cost when they were reclassified. The directors consider that compliance with this requirement would fail to give a true and fair view of the profit and loss to the company on disposal of such properties from current assets, since such profit or loss would be dependent on the classification of the asset immediately prior to sale. The effect of this departure is to increase both the value of properties held for resale and the balance on the revaluation reserve by £36,249 at 30 June 2007 (2006 – £36,249).

(e) Investments
Investments in subsidiary undertakings are included in the balance sheet of the Company at valuation representing the net asset value of the undertaking concerned. Surpluses or deficits arising on revaluations are taken to the revaluation reserve except in the case of deficits which are taken to the profit and loss account. The revaluation reserve is not distributable.

Other investments are held at cost unless they are considered to have suffered a permanent impairment. Such impairments are taken to the profit and loss account.

(f) Dividends on shares presented within shareholders' funds
Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Notes (continued)

30 June 2007

1 ACCOUNTING POLICIES (continued)

(g) Depreciation
Tangible fixed assets, other than investment properties, are depreciated by equal instalments over their estimated useful lives at the following rates:

Fixtures & fittings	10 per cent
Office equipment	11-33 per cent
Motor vehicles	33⅓ per cent

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

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

(i) 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.

2 ADMINISTRATIVE EXPENSES

	2007 £	2006 £
Directors' emoluments (see note 4)	294,178	276,154
Management expenses	820,728	685,146
Fees paid to the auditors:		
— audit of these financial statements	11,400	11,360
— audit of financial statements of subsidiaries pursuant to legislation	16,000	15,650
Depreciation	6,072	4,682
	1,148,378	992,992

3 INTEREST PAYABLE

	2007 £	2006 £
Bank loans and overdrafts	484,265	243,578
Loan stock repayable within five years	82,878	75,572
	567,143	319,150

4 REMUNERATION OF DIRECTORS

	2007 £	2006 £
Directors' emoluments	246,678	228,654
Company contributions to money purchase pension schemes	47,500	47,500

The aggregate of emoluments of the highest paid director was £112,787 (2006 – £112,347), and company pension contributions of £27,500 (2006 – £27,500) were made to a money purchase scheme on his behalf.

	Number of directors	
	2007 £	2006 £
Retirement benefits are accruing to the following number of directors under money purchase schemes	2	2

Notes (continued)

30 June 2007

5 EMPLOYEES

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

	Group		Company	
	2007	2006	2007	2006
	Number	Number	Number	Number
Management	2	4	2	4
Administration	2	2	2	2
Other	9	11	2	—
	13	17	6	6

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Wages and salaries	344,639	341,514	317,736	295,514
Social security costs	36,624	35,085	35,212	32,049
Other pension costs	51,864	50,112	51,864	50,112
	433,127	426,711	404,812	377,675

6 TAXATION

Analysis of charge in period

	2007	2006
	£	£
UK corporation tax		
Current tax on income for the period	—	—
Overprovision in respect of previous year	—	(5,070)
Tax on (loss)/profit on ordinary activities	—	(5,070)

The current tax charge for the period is higher (2006 – lower) than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

Current tax reconciliation

	2007	2006
	£	£
(Loss)/profit on ordinary activities before tax	(244,153)	124,439
Current tax at 30%	(73,246)	37,332
Effects of:		
Expenses not deductible for tax purposes	6,461	4,281
Capital allowances for period in excess of depreciation	(14,531)	(21,474)
Capital gains tax indexation	(79,397)	(8,493)
Prior year property revaluations	95,775	—
Utilisation of tax losses	—	(11,646)
Losses carried forward	64,938	—
Over-provision in respect of previous year	—	(5,070)
Total current tax charge (see above)	—	(5,070)

Taxation losses amounting to £922,424 (2006 – £857,486) are available to relieve future taxable profits of the group. A deferred tax asset has not been recognised due to uncertainty over future suitable profits against which these losses may be utilised.

Notes (continued)

30 June 2007

6 TAXATION (continued)

Factors affecting the future tax charge

The group received a dilapidations payment from the former tenants of an investment property amounting to £2,100,000 during the year ended 30 June 2005. The payment was made to fulfil the tenant's obligations under the repairing lease held by them. The Directors are presently progressing a development brief for the island site of which the property forms part which once formally adopted by the Planning Authority will enhance the value. Accordingly the repair work to the property has not been carried out and it is unlikely that they will be undertaken. The receipt was treated as a capital receipt for taxation purposes on which basis no taxation was payable or has been provided. HMRC has queried the tax treatment of this receipt and there is an ongoing dialogue with HMRC local inspector on the matter. The Directors continue to be of the opinion that the receipt is a capital receipt and accordingly no taxation has been provided in these financial statements. In the event that HMRC do not agree with this treatment the Directors will vigorously challenge any such contrary view. The tax that would be payable if the receipt were to be treated as revenue is approximately £615,000.

7 DIVIDENDS

Amounts recognised as distributions in the year

	2007 £	2006 £
Interim dividend paid in respect of current year 1p (2006 – 1.0p) per share	118,829	118,829
Final dividend paid in respect of prior year but not recognised as a liability in that year 1.75p (2006 – 1.50p) per share	207,951	178,244
Aggregate amount of dividends paid in the financial year	326,780	297,073

Proposed but not paid or included in the accounts

	2007 £	2006 £
Final dividend for current year nil (2006 – 1.75p) per share	—	207,951

8 INVESTMENT PROPERTIES

	Freehold	
	Group £	Company £
Valuation		
At 30 June 2006	24,030,896	6,310,897
Revaluation in year	642,250	47,250
Sold in year	(597,250)	(597,250)
Valuation at 30 June 2007	24,075,896	5,760,897

Investment properties have been stated at directors' valuation at the balance sheet date based on independent valuations at open market value made by Montagu Evans, independent property consultants, and King Sturge, independent property consultants, at 30 June 2006.

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

	Group		Company	
	2007 £	2006 £	2007 £	2006 £
Investment properties	17,127,498	17,441,911	3,423,670	3,701,670

The cumulative amount of interest capitalised in respect of the Group's investment properties is £869,467 (2006 – £869,467). The cumulative amount of such interest capitalised for the Company is £343,063 (2006 – £343,063).

Notes (continued)

30 June 2007

9 OTHER TANGIBLE FIXED ASSETS

GROUP	Motor vehicles £	Office equipment £	Other equipment £	Total £
Cost at 30 June 2006	12,750	196,567	20,252	229,569
Additions in year	2,150	—	3,401	5,551
Disposals in year	—	(151,240)	—	(151,240)
Cost at 30 June 2007	14,900	45,327	23,653	83,880
Depreciation at 30 June 2006	12,750	191,651	4,051	208,452
Charged in year	709	632	4,731	6,072
Disposals in year	—	(147,720)	—	(147,720)
Depreciation at 30 June 2007	13,459	44,563	8,782	66,804
NET BOOK VALUE AT 30 JUNE 2007	1,441	764	14,871	17,076
Net book value at 30 June 2006	—	4,916	16,201	21,117
COMPANY				
Cost at 30 June 2006	12,750	45,327	20,252	78,329
Additions in year	2,150	—	3,401	5,551
Cost at 30 June 2007	14,900	45,327	23,653	83,880
Depreciation at 30 June 2006	12,750	43,931	4,051	60,732
Charged in year	709	632	4,731	6,072
Depreciation at 30 June 2007	13,459	44,563	8,782	66,804
NET BOOK VALUE AT 30 JUNE 2007	1,441	764	14,871	17,076
Net book value at 30 June 2006	—	1,396	16,201	17,597

Notes (continued)

30 June 2007

10 INVESTMENTS

GROUP	Shares in subsidiary investments £	Listed investments £	Other unlisted investments £	Total £
Cost and net book value at 30 June 2006 and 2007		42,993	20	43,013
COMPANY				
Cost at 30 June 2006 and 2007	4,932,978	42,993	—	4,975,971
Revaluation surplus at 30 June 2006 and 2007	6,224,379	—	—	6,224,379
NET BOOK VALUE AT 30 JUNE 2007	11,157,357	42,993	—	11,200,350
Net book value at 30 June 2006	11,157,357	42,993	—	11,200,350

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 STOCK OF DEVELOPMENT PROPERTY

	Group		Company	
	2007 £	2006 £	2007 £	2006 £
Properties held for resale or development	10,766,629	7,034,258	2,839,358	1,670,000

12 DEBTORS

	Group		Company	
Amounts falling due within one year	2007 £	2006 £	2007 £	2006 £
Amounts due within one year				
Amounts owed by subsidiary undertakings	—	—	—	21,825,510
Other debtors	396,460	697,509	—	—
Prepayments and accrued income	142,487	270,805	20,505	9,299
	538,947	968,314	20,505	21,834,809
Amounts falling due in more than one year				
Amounts owed by subsidiary undertakings	—	—	23,668,622	—
	538,947	968,314	23,689,127	21,834,809

Notes (continued)

30 June 2007

13 CASH AT BANK AND IN HAND

Group bank balances totalling £360 (2006 – £5,247) were held by the Group's bankers as collateral against loans provided to group undertakings.

14 CREDITORS: amounts falling due within one year

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Bank loans	696,422	1,696,270	—	—
Amounts owed to subsidiary undertakings	—	—	10,918,359	—
Other creditors and accruals	653,936	481,086	509,319	338,463
	1,350,358	2,177,356	11,427,678	10,971,431

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

CREDITORS: amounts falling due after more than one year

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Bank loans	7,400,000	4,680,000	6,400,000	4,680,000
Floating rate unsecured loan stock	1,000,000	1,000,000	1,000,000	1,000,000
	8,400,000	5,680,000	7,400,000	5,680,000

ANALYSIS OF DEBT
Debt can be analysed as falling due:

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
In one year or less, or on demand	696,422	1,696,270	—	—
Between one and two years	1,000,000	1,000,000	1,000,000	1,000,000
Between two and five years	7,400,000	4,680,000	6,400,000	4,680,000
	9,096,422	7,376,270	7,400,000	5,680,000

The bank loans are secured by standard securities and floating charges over the assets of certain subsidiaries and by an unlimited guarantee from Caledonian Trust PLC. Interest charged on these loans is based on margins ranging from 0.95% to 3% over the prevailing London Interbank Offer Rate.

The floating rate unsecured loan stock was renegotiated during the year and is now repayable in July 2008. Interest is charged at a margin of 3% over the Bank of Scotland base rate.

15 SHARE CAPITAL

	2007		2006	
	No	£	No	£
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	11,882,923	2,376,584	11,882,923	2,376,584

Notes (continued)

30 June 2007

16 RESERVES

	Revaluation reserve £	Profit and loss account £
Group		
Balance at 30 June 2006	6,625,414	14,521,537
Property revaluation in year	642,250	—
Loss for the financial year	—	(244,153)
Dividends paid	—	(326,780)
Transfer to profit and loss	(319,250)	319,250
Balance at 30 June 2007	6,948,414	14,269,854

	Revaluation reserves Property £	Revaluation reserves Investments £	Profit and loss account £
Company			
Balance at 30 June 2006	2,609,227	1,305,120	17,232,585
Property revaluation in year	47,250	—	—
Loss for the financial year	—	—	(692,297)
Dividends paid	—	—	(326,780)
Transfer to profit and loss	(319,250)	—	319,250
Balance at 30 June 2007	2,337,227	1,305,120	16,532,758

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2007 £	2006 £
Retained (loss)/profit for the financial year	(244,153)	129,509
Dividends paid	(326,780)	(297,073)
Revaluation surplus	642,250	1,978,506
Net increase/(decrease) in shareholders funds	71,317	1,810,942
Opening shareholders' funds	26,443,853	24,632,911
Closing shareholders' funds	26,515,170	26,443,853

18 TRANSACTIONS WITH DIRECTORS

B. J. Rankin received £16,389 (2006 – £14,225) 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 £82,878 (2006 – £75,572) interest in respect of its holding of Floating Rate Unsecured Loan Stock.

19 EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on the reported loss of £244,153 (2006 – profit £129,509) and on the weighted average number of ordinary shares in issue in the year, as detailed below.

	2007	2006
Weighted average of ordinary shares in issue during year – undiluted	11,882,923	11,882,923
Weighted average of ordinary shares in issue during year – fully diluted	11,882,923	11,882,923

Notes (continued)

30 June 2007

20 FINANCIAL INSTRUMENTS

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

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

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

INTEREST RATE RISK
The group borrowings are at floating rates of interest based on LIBOR or Base Rate.

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

	2007 £	2006 £
Fixed rate	—	—
Floating rate	9,096,422	7,376,270
	9,096,422	7,376,270

The weighted average interest rate of the floating rate borrowings was 7.29% pa (2006 – 6.27%).

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:

	2007 £	2006 £
In one year or less, or on demand	696,422	1,696,270
Between one and two years	1,000,000	1,000,000
Between two and five years	7,400,000	4,680,000
	9,096,422	7,376,270

A comparison of book values and fair values of the group's financial assets and liabilities at 30 June 2007 is as follows:

	Book Value 2007 £	Fair value 2006 £
Floating rate borrowings	9,096,422	9,096,422
Cash and short term deposits	823,967	823,967

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 18 January 2008 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 2007 and the Report of the Auditors thereon.
2. To re-appoint a Director appointed since the last AGM, Roderick John Pearson.
3. To re-appoint KPMG Audit Plc, Chartered Accountants and Registered Auditors, as Auditors and to authorise the Directors to fix their remuneration.

   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 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.

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:

   (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;

Notice of Meeting (continued)

(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

18 December 2007

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 17 January 2008 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.