28 March 2014

Caledonian Trust PLC

Unaudited Interim Results

for the six months ended 31 December 2013

Caledonian Trust PLC, the Edinburgh-based property investment holding and development company, announces its unaudited interim results for the six months ended 31 December 2013.

CHAIRMAN'S STATEMENT

Introduction

The Group made a pre-tax loss of £262,000 in the six months to 31 December 2013 compared with a loss of £308,000 for the same period last year. The loss per share was 2.22p and the NAV per share was 143.58p compared with a loss of 2.60p and 143.72p last year.

Investment property values were unchanged. Income from rent and service charges was £177,000 compared with £197,000 last year and other income £47,000 compared with £25,000 last year. Two houses held as trading stock were sold. Administrative expenses were £352,000 compared with £365,000 last year and net interest £51,000 compared with £46,000 last year.

Review of Activities

The Group's emphasis has now moved further towards the development and realisation of our extensive land bank. Simultaneously, we are commencing some development to secure existing planning consents. Promotion of our strategic sites continues where necessary to meet local planning schedules and where specific long-term opportunities arise. Such processes take five to ten years and our progress to date results from continuing to make such investments during the long depression.

We have four main development sites in Edinburgh. Brunstane Home Farm is within Edinburgh and lies just off the A1 immediately adjacent to Brunstane railway station with services to Edinburgh (seven minutes) and to the north over the Forth Bridge to Fife. The route south is currently being constructed and the Borders Railway to Tweedbank is due to open next year. We have completed the extensive alterations to three listed Georgian stone-built cottages together with the infrastructure necessary for the next stage of the development. The first of these two-bedroom 800ft² two-storey cottages was sold in November for nearly £250,000 and the other two cottages are now being marketed. In June 2013 we obtained vacant possession of a further similar cottage for which the services and infrastructure are in place and the common repairs are already completed under the refurbishment programme, and this further cottage will be marketed soon when the internal upgrading is complete.

The cottages with the stone steading to the east and an amenity plantation to the west form a courtyard. We have recently applied for planning consent for two further similar houses over 2300ft² to the south which will complete an attractive courtyard.

Work has started on the buildings to the east of the cottages where we hold a consent to convert the listed stone-faced Georgian steading, to reconstruct a cottage attached to it and for ten houses of various sizes over 14,648ft² altogether. These houses have been extensively redesigned to provide contemporary-style large dining/living spaces, more en-suite bathrooms and better fenestration, together with lower construction costs! East of the main steading lies a detached stone building with consent for conversion and extension to a detached farmhouse extending to 3,266ft². This house commands views north of the Forth estuary and south of the Pentland Hills.

Extensive stonework reinstatement scheduled to last until the summer is being carried out on the next phase of five houses, the "Horse Mill", which comprises five stone-arched cart sheds, a single-storey cottage, the main barn and an hexagonal Horse Mill, a notable feature. A further five houses will be built in the balance of the farmyard and the "Stackyard". The farmhouse sits in a residential portion of Green Belt between the farmhouse and a large area recently abstracted from the Green Belt for housing and now with consent for over 200 houses. We continue to promote this attractive infill site for residential use.

We already have implemented a consent for eight detached houses in Wallyford, Musselburgh, at a site which is within 400m of an East Coast mainline station and near the A1/A720 City Bypass junctions. The prospects for the site have considerably improved. Taylor Wimpey, who are building over 400 houses nearby, on the other side of the boundary railway, are completing and selling houses very rapidly at prices that have risen recently from about £180/ft² to over £210/ft². Accordingly, we propose to continue building the development in the summer.

Our site in Belford Road, Edinburgh, lies in a quiet cul-de-sac less than 500m from Charlotte Square and the west end of Princes Street, where we have implemented a long-standing office consent for 22,500ft² and fourteen cars. We also hold a planning consent for a residential development of twenty flats over 21,000ft² plus car parking for twenty cars which we have started to implement. We continue to seek and to promote an improved consent and additional construction and engineering changes to further reduce development costs which would allow development to start. Unsolicited approaches indicate that the prospects for a successful development continue to improve!

St Margaret's House is our largest Edinburgh development site where we hold a Planning Permission in Principle for a 231,000ft² mixed use development of residential and/or student accommodation, an hotel and offices and other commercial space, together with parking for 225 cars. St Margaret's is a 92,000ft² multi-storey building situated on the A1 about one mile east of the Parliament and Princes Street currently let at a very modest rent to a charity, Art's Complex, who have sub-let all the space to over 250 "artists" and "artisans" and "galleries" for which there is a lengthy waiting list. One hundred and twenty parking spaces are let to our neighbours, the Registers of Scotland.

A further unsolicited interest has been received in St Margaret's, primarily for housing development, probably because it represents an opportunity to establish a very highly-geared position in the residential market. Comment on the property market is given later, but developer interest in St Margaret's can be easily induced from recent trends in the market. In Edinburgh the sales volume increased by 35.0% in 2013 compared with 26.1% for Scotland and sales of flats rose by 36.3% in Edinburgh, significantly above the 24.5% for Scotland. If higher volumes do presage higher values, St Margaret's is an exceptionally geared exposure to such rising values.

The Company has three large development sites in the Edinburgh and Glasgow catchment areas. Two are at Cockburnspath, on the A1 just east of Dunbar and the East Lothian Border where we have already implemented the planning consent for 72 detached and four semi-detached family houses. We will continue development when this improvement in the local market is confirmed.

The third large development site is seven miles from central Glasgow at Gartshore, Kirkintilloch, on the Union Canal, and comprises the nucleus of the large estate owned until recently by the Whitelaw family. In order to meet local house-building objectives we continue to promote the creation of a village of a few hundred mixed cottages and houses together with local amenities, all within the existing landscaped setting. Such a development would complement our current proposals for a high-quality landscaped business park, including an hotel and a destination leisure centre. Although this is a long-term project, it does meet existing needs and many development criteria and has a reasonable chance of realisation.

The company owns fourteen separate rural development opportunities, nine in Perthshire, three in Fife and two in Argyll and Bute, all set in areas of high amenity. In Perthshire, at Tomperran, a 30 acre smallholding in Comrie on the River Earn, we hold a consent for twelve detached houses over 19,206ft². Approximately two acres of Tomperran, adjacent to the settlement, previously zoned for industrial use, have been included in the settlement in the Local Plan and had the industrial use deleted. We expect to be able to redesign and improve our existing consented scheme and gain consent for an additional ten houses. The first phase of the demolition of the existing farm buildings has been completed which implements the existing consent.

At Chance Inn we hold a consent for ten houses over 21,836ft² in the farm steading and an improved consent to increase the size of the two consented detached houses adjacent to the nearby modern farmhouse from 3,366ft² to 4,118ft². The farmhouse was upgraded and the integral garage converted into a semi-self-contained "guest suite", and was sold in October 2013. The two adjacent house plots will be formally marketed as soon as the final improvements to the infrastructure have been completed. Nearby at Carnbo we gained a consent for four houses in the paddock of the former farmhouse on 30 June 2013, the last day of the previous reporting period. The site, which is attracting interest, will be formally marketed when the negotiations have been completed with statutory consultees. At Myreside, in the Carse of Gowrie between Perth and St Andrews, negotiations continue on the Section 75 Agreement covering the conditional consent for a new farmhouse and four houses over 8,331ft². Our first of many applications for the site was made in 2007.

Our largest rural development site is at Ardpatrick, a peninsula of great natural beauty on West Loch Tarbert but within two hours' drive of Glasgow and central Scotland, where five properties will be marketed this season: South Lodge has commanding views over West Loch Tarbert and is fully refurbished with consent to double in size and add a double garage; Bay Cottage, a bothy for conversion and consent for an extension to form a three-bedroom house, set in a paddock with views to Achadh-Chaorann Bay; Oak Lodge, a waterfront site with consent for a 1,670ft² house and two plots set in a small field just off the Kilberry Road.

Economic Prospects

The Bank of England reports that the UK economy grew by 1.9% in 2013, the strongest annual growth for six years. NIESR estimate that growth was 0.7% in the three months ending in December 2013 and 0.8% in the three months ending in February 2014. In consequence GDP is now 1% only below the pre-recession peak of January 2008. They predict that growth will be 2.5% in 2014 and that GDP will exceed the 2008 peak in the summer. If the depression ends in August 2014, it will have lasted 78 months, the longest depression for over 100 years, much longer than the Great Depression of 1930-34 which lasted a comparatively short 48 months. The Bank forecasts growth of 3.4% in 2014, a high estimate compared with forecast of 2.5% by the NIESR, of 2.8% by the Economist and of 2.7% by the Independent Forecasts published by HMT.

Following six years of depression the Bank's forecast growth of 3.4% seems high, especially compared with other forecasters, but, in the five years following the 1979 – 1983 and 1990-1993 recessions, growth averaged 4.3% and 3.6% respectively. Subsequently the Bank expects lower growth "as the initial fillip from the release of pent-up demand fades…" "…a gradual revival in productivity underpins a modest pick-up in pay growth, while stronger demand and improved corporate sentiment drive a rebound in business investment".

Business investment fell by 30% in real terms and has since recovered less than half since then. The downturn was caused by reduced final demand in the depression, higher machinery costs due to sterling's depreciation, restrictions on credit from the banks and, importantly, the reduction of the substitution of labour by machinery, due to lower labour costs.

These factors are changing, although bank lending to business continued to decline in 2013, albeit it was nominally available at lower interest rates and on less stringent conditions, and total investment increased by 8.5% in 2013. The Economist forecasts all investment to increase by 10% in each of the next three years and the Bank forecasts business investment to rise by 11.5% in 2014.

The Bank forecasts that its expected 3.4% increase in GNP will be achieved without breaching its target range for inflation. In December 2013 inflation fell to the Bank's target of 2% for the first time in four years, before falling further to 1.9% in January 2014. The Bank's central forecast is for rises of about 1.5% to 2.5% pa in 2014, 2015 and 2016. The high rate of growth, accompanied by low inflation, is predicated on the Bank's assessment of the potential spare production capacity in the economy. Output rose strongly in 2013, but as productivity dropped to an index level below 96 (Q1 2008 = 100) from above 96 in 2012, the labour force increased rapidly, and the unemployment rate (Labour Force Survey "LFS") dropped from 7.7% in August 2013 to 7.1% in November 2013, only 0.1% percentage points above the Bank's previous threshold for consideration of raising interest rates.

The prospect of increasing output independent of inflation depends on many variables, including crucially the "spare" capacity in the economy, the marginal increase in resources available for no appreciable cost, and labour is the key variable. The Bank estimates the "output gap" at 1% to 1.5%, and the most recent average forecast in the Treasury's independent forecast for 2014 is 1.9%. A major component of the spare capacity appears to lie outside those currently unemployed. About 5% of total employment is undertaken by part-timers and, as about 20% of them only work part-time because they could not find full-time work, a full one percentage point of the labour force is potentially available. The main "supply" of labour is normally provided by increased output from the existing supply – growth in productivity. At present productivity is 16% below the level implied by the extrapolation from the previous trend of 2.5% pa from 1998 to 2007. The Bank's February 2014 central forecast of 3.4% GDP growth assumes an increase in productivity by 2016 of 2.0% - its higher productivity scenario, 4.0% by 2016, gives an increase in output of over 5% pa by 2016 and its lower productivity scenario an increase in output of less than 1% pa by 2016: productivity matters!

The Bank expects the LFS unemployment rate to have dropped from December's 7.1% to about 6.9% in March 2014, to 6.6% by December 2014 and to 6.3% in 2017, if interest rates rise in line with market expectations in the first half of 2015, reaching 2% by early 2017.

The good economic news and forecasts risk undermining the oracle that the "Bank rate" should not rise, provided inflation and financial markets were within permitted limits, until the unemployment rate, then 7.8%, fell to 7.0%. Clearly this is already, or is about to be, breached! Fortunately, in true Delphic fashion, this oracle, while being declared correct (a "success") is being reinterpreted, using a lesser interpretation of the Bank's mandate and broader measures of economic health by the Bank's "prophetes". The Bank's latest Delphic statement is: "The MPC will not take risks with the economy". Thus, it appears the Bank is no longer fixated by the inflation target. The realisation may have come that growth is the main objective of economic policy and that the level of inflation, at least in the short term, is secondary except insofar as it influences that objective. If so, it is good news for the UK economy.

The Scottish economy will vary more than usual from the UK because of the referendum on 18 September 2014. Several separate conditions flow from the impending referendum: the first set is independent of its outcome; the second set depends on the outcome of the referendum which, if "yes", will comprise, first, a period of uncertainty while the terms of independence and external relations are negotiated and, second, the effects of such terms.

The referendum has created a new uncertainty and hence a new the risk for investment in Scotland. The value of all investments will fall. Some investment decisions will be delayed – the certain small cost of waiting will have been assessed as less than that associated with a possible post-referendum economic downturn, a risk more likely during the interregnum before any settlement is agreed.

The act of holding the referendum causes the previously unidentified risk of Scotland leaving the UK becoming real and relevant and the business risk becomes assessed and the contingent costs identified. For many companies, especially those in the financial sector, the potential costs are very high, including separate regulation, credit rating and credit costs, transaction costs, distribution costs, share valuation and equity capital costs, staff costs and brand value impairment. It is likely that, of the organisations currently undertaking contingency planning some, particularly among large institutions, having started, may continue and then execute such plans, of the referendum outcome. A present and recognised danger will initiate remedial action even if the contingent danger does not materialise or is circumvented. Most unfortunately, the referendum *per se* will reduce economic activity.

"A week is a long time in politics", and the referendum is not for 26 weeks! The "money" is on "No" at 1/3, but as I write I have just heard that Lord Windermere, a 20/1 outsider, having trailed the field at Cheltenham's Gold Cup, put on a magnificent finish to win by a nose. The politically brilliant Mr Salmond possesses what the FT describes as an almost "Gandalf-like ability to turn the political tables on opponents ….". Historically, this "Lord of the Rings" reversed a large deficit before the 2011 polls election to gain the SNP an absolute majority in Holyrood.

The opinion polls since campaigning began have consistently given the "No" vote a 10 point or greater lead, but the margin seems to be narrowing slightly. The "Don't Knows" are usually above 15%. There is a significant difference between the voting intentions of the ABC1 groups and the C2DE groups with the former polling two "No" to one "Yes" and the latter five "No" to four "Yes". In both groups the "Don't Knows" exceeded the "Yes". There is a lot to play for!

A poll in October 2013 to sample economic and political issues affecting voting decisions showed that the following were significant: economy and jobs 49%; pensions and benefits 37%; and taxes 32%. Another poll showed that of those who thought independence would make Scotland's economy "a lot better" 86% would vote "Yes"; and of those "a little better" 67% would vote "Yes". On this basis economic prospects strongly influence voting.

North Sea oil has gushed for the UK and for Scotland. Oil revenues account for 2% of the UK Government revenues but would be 19% of Scottish Government revenues.

The present UK Government spending is £2,039 per person per annum more than revenue, but, according to the Scottish government, in an independent Scotland it would be only £1,550 more than revenue: a strong economic argument for independence. However, oil revenues are dropping and according to the OBR will halve by 2017/18 resulting in UK spending being £2,225 more than revenue and Scotland spending rising to £2,602 more than revenue. Oil Revenues are projected by the OBR to drop by 75% within ten years, but only by 50% by the Scottish Government.

The rate of attrition of oil revenues is highly contentious, but it is widely accepted that, although 42bn barrels have already been extracted, 12bn to 24bn remain. However, recent figures indicate that the production decline will be rapid. In the ten years to 2012 production dropped from 2,495,000 barrels per day to 967,000 or by 61.2% including a fall in 2011 of 13.4%. Proved reserves which were unchanged between 1992 and 2002 have fallen almost 33% to only 8.8 years' production based on current reserves and outputs. These falls have taken place at a time of almost unprecedented real prices averaging over $100 since 2010 and only surpassed previously just after the Pennsylvanian boom in the mid nineteenth century. Exceptionally, the Iranian revolution in the late 1970s resulted in prices approaching this level. Moreover, during the recent high prices only about fifteen exploration wells have been drilled each year compared with 30 – 40 in the 2000s, indicating a perceived lack of profitable fields. Current operations suffer from increased maintenance costs, more downtime and a higher risk of outages, and unit operating costs have risen over 50% in three years. Oil prices are forecast to fall slightly over the next few years from the present highs and such price falls will render more and more North Sea fields uneconomic. Production and revenue falls could be large and rapid.

The North Sea oil industry comprises more than exploration and extraction as there are world class engineering services and IT industries which could continue to flourish independently if local production declines. Aberdeen has critical mass in a sector where IT allows physical separation, operations are worldwide and transport is by direct flight. It is noteworthy that in the City of London, services which were originally dependent on and rooted in local activity have continued there, while now serving a worldwide market. However, where technical skills are paramount and technological evolution is competitively vital, as in the oil industry, there are obvious advantages in being "on site" and near the action. Where are the ancillary industries associated with the great Scottish traditions in mining, shipbuilding, steelmaking and heavy engineering?

The decline of the oil industry is a very regrettable but inevitable external fact: it is a wasting asset. In contrast the possible decline of what has been and could continue to be a growing asset, the very successful financial and associated professional service sectors, accounting for more than 13% of Scottish GDP, depends on the referendum, although perversely the decision to hold such a referendum may already be inflicting some limited damage. Unless a monetary union is effected, which is extremely unlikely, it is virtually certain that considerable restructuring will be undertaken by the Scottish banks. Without direct supervision and the provision of a "lender of last resort" facilitated by the Bank of England, the banks would lose deposits and have greatly increased credit costs resulting from rating downgrades. Scotland simply could not have bailed out the RBS in 2008 which cost the equivalent of 200% of Scottish GDP. The reorganisation necessary will cause a huge loss of jobs directly and indirectly and a consequent continuing loss of revenue. Other financial institutions are affected to a greater or lesser extent. Standard Life has warned it may move its business HQ from Scotland where it has only 6% of its customers (over 50% in England) and it is likely that many other financial institutions are making the same contingency plans.

The future for a wide range of business activity in Scotland and almost all businesses with strong rUK ties is almost certain to be less favourable in an independent Scotland because of the probable outcome for the currency in an independent Scotland. The possibility of Scotland entering into a monetary union with rUK without such fiscal control and banking regulation as would make such independence nugatory is minimal. Whatever Mr Salmond contends, it will be necessary to make another arrangement for the currency. One possibility would be, having joined the EU, to adopt the Euro. While this is an economic arrangement that has palpably failed, it may be the least bad thing to do – such membership was widely endorsed by the SNP before the deficiencies of the Eurozone became evident. The only realistic option is for Scotland to have its own currency, say the Scots £, which could be pegged to the £ Sterling as Hong Kong is pegged to the $ and the Danish Krone to the €. However, without the backing of the Bank of England the Scots £ would be liable to large speculative attacks that would destabilise it unless Scotland amassed huge reserves like the Hong Kong Currency Board which, given Scotland's prospective economic conditions, is wholly unrealistic. The only choice entirely within Scotland's discretion is to have a fully independent currency – the Scots Crown, the Pound Scots or, John Kay's choice, the Bawbee first minted by the father of Mary, Queen of Scots, – surely a dramatic statement of true independence … with a hint of romanticism!

The currency options possess one common factor – they will all come at a cost. Scotland's share of the estimated UK debt of £1.5tn based on 8.2% of the UK population would be £126bn. If the Scottish population is 5.25m, then the debt per head is about £24,000. As Scotland's share of the UK debt matures and it is replaced by Scottish currency debt, the terms will not match those available to the UK with its AA+ (usually AAA) rating. The cost will be higher, say 2.0 percentage points, and at that margin the extra cost will be £480 per year or say £1,200 per "standard" household.

The economic prospects for an independent Scotland are not favourable. Although the poll discussed earlier indicated that prospective economic benefit of an independent Scotland would be influential in the referendum vote, it is difficult to see that arcane arguments such as many of the above can be successfully made except to a few voters who may well have already decided. Moreover, these arguments encapsulate assumptions and extrapolations which are not substantiated and conclusions which may not be accepted. Thus they are unlikely to influence more than a small number of those currently undecided.

The polls and the arguments discussed emphasise economic interests. However, a substantial and real attraction of the independence vote is based on idealism, romanticism, perceived past injury or slight, nationalism, kinship and social responsibility and the vaunted egalitarian tradition in Scotland. All these are powerful forces, many of them of admirable merit. It is right that Scotland makes a choice on principle but it will be an expensive club to join with a continuing high subscription.

I suspect that the *status quo* will prevail, but if so it will be a much closer-run thing than is currently perceived. In conclusion I forecast only marginal damage to Scotland's economic prospects.

Property Prospects

The IPD Index commercial property returns were 10.7% in 2013, 2.7% in 2012, 8.1% in 2011, 14.5% in 2010, 2.1% in 2009 and – 22.5% in the disaster year of 2008. The 2013 return comprised 5.2% "Income" return and 4.8% "Capital" return. Equities returned 18.5%, Property Equities 16.8% and Gilts 5.2%. The first two months of 2014 have given Property returns of 1.1% per month or 12.8% annualised. Over ten years, property has returned 6.3%, Equities 8.0%, Property Equities 4.8%, Bonds 5.8%, inflation has been 3.3%. The CBRE All Property Yield in December 2013 was 6.0%, a nominal 0.3 percentage points decrease in the year. The 10 year Gilt Yield rose 0.9 percentage points in the year to December 2013 to 2.7%, 3.3 percentage points lower than the All Property Yield. At the market peak in May 2007 the All Property Yield was 4.8% compared with the current 6.0%, or equivalent to a fall in property values of 20.0% assuming unchanged rents. The All Property Rent Index was 188 in May 2007 compared with 125 in December 2013 which, with the yield change, is equivalent to a fall of 25% in investment value since the peak.

Over the year yields for all sectors in all geographical areas have fallen, the All Industrial Sector having the largest fall, 0.84 percentage points, within which London recorded the largest fall of 1.24 percentage points. The North East and Humberside were the poorest performing areas in all major sectors. Rental growth of 2.75% for the All Property Index was very varied among the sectors as Offices rose 7.25%, but Industrials only 0.40% while All Retail Warehouses fell by 0.70%. The most notable change has been rental increases of over 10% in offices in London, in the West End, Mid Town and Suburbs and in the Thames Valley.

For the last two years I have said: "I see no recovery in the investment property market until "normal" economic growth returns", a position that has now been reached. The commercial market has started a recovery characterised by Cushman and Wakefield as: "demand ahead of supply, interest spreading from prime to secondary and from London to regional markets and debt markets becoming cheaper and more competitive …. downward yield pressures are at their strongest since 2009 and the gap between prime and secondary is closing as demand increases in second tier markets … the availability of debt continues to rise meanwhile, with an increasing diversity of lenders in the market … competition is pushing lenders to take on more risk – both in ….. the assets they will lend on and the terms and scale of debt ….". The February 2014 IPF Consensus forecast endorses this optimism. Whereas last year it forecast a total return of 7.4% in 2014 the current forecast for 2014 is for a 12.1% return, falling to 9.2% in 2015 and 7.3% in 2016 and 6.4% in 2017. The major change in 2014 is due to a 6.2% return from lower investment yields, giving higher prices, largely a one-off change in value which accounts for the return to a more usual 6.4% return in 2017.

The commercial property market is recovering rapidly from a very significant fall. While some areas, particularly in London and the south east, will eventually exceed 2007 levels, many are unlikely to regain such levels. The continuing revolution in retailing will have widespread significant effects. As I have said for two years, the investment market will continue to suffer a secular erosion caused by technical obsolescence, loss of locational primacy and competition from new formats.

2013 has marked a watershed in the UK residential market. After little change in 2012, 2011 and 2010 LSL report prices in the UK rose by 5.5% in England and Wales and by 3.1% in Scotland. The Nationwide and Halifax report much higher rises of about 8.0%, higher probably because of their narrower population of mortgage-related valuations. In 2013 the largest price rise was 10.6% in

Greater London, but price rises were low in Yorkshire and Humberside, 2.7%, Wales and East Anglia, 2.4%, and in the North, 1.45%. Throughout England and Wales the rate of house price growth was highest in the top-priced quartile and fell throughout the range of quartiles. In the top five London Boroughs prices rose by at least 15.0% except, anomalously, in the City of Westminster where the average price fell to £1,142,306! In December Greater London had had six successive months of peak prices, indicating, as LSL reports: "The rise in house prices in the capital is fairly extended".

In Scotland, the Registers of Scotland report prices rose 3.1% overall, and the most notable increase was 5.7% in Aberdeen. There was a spectacular rise of 14.9% in East Lothian and a fall of 8.7% in Inverclyde, but as these figures are based on much smaller areas than the English regions, they cannot validly be compared directly. In England a small unitary authority, Poole, experienced a 16.3% rise but another authority, Flintshire, a fall of 6.3%. In Edinburgh prices rose only 1.2% but in Glasgow they fell 0.7%. However, LSL figures for January 2014 indicate a rapidly improving trend in Scotland as prices rose 1.1% overall, including 2.9% in Edinburgh.

Independent forecasts for UK house prices are published by HMT. In February 2013 the forecast growth for house prices in 2014 was 2.3% with a range of 7.3% to -3.0%. This year the forecast growth for 2014 is 7.9% with a range of 17.0% to 4.4%. The equivalent forecasts for 2015 are 7.3% with a range of 16.0% to 3.2%.

Savills distinguish between "Mainstream" and "Prime" housing markets. UK Mainstream, including London, prices are expected to rise by 6.5%, 5.0%, 4.5%, 4.0% and 3% from 2014 onwards, rising 25% in five years, but Prime prices are expected to rise by 22% over five years. In Scotland, Savills expect Mainstream prices to rise by 4.5% in 2014 and then by 4.5%, 3.5%, 3.5%, 3.3% and 2.0% or by 19.3% over five years. Prime values are expected to rise more slowly in 2014 but at an increased rate in later years giving a rise of 18.1% over five years.

Interestingly Savills say both: "We do not expect possible Scottish Independence to affect the viability of Edinburgh and Aberdeen as attractive locations (nor) buyers with strong Scottish connections ……" and "However, uncertainty surrounding the key issues of currency, taxation and mortgage rates could stall the market."

The continued recovery in the UK economy together with the increased availability of credit and, crucially for first time buyers, the Government Help to Buy schemes will increase demand substantially. The available short-term supply, principally an overhang of sellers previously unable to get their prices, has been cleared as shown by the large number of transactions with little price change. Longer-term supply is only available after a long production cycle, including particularly planning, and is restricted by the elimination of many small builders and by lack of finance for many of the remainder. I foresee that, given political stability, prices will increase rapidly, especially for family homes for which the supply seems most constrained and for which the potential demand seem greatest.

Conclusion

We are at last about to emerge from the longest depression in recorded history. Economic prospects for the UK are favourable, but slightly less so for Scotland which faces the distraction being caused by the referendum and by the additional turmoil likely in the possible, but unlikely, event of a "Yes" vote.

The housing market will improve significantly and continue to do so except possibly for "Prime" properties in the event of a "Yes" vote. However, the market should recover when the uncertainties and adjustments necessary to accommodate a "Yes" vote have been accomplished.

We continue to promote our strategic land sites and expect that shortly some of them will be ready for development by which time the market should be significantly better. In our existing portfolio most development properties are valued at cost, usually based on existing use, and, when these sites obtain consent and are then developed or sold, the considerable upside value will be realised. The Group's strategy formulated in 2006 has allowed us to enter the upswing in the housing market in a strong position.

I D Lowe
Chairman 27 March 2014

Consolidated statement of comprehensive income for the six months ended 31 December 2013

	Note	**6 months ended 31 Dec 2013 £000**	**6 months ended 31 Dec 2012 £000**	**Year ended 30 June 2013 £000**
Revenue from properties		**177**	197	334
Property charges		**(116)**	(111)	(203)
Sale of trading properties		**513**	-	-
Cost of sale of trading properties		**(480)**	-	-
Net rental and related property income		**94**	86	131
Other income		**47**	25	120
Other expenses		**-**	(8)	-
Net other income		**47**	17	120
Administrative expenses		**(352)**	(365)	(726)
Operating loss before investment property disposals and valuation movements		**(211)**	(262)	(475)
Valuation gains on investment properties		**-**	-	620
Valuation losses on investment properties		**-**	-	(110)
Operating loss before net financing costs		**(211)**	(262)	35
Finance income		**-**	1	1
Finance expenses		**(51)**	(47)	(98)
Loss before taxation		**(262)**	(308)	(62)
Income Taxes	5	**-**	-	-
Loss for the financial period attributable to equity holders of the company		**(262)**	(308)	(62)

Loss per share

Basic loss per share (pence)	4	**2.22p**	2.60p	0.52p
Diluted loss per share (pence)	4	**2.22p**	2.60p	0.52p

Consolidated statement of changes in equity for the six months ended 31 December 2013

	Share capital £000	Other reserves £000	Retained earnings £000	Total £000
At 1 July 2013	2,357	2,920	11,904	17,181
Loss for the period	-	-	(262)	(262)
At 31 December 2013	**2,357**	2,920	11,642	16,919
At 1 July 2012	2,377	2,920	12,007	17,304
Loss for the period	-	-	(349)	(349)
Share buyback	(20)	-	-	(20)
At 31 December 2012	2,357	2,920	11,658	16,935
At 1 July 2012	2,377	2,920	12,007	17,304
Loss for the period	-	-	(103)	(103)
Share buyback	(20)	-	-	(20)
At 30 June 2013	2,357	2,920	11,904	17,181

Other reserves consist of the share premium account £2,745,000 and the capital redemption reserve of £175,000

Consolidated balance sheet as at 31 December 2013

	Note	31 Dec 2013 £000	31 Dec 2012 £000	30 June 2013 £000
Non current assets				
Investment properties		**8,635**	8,125	8,635
Plant and equipment		**24**	30	24
Total non-current assets		**8,659**	8,155	8,659
Current assets				
Trading properties		**11,317**	11,631	11,771
Trade and other receivables		**170**	159	176
Cash and cash equivalents		**376**	171	6

Total current assets		**11,863**	11,961	11,953
Total assets		**20,522**	20,116	20,612
Current liabilities				
Trade and other payables		**(503)**	(456)	(431)
Interest bearing loans and borrowings		**(3,100)**	(2,725)	(3,000)
Total liabilities		**(3,603)**	(3,181)	(3,431)
Net assets		**16,919**	16,935	17,181
Equity				
Issued share capital	6	**2,357**	2,357	2,357
Other reserves		**2,920**	2,920	2,920
Retained earnings		**11,642**	11,658	11,904
Total equity attributable to equity holders of the parent company		**16,919**	16,935	17,181

Consolidated cash flow statement for the six months ended 31 December 2013

	6 months ended 31 Dec 2013 £000	6 months ended 31 Dec 2012 £000	Year ended 30 June 2013 £000
Loss for the period	**(262)**	(308)	(62)
Adjustments			
Investment property valuation movements	**-**	-	(510)
Depreciation	**-**	-	13
Net finance expense	**51**	46	97
Operating cash flows before movements in working capital	**(211)**	(262)	(462)
Decrease/(increase) in trading properties	**455**	(266)	(406)
Decrease/(increase) in trade and other receivables	**6**	(19)	(36)
Increase in trade and other payables	**21**	85	9
Cash flows from operating activities	**271**	(462)	(895)
Interest paid	**-**	-	(14)
Interest received	**-**	1	1

Cash flows from operating activities	**271**	(461)	(908)
Investing activities			
Purchase of listed investments	**(1)**	-	-
Purchases of plant and equipment	**-**	(2)	(9)
Cash flows from investing activities	**(1)**	(2)	(9)
Financing activities			
Increase in borrowings	**100**	-	275
Sale of trade investment	**-**	4	-
Purchase of own shares	**-**	(61)	(43)
Cash flows from financing activities	**100**	(57)	232
Net increase/(decrease) in cash and cash equivalents	**370**	(520)	(685)
Cash and cash equivalents at beginning of period	**6**	691	691
Cash and cash equivalents at end of period	**376**	171	6

Notes to the accounts

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1 This interim statement for the six month period to 31 December 2013 is unaudited and was approved by the directors on 27 March 2014. Caledonian Trust PLC (the "company") is a company domiciled in the United Kingdom. The information set out does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006.

2 **Going concern basis**

After making enquiries, the Directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing this interim statement.

3 **Accounting policies**

Basis of preparation

The consolidated interim financial information of the Company for the six months ended 31 December 2013 comprise the Company and its subsidiaries, together referred to as the “Group”.

The financial information set out in this announcement for the year ended 30 June 2013 does not constitute the Group’s statutory accounts for that period within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 June 2013 are available on the Company’s website at www.caledoniantrust.com and have been delivered to the Registrar of Companies. These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union. The auditors have reported on those financial statements; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

The financial information set out in this announcement has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("adopted IFRS"). The financial information is presented in sterling and rounded to the nearest thousand.

The financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 30 June 2013. In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the interim statement. Changes in the assumptions underlying the estimates could result in a significant impact to the financial information. The most critical of these accounting judgement and estimation areas are included in the Group's 2013 consolidated financial statements and the main areas of judgement and estimation are similar to those disclosed in the financial statements for the year ended 30 June 2013.

4 Loss per share

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

	6 months ended 31 Dec 2013 £000	**6 months ended 31 Dec 2012 £000**	**Year ended 30 June 2013 £000**
Loss for financial period	**(262)**	(308)	(62)
	===	===	===
	No.	No.	No.
Weighted average no. of shares:			
For basic loss per share and for diluted loss per share	**11,783,577**	11,844,016	11,814,045
	========	========	========
Basic loss per share	**2.22p**	2.60p	0.52p
Diluted loss per share	**2.22p**	2.60p	0.52p

5 Income tax

Taxation for the 6 months ended 31 December 2013 is based on the effective rate of taxation which is estimated to apply to the year ending 30 June 2014. Due to the tax losses incurred there is no tax charge for the period.

In the case of deferred tax in relation to investment property revaluation surpluses, the base cost used is historical book cost and includes allowances or deductions which may be available to reduce the actual tax liability which would crystallise in the event of a disposal of the asset. At 31 December 2013 there is a deferred tax asset which is not recognised in these accounts.

6 Issued share capital

	31 December 2013		31 December 2012		30 June 2013	
	No 000	**£000**	No. 000	£000	No. 000	£000
Issued and fully paid						
Ordinary shares of	**11,784**	**2,357**	11,784	2,357	11,784	2,357

20p each						
	=====	====	=====	====	=====	====

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