CALEDONIAN TRUST

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INTERIM STATEMENT

Half Year to 31 December 2015

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Introduction

The Group made a pre-tax loss of £180,000 in the six months to 31 December 2015 compared with a pre-tax loss of £187,000 for the same period last year. The loss per share was 1.53p and the NAV per share was 150.5p compared with a loss per share of 1.59p and NAV per share of 145.6p last year.

In the period under review one investment property was sold at a gain and remaining investment property values are unchanged from 30 June 2015. Income from rent and service charges was £175,000 compared with £156,000 last year. Administrative expenses were £332,000 compared with £363,000 last year.

Review of Activities

The Group's emphasis continues to be on development, including works to secure existing planning consents, and the provision of infrastructure for development plots, and the marketing of house plots and houses.

We have four main development sites in Edinburgh. Brunstane Home Farm is in the Green Belt in east Edinburgh, but is just off the A1 and lies immediately adjacent to Brunstane railway station with services to Edinburgh (seven minutes) and south via the recently-reopened Borders Railway to Tweedbank/Galashiels. Last year we completed the extensive alterations to four listed Georgian stone-built, two-bedroom cottages together with the infrastructure necessary for the next stages of the development. Following the sale of the first two cottages the sale of the remaining two others was hampered by the ongoing adjacent construction of the next phase of development, but the third cottage sold in September 2015 and the last cottage is under missive with completion due on 31 March 2016. Prices of *c*£275/ft² augur well for the larger phases of the development which follow. The cottages, flanked by the stone steading to the east and an amenity plantation to the west, form part of a courtyard. Last year we obtained planning consent for two larger stone-fronted houses over 2,300ft² to the south which will complete this attractive courtyard. We also obtained vacant possession of some garden ground which has allowed us to expand and redesign these houses, incorporating important changes in construction which also reduce costs. The site has been cleared ready to start construction as soon as the preferred tender has been adjusted and confirmation has been received of the proposed small design changes.

Work started over a year ago on the next phase of five stone-built houses, "The Horsemill Phase", which comprises five stone arched cartsheds, a single storey cottage, the main grain barn and an unusual hexagonal horsemill. The very extensive stone repairs and renewals should be completed shortly leaving only the Horsemill to be rebuilt, largely from existing tooled stone. The Horsemill is only single storey and the stonework, although complex, should complete in the autumn. The Horsemill phase of *c* 7,000ft² should produce a surplus over further construction costs of over £0.75m. The next phase, "the Steading", has been cleared of all the previous unlisted farm buildings, allowing the development to follow the Horsemill phase, to which it is similar in size. The Steading phase will be all "new build", allowing higher development margins.

East of the main steading, on the now derelict stackyard and piggery sites, lies a detached stone building with consent for conversion and extension to form a detached farmhouse extending to 3,226ft². The farmhouse site is on open ground with clear views to the Forth estuary to the north and to the Pentland Hills to the south. Beyond the farmhouse in open ground to the east we hold a two-acre site, whose abstraction from the Green Belt is proposed in the Finalised Draft Edinburgh Local Plan which we expect to be adopted this year. Proposals for the development of this two acre former stackyard and piggery site, together with the proposed farmhouse site, have been accepted in principle as suitable for a development of fifteen – twenty-five new-build houses.

We hope to recommence development this year at Wallyford, Musselburgh, where we have implemented a consent for six detached houses and four semi-detached houses over 12,469ft². The site lies within 400m of the East Coast mainline station, is near the A1/A720 City Bypass junction and is contiguous with a recently-completed development of 250 houses. Taylor Wimpey are building over 400 houses nearby, but on the other side of the mainline railway, which are selling rapidly at prices that have risen modestly to the current £214/ft² for smaller terraced houses and Persimmon are building 49 houses on the eastern fringe of the settlement. The ground works for over 1,000 new houses and a new secondary school campus on the southern edge of the settlement have also recently started. These large schemes are expected to be very successful, drawing a large number of people to the settlement, but will not be directly competitive with our small specialist development. The southerly site will assist in the remediation of the "bing" and former colliery site at Wallyford so contributing a further major improvement of the environment at Wallyford, now being slowly transformed from a former mining village to a modern, well-located suburb on the fertile East Lothian coastal strip.

In Edinburgh at Belford Road, a quiet *cul-de-sac* less than 500m from Charlotte Square and the west end of Princes Street, we have implemented an office consent for a development over 22,500ft² and fourteen car spaces. We also hold a separate residential consent, which has also been implemented, for a development of twenty flats over 21,000ft² together with indoor parking for twenty cars.

In preparation for development, long overdue maintenance work has started for which an appropriate access has been reformed which will become the vehicular access to the site. When the current maintenance work is complete a more accurate assessment of the practicality and costs of the required excavation, groundworks and possible retention works can be made. From initial observations it appears probable that none of the present ruinous structures are loadbearing and they can therefore be removed without providing an alternative structural element. Once the current maintenance work is complete it will allow construction costs to be more accurately assessed and the risk of construction cost overruns reduced, facilitating lower tender prices. The lower costs we expect to achieve, combined with the possibility of higher values for the usable areas obtained, should allow the current design to be built more profitably.

St Margaret's House, London Road, is our largest Edinburgh development site where PPP for a 231,000ft² development was renewed in June 2015. We continue to consider a variety of possible developments under improving conditions. Immediately west of St Margaret's lies the Meadowbank sports complex which the City of Edinburgh Council (CEC) proposes to redevelop to form a more compact sports centre together with accommodation for up to 1200 students and 360 residential units, including 126 affordable houses. Currently the CEC estimates that there is a capital shortfall of £5.98m, which it is recommended is met from the Capital Investment Programme 2016/20. The Council meeting agreed to this proposal on 10 March 2016 and allocated £700,000 to complete a detailed design to RIBA Stage 4 to allow the project to be tendered. The report to the Council noted that Meadowbank is "Edinburgh's biggest "driver" of indoor and outdoor sport" for all ages, that "the facility cannot be refurbished to a satisfactory standard", that the current facility costs £0.33m a year to run and that "Meadowbank would help to meet the city's housing needs, including affordable housing."

The almost certain redevelopment of Meadowbank will greatly improve the amenity of the area and provide an exceptional leisure facility next door, factors already improving site values. We have commissioned architects to produce detailed proposals for the "West Point" of the St Margaret's site to provide up to sixty flats for sale.

We have taken several measures to improve the rental income at St Margaret's. We have obtained planning consent for an advertising hoarding which is being let and will provide an annual rental income of about £35,000. We are negotiating a rental increase for the car park with our neighbours, Registers of Scotland, and have agreed a stepped rental increase with the tenants, Edinburgh Palette. I intend rents to be at an annual rate of over £0.25m by the end of 2017 with further rises likely if redevelopment is further delayed.

The company has three large development sites in the Edinburgh and Glasgow catchment areas. Two sites are at Cockburnspath on the A1 just east of Dunbar and the East Lothian border where we have

implemented the two planning consents for 72 detached and four semi-detached family houses. We have delayed development as market conditions were not favourable in 2015. In the Scottish Borders houses prices fell 7.3% in 2015 and in the adjacent East Lothian, while average prices rose 3.1% in 2015, prices of detached houses were unchanged.

The third large development site is seven miles from central Glasgow at Gartshore, Kirkintilloch, on the Forth and Clyde Canal and comprises the nucleus of the large estate formerly owned by the Whitelaw family. In order to meet local house building objectives we are promoting the creation of a new village of a few hundred cottages and houses together with local amenities within the existing designed landscape. Such a development would complement our proposals for a high-amenity business park in a rural setting, including an hotel and a destination leisure centre. This is a long-term project which meets existing needs and development criteria and for which we are gaining support in the local community. To illustrate our proposals we are refurbishing a period stable and associated hayloft as a 500ft² exhibition centre illustrating both the history of the Estate and our proposals. The exhibition room is housed in the most attractive 12,000ft² purpose-built stables complete with elegant clock tower where essential repairs and overdue maintenance are now taking place. We expect to open the exhibition in the summer.

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 thirty acre smallholding in Comrie on the River Earn, we hold a consent for twelve detached houses over 19,206ft². We have now submitted an application for a revised layout for this site and another planning application for a further thirteen houses on our adjoining two-acre area previously zoned for industrial use. These two applications for twenty-five new houses will occupy over 40,000ft². This application continues to be considered. The rural market in 2015 in Argyll and Bute and Perth and Kinross and Fife continues to be unsatisfactory and consequently we have deferred most planning and almost all development work. Against this poor background we are negotiating the sale of a plot in Chance Inn at our target price.

Nearby at Carnbo, on the A91 Kinross to Stirling road, we recently completed negotiations for the Section 75 Agreement to enable the development of four houses over 7,900ft². It is intended to market these plots in the summer.

Our largest rural development site is at Ardpatrick, a peninsula of great natural beauty on West Loch Tarbert within two hours' drive of Glasgow and central Scotland. We are marketing several development sites: Bay Cottage, a bothy for conversion with 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; two plots set in a small field just off the B8024 Kilberry Road; and a further three sites on the UC33, a *cul-de-sac*, which leads to the estate.

The repair of the infrastructure necessary to *maintain* the more productive agricultural land continues. The exceptional wet winter has proved the value of this work and it is expected that as a result of these repairs the land will retain its improved status, maintaining agricultural payments and improved land values. A study of the woodland is being made which should allow the realisation of the asset value of the existing commercial forest followed by replanting it, together with the less productive land, using woodland grant schemes. In order to improve house plot values small amenity improvements are being undertaken and the servicing of plots implemented to establish their planning consents. Further, it is proposed to improve the potable water supply to make the residential units more valuable and saleable.

Economic Prospects

The EU referendum is the main determinant of the UK's immediate economic prospects and its utcome may have a significant influence on the UK's long-term economic prospects. The influence of the referendum will be experienced in two phases if the vote is "remain", and in three phases, if the vote is "leave".

Irrespective of whether the vote is "remain" or "leave" the first phase is common. The prospect of the consequences of "leave" has several immediate unfortunate implications for the economy which are likely to amplify as the referendum date approaches. The principal concern arises over the prospects for UK trade which may become restricted and lead to a larger balance of payments deficit, poorer economic growth and greater fiscal deficits. When the referendum was announced in late February the £ weakened against the $, falling below $1.39 its lowest since 2009, although it recovered slightly in March to the current $1.1415, considerably lower than its average of $1.70 since the Bretton Woods agreement was suspended in 1971. A cumulative position of £11bn has been taken on the foreign exchange markets that the pound will fall to $1.35 or below if the UK votes "leave". The UK runs a considerable current account deficit in which it requires a continuing inflow of foreign capital which might only be available at greater cost. The threat to the exchange rate is likely to increase the cost of Government borrowing as each month the UK must borrow about £10bn from international markets primarily to meet budget deficits. Unfortunately, demand for Government debts has fallen sharply and in January 2016 a sale of five year gilts came closer to failure than any auction since 2009 as there were bids for only 1.07 times the gilts auctioned. Any consequent rise in gilt yields increases the cost of government borrowing. In the commercial property market a significant number of deals are being conducted conditional on a "remain" vote while others are being delayed until after the vote. In such an environment it is likely that many industrial and commercial investment decisions are also being postponed, reducing economic growth and delaying improvements in productivity.

If the "remain" vote wins, the first phase leads to the second phase, largely a reversal of the changes and delays induced by the waiting period up to the referendum. However, if the vote to remain is won only by a slender margin, say less than 55:45, then there will be an appreciable risk that, given the decision appears not to be final, that some of the first phase symptoms are not reversed. The "yes" campaign in Scotland has been exceptionally skilled in maintaining the prospect of "yes"; largely because in Scotland the "yes" movement has the support of the Scottish Government with all the power, wealth and patronage of office to continue the campaign for "independence". In contrast in the UK even with a narrow "remain" vote such powers lie with the UK Government.

A "leave" vote will trigger the first of two further phases: the negotiations of the withdrawal. Unfortunately for the "leave" campaign, even if the third phase, the final settlement, subsequently provides an economic and political climate that is equal to or even more favourable than the existing conditions, the intermediate period will be one of considerable economic stress. Investment will be delayed, and some inward investment will be diverted to the EU and some businesses may pre-emptively relocate within the remaining EU. The stock market and the £ will fall. The third phase of a "leave" vote is the effect of the final negotiated settlement, which is required under EU law within two years. The prospective outcome is highly uncertain and very difficult to estimate, but it is a presumption of what this final settlement will be that underlies, if only implicitly, the various and very varied estimates of the consequences of a "leave" vote.

The probability of "leave" will influence the first phase whether the outcome is "leave" or “remain". This probability has been increasing as reflected in the gaming odds, notably following the snap resignation of Iain Duncan Smith. Amusingly, betting is on or against the wrong steed, Brexit, who is not running, but a related stable mate, a stallion, UK exit, whose Jockey Club name is United Kingdom of Great Britain and Northern Ireland.

The betting odds on 16 January 2016 were 3/1 against (15/5) Brexit, or a 25% probability, but this fell to 12/5 on 17 March and has recently fallen further to 2/1 (10/5), or a 33% probability and currently stands at 15/8.

"Polls" proved poor indicators of the result of the May 2015 General Election. Just before the election the average of the polls showed Labour and Conservative parties each at 34%, but on the election day the Conservatives led by 7 percentage points. The pollsters, on whom very large sums of money appear to have been wasted, have provided two explanations for their failure to be more accurate, both based on the proposition that in the polls the respondents failed to reveal their true underlying preference. The failure arose because either there was a post-polling late swing to the Conservatives or there were "shy Tories" declining to admit their Toryism or "lazy Labour" voters who failed to vote.

No doubt both these variants occurred to some extent. However, Professor Curtice suggests that an ongoing enquiry into the variation in the results will conclude that the main source of error was the pollsters' sampling techniques. In particular those sampled were not representative. Specifically, internet polling is likely to have been even more inaccurate than the average as such systems rely on volunteers who sign up – such volunteers obviously being far from representative. Thus the exact pollsters' results require a heavy *caveat*.

The rolling average of the results collated by the Telegraph currently shows 51% in favour of "remain" and 49% in favour of "leave". These results exclude "undecided", accounting for about 15% of those polled. The FT Brexit Poll Tracker, a rolling average, currently shows 45% "remain", 40% "leave" and 14% (sic) "undecided". "Remain" peaked at 52% in summer 2015, possibly following the General Election, but declined in the autumn and fell at the beginning of winter, fluctuating around the current 45% level. A nationwide survey by the Guardian provides the basis for an analysis of the relationship between poll returns and actual voting, showing three significant tendencies. Of all those polled 61% replied that they "definitely would vote", but amongst "leave" voters 76% "definitely would vote" compared with 59% of "remain" voters. The survey found that Euro scepticism is closely correlated with age with older Britons more likely to vote "leave". Of voters aged 65 or over, 88% will definitely vote compared with 37% of those aged 25 – 34 and 34% of those aged 18-24. Clearly older voters, proportionately, more likely to vote "leave", are likely to turn out to vote than the younger voters, likely to vote "remain", are. Thirdly, 76% of "leave" supporters say they will definitely vote compared with 59% of the "remain" supporters. These three factors indicate that the actual poll results from those "not undecided" will give a much higher proportion of "leave" vote than the polls indicate.

The "undecided" comprise about 14-16% of the FT's rolling average poll tracker over the last year. Some polls are understood to make a *pro rata* appointment over the "leave" and "remain" supporters. While such an allocation is neat and convenient, I find there is no evidence for such an allocation. "Undecideds" seem likely not to hold strong views and are therefore less likely than the "average" to vote and when they do vote, not holding strong views, to be against change. I conclude that the "undecideds" will not split *pro rata* but rather will be skewed towards "remain".

The "undecideds" will be a key constituency, a most important variable. The other important variables are the evolution of the immigrant crisis in continental Europe and the long time – three months – until the referendum. The resignation of Iain Duncan Smith was unexpected and other unexpected events, equally relevant to the outcome of the referendum, may occur. The polls, as interpreted, indicate a much closer race than the current betting which gives "leave" a 35% probability.

Despite the polls, the downwards movement of the odds against Brexit and the rocket fuel of immigration propelling the "leave" cause there is, as the FT says, "an unwillingness among mainstream politicians to believe the warning signs ....." a stance mirroring the conventional wisdom in the USA that maintained Donald Trump would never win the Republican nomination, an outcome now increasingly more likely.

The "remain" campaign has a powerful champion in the Prime Minister. Not only does he have the full power of office, patronage and publicity behind him, as did Salmond who used all three so successfully in the Scottish independence campaign, but he is also a seasoned, successful campaigner who unexpectedly won the General Election and assisted materially in achieving a "No" vote in the Scottish referendum. Such skills and talents may be required to retrieve the "remain" position, a referendum challenge that he brought on himself in order to make a short-term accommodation with dissident elements in his party. The Prime Minister’s credibility is undermined by his undertaking to secure reformation in the EU because UK’s "best future lies within a reformed EU". Patently this means that the UK's future does not lie with an unreformed EU but with the reformed one promised after the negotiation. Unfortunately, in Martin Wolf's words: "Mr Cameron has laboured to produce a mouse". Given that the UK's place was in a reformed EU and, given that no real reform has been achieved, the logic of Mr Cameron's position is "leave", but political expedience overrides consistency.

Many commentators consider a "leave" vote will damage the economy. This itself will damage the economy before the referendum. Subsequently, anti-climax will mark the start of the next phase. The

day after a "leave" result – the sun will still rise and everything will appear as before. However, that day heralds the onset of the two-year "leave" negotiations during which time the threat, or the impending reality, of the economic consequences of leaving will affect sentiment, investment activity and growth, depending on the perception of the likely outcome and its effects. I suspect two years of ebb and flow depending on these perceptions, but, however favourable the terms ultimately agreed are, economic growth in that negotiating period is almost certain to be sub-optimal. Moreover, while the negotiating period is normally within two years, if past EU timetables are any guide, this could easily be exceeded, possibly by a long time.

In phase three, after the negotiated settlement, the economic effects are the subject of wide and varying analysis and speculation, based largely on the eventual outcome of the settlement. Put simply, there are two main variables: what will the settlement be and what are the effects of such a settlement? Most economic studies report that Brexit would damage the UK economy. Three recent reports from Centre for Economic Performance, the CBI/PWC and Oxford Economics all consider that in the worst case scenario the long-term effects would average about minus £4,000 per annum per household, while the best outcome would vary from minus £680 to plus £70. Martin Wolf, associate editor and chief economic commentator of the FT, forthright as usual, says: "A vote for Brexit is a leap into the abyss". UK Industry and Financial "establishment" figures are prominent amongst those predicting an unfavourable outcome for Brexit.

The argument for Brexit has interesting arguments based on precedent and credibility of the components of "leave". The precedents include the shrill cry of "Wolf" over the potential threat of the millennium Y2K: the lifts stopped in remarkably few, if any, unprepared places; a huge amount of capital was wasted; and nominally highly qualified committees made bad judgements. Similarly the perceived wisdom of the City, including notably the FT and the Economist, was that the exclusion from the EZ would be specifically damaging to the City and generally damaging to the economy. In reality nothing could be further from the outcome. Proponents of Brexit argue that "remain" companies include many that wrongly advocated EZ membership and many that have been psychologically "captured" by oligarchal and European institutional influences. On the specific arguments for "leave" eminent individual economists are among those considering Brexit as only slightly economically unfavourable, or neutral or slightly favourable, although like "establishment" figures they acknowledge that such views are generally predicated on "favourable" trading arrangements with the EU and with the rest of the world, an outcome that classic economics would hold as rational and therefore appropriate. Economists expressing such views include Professor Patrick Minford, Cardiff Business School, John Redwood, Fellow of All Souls, Oxford, Nigel Lawson, the former conservative Chancellor, and Roger Bootle, Executive Chairman of Capital Economics. A common thread amongst these economists is the mutual benefit obtainable from free trade. Thus they expect better and wider trade agreements between the UK and the world outside the EU and a "good" settlement with the EU.

If there is one single point that distinguishes the economic argument between remaining in the EU and leaving the EU, it is the question of free trade. For the UK the significance of EU membership is being "inside" and the fear of leaving the EU is being "outside". The EU inside/outside argument only arises because there is a trade wall and there are other barriers to trade outside it. For instance, there are EU external tariffs on most manufacturing, including cars at 10%, a highly protectionist regime for agriculture and there is a high wall of non-tariff barriers which, for US manufacturers, are estimated to be equivalent to a tariff barrier of 14.7%. The EU, as Professor Minford says, has a "protectionist mind set" while an independent UK "establishes free trade and intelligent regulation aimed at UK economic interests." Professor Minford is playing a variation on the rallying call of *laissez-faire* economics while the proponents of the EU prefer the more protectionist dirigiste "indicative planning" system.

In the short term economic activity will be greatly influenced by the expectation of the results of the referendum and any continuation of the present evidence for a growing probability of a "leave" vote will depress economic growth. A "leave" vote in June, now only three months away, is likely to cause a further contraction in growth, at least until a negotiated settlement is reached, after which the terms of that settlement become paramount.

The OBR condition their March report: "We have made no assessment of the potential long-term impact of 'Brexit' on the economy and the public finances, as Parliament requires us to base our forecasts on current Government policy and not to consider alternatives". The significant and most disappointing feature of the OBR report is that since November 2015 forecasts of economic growth have largely been revised down with revisions extended back as far as Q2 2015 totalling 1.5 percentage points by the end of 2020. Growth is still expected to be 2.0% in 2016 and 2.1% in each of the next three years, a large downturn from the 2.9% out turn for 2014. The growth in GDP in Q4 masks a significant fall in productivity as output was increased by higher employment and more hours worked per employee, but output per hour fell by 1.2% compared with an expected increase of 0.2%. Productivity growth since the recession has been extremely disappointing and the output gap between what the output level would have been had it grown according to previous trend and what now exists is at least 15% of total output. The OBR estimate is conditional on a continuation of low oil prices forecast by them in November 2015 at $51.2 and in March 2016 at $32.7. The OBR projections are conditioned by a lower price at $50 which for the UK, a net importer of oil, is estimated to raise GDP by about 0.2% per annum for five year. As the OBR includes an adjustment for the benefit of such an oil price fall, the underlying growth figures are lower than those projected.

There is remarkably little divergence of view among economists on the immediate prospects for the UK economy. HMT report that the average of "new" forecasts is for 2.0% growth in 2016 and 2.2% in 2017; the Economist's poll of forecasters average 2.0% in 2016 and 2.1% in 2017; the Bank of England, more optimistic than the Economist's poll, has a central expectation at 2.2% in 2016 (previously 2.5% in November 2015) rising to 2.4% in 2017 (previously 2.7% in November 2015). The reduced estimate of post-2015 growth highlights the slowing growth of the UK economy from 2.9% in 2014.

The Scottish economy is being affected by the downturn in the oil industry as, unlike the UK as a whole, a lower oil price depresses the Scottish economy. Mackay Consultants forecast Scottish GDP to gain only 1.7% in 2016 and 1.9% in 2017, figures similar to the EY Scottish Item Club's downward revision to 1.8% for two years. The Fraser of Allander Institute gives higher estimates but, as the Mackay report says: " .....their forecasting records have been very poor in recent years"! The Scottish average figures disguise a wide variation in regional performance as the economy in the oil-intensive north east has been particularly badly affected. For example while in the year to 31 January 2016 unemployment fell by 8.2% in Scotland and by 15.4% in Edinburgh it rose by 68.5% in Aberdeen and by 92.1% in Aberdeenshire.

The depressing current oil mantra "lower for longer" is, unfortunately, probably accurate, as futures prices indicate. Last year on 15 March the five-year Brent future was $74.29 and this year on 18 March it was $52.71; although higher than the sub-$50 low in late January 2016. It would be most unwise to formulate policy based on any recovery of the oil industry in Scotland. Indeed, the continuation of prices at or slightly above the current range will undoubtedly produce further contractions in the industry.

The economic prospects for the UK, and for Scotland, after allowance for the "oil factor", appear steady and reasonable by historical standards but such prospects are subject to a short term hesitation prior to the referendum and overlain by the unpredictable outcomes triggered by the referendum.

Property Prospects

The IPD Index commercial property returns were 13.1% in 2015, 17.8% in 2014, 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 2015 return comprised 4.8% "Income" return and 8.0% "Capital" return. Equities returned -2.2%, Property Equities 5.1% and Gilts 1.0%. Over ten years, Property has returned 5.7%, Equities 4.7%, Property Equities 1.1% and Bonds 5.6% while inflation has been 3.0%.

The CBRE All Property Yield in December 2014 was 5.3%, a 0.2 percentage point decrease in the year. The 10 Year Gilt Yield rose 0.16 percentage points in the year to December 2015 to 1.96%, 3.4 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 5.3%, or equivalent to a fall in property values of 9.4%, assuming unchanged rents. The All Property Rent Index was 189 in December 2015 which is the first occasion that it has exceeded the previous 2007 peak. The 2007 rental index adjusted for RPI is 232 and the current rent index of 189 represents a fall in real value of 18.5%.

Over the year the yields fell for all sectors in all geographical areas apart from Retail Warehouses which were broadly unchanged. The largest sectoral fall was 0.42 percentage points in "All Shopping Centres" and the largest geographical fall was 0.74 percentage points in the north east for Industrials. Overall it is noticeable that yields have fallen more in areas outwith the south east than elsewhere with the exception of Shops in Central London which, at December 2015 yielded only 2.86%. In 2007 10 year gilts yielded 4.6%, much higher than the current 1.8%, and the All Property Yield has fallen to 1.8%, a yield gap of 2.8 percentage points. Yields for all sectors, apart from Retail Warehouses, have also fallen below the 2007 levels but only by a maximum of 0.6 percentage points for Offices, largely due to low London office yields. In Scotland, by exception, all sectors continue to have higher yields than for the UK as a whole by 0.6% for Scottish Shops and Scottish Industrials and by 1.2% for Scottish Offices.

In the UK rental growth took place in 2015 in all sectors, averaging 5.0%, an increase from 3.8% in 2014. Shop rentals rose overall by 3% and by 18% in central London but they declined in most areas immediately adjacent to London: office rentals improved by 6.5% primarily due to continuing large rent rises in Central London.

The recovery in the commercial property market, which began in 2013, accelerated to return 17.8% in 2014, and returned 13.1% in 2015, is expected to fall back in 2016. The Investment Property Forum (IPF) forecast "Total Returns" of 9.3% in 2016, one percentage point above their previous forecast, but they now forecast returns to continue to fall to 5.4% in 2017 and 5.7% in 2018 as rental value growth declines from 3.4% in 2016 to about 2.5% in 2017 and 2018, while capital growth falls from 4.1% in 2016 to around nil for the next three years. For the next five years they forecast an income return of about 5.0% and a capital return of about 2.5%.

The commercial property market has continued to recover strongly from a very significant fall and seems likely to continue to give reasonable returns. Some investment property values, notably in London and the South East, will probably exceed 2007 peak levels but many are unlikely to regain such levels for many years. In particular, the continuing revolution in retailing is having widespread significant effects. I repeat my previous assessment that segments of the investment market will continue to suffer a secular erosion caused by technical obsolescence, loss of locational primacy and competition from new formats.

In 2015 the residential market maintained the improvement started in 2013 after three years of little change. In Scotland the LSL House Price Index rose 2.5%, lower than the rises of 4.2% in 2014 and of 3.1% in 2013. In December 2015 the average house price in Scotland was £170,641. In England and Wales the LSL House Price Index rose 6.6%, lower than the exceptional 9.0% in 2014 but similar to the 6.0% rise in 2014. In Dec 2015 the average house price in England and Wales was £292,077. In 2015 prices in Central London fell by 8.7% but prices in the remainder of England and Wales rose by 7.3%. In contrast to 2014, when in the year to June house prices in Greater London rose 20.4%**,** prices in London's more expensive boroughs fell sharply in 2015 and in Kensington & Chelsea, London's most expensive borough, prices fell 14.2% in 2015. In contrast "Outer" boroughs rose by 11% with "cheaper" boroughs having even higher growth rates – Newham, in particular, rose by 23.8%. [312] The London market is sub-divided: falls in Central London but rises of over 10% in twenty of London's thirty-three boroughs, almost all outlying.

The "ripple out" effect from Central London appears to operate over a widening area. Average prices in East Anglia, East Midlands and the South East all increased at over 6% with commuting cities such as Luton, Reading and Swindon all experiencing over 15% price rises.

The peripheral and lower value regions almost all experienced lower price rises. In the North, the North West and the West Midlands rises were between 2.9% and 4.1% and in Wales only 2.5% but still a little higher than the 1.9% rise in Scotland.

The property market in Scotland appears to run faster but make little progress. Total sales in Scotland were 6% higher in 2015 in contrast with a fall of 2.5% England and Wales and the high sales volume was evident in all house types particularly in the last quarter as detached house sales rose 8.8% and flat sales 18.4%. Unlike England and Wales there are few regional differences in performance, but Scotland's main cities, apart from Aberdeen, have experienced above average increases. In Aberdeen prices fell 6.8% in the year to December 2015 but Glasgow, Dundee and Stirling experienced rises of around 10% or more, and Edinburgh a more modest 4.3%.

The past is no guide to the future! However, in Scotland it is likely the house markets in areas associated with the oil industry will continue to fall, while cities will tend to continue to grow more rapidly than the Scottish average.

Independent forecasts for UK house prices are published by HMT whose forecast for 2016 is for a median rise of 6.0% with a range from 2.5% to 8.3%. Their forecast for 2017 is for a lower median rise of 4.3% with a range from 2.2% to 6.3%. The HMT forecasts are for the UK and are based on indices that are normally higher (Halifax) or lower (Nationwide) than the LSL Acadata house price data quoted above.

The OBR March 2016 review has raised their forecast of HPI in 2016 from 5.0% to over 6.0% and expect prices to have risen by 26.4% in five years' time. They consider: "house price inflation to persist at rates somewhat above earnings growth, consistent with historical trends in the UK." Savills distinguish between "Mainstream" and "Prime" housing markets. UK Mainstream prices, including London, are expected to rise by 5.0%, 3.0%, 3.0%. 2.5% and 2.5% from 2016 onwards, rising 17.0% over five years. In Scotland, "Mainstream" prices are anticipated to rise by 3.0% in 2016 and then 3.0%, 2.5%, 2.5% and 2.5% or by 14.2% over five years. These projections are slightly lower than those made last year, and even lower than those made two years ago, due in their opinion to restriction on demand because of the Banks' tougher lending conditions and many potential buyers, especially in the South East, do not meet these stricter criteria. In the longer term they consider interest rate rises will further reduce demand.

The "Prime" housing market is being affected by the more progressive and higher stamp duties now in force. In 2016 Prime house prices are not expected to change appreciably although they are expected to fall in London. The five year "Prime" forecast shows a 20% gain in central London, 24% gains in "commuting" areas near London and gains of around 19% elsewhere, including Scotland.

The continuing growth in the UK economy together with the increased availability of credit, at least within the limits of the Bank's criteria, 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, mainly outwith the South East, previously unable to get their sale prices, has cleared in all but peripheral areas. Longer-term supply entails a long production cycle, including particularly planning, and continues to be restricted by the elimination of many small house builders and by the cost and availability of finance for them. I conclude that, given political stability, prices will continue to increase, especially for family homes for which the supply seems most constrained and for which the potential demand seems greatest.

Conclusion

The UK has emerged from the longest depression in recorded history but it is not unscarred. As the Cambridge economist Alfred Marshall said: "The commercial storm leaves its path strewn with ruin. When it is over there is calm, but a dull, heavy calm." In particular the financial sector continues to be restricted by penalties, capital shortages and internal and external restructuring.

On balance UK economic prospects are favourable, especially compared with many EU countries. The UK housing market is expected to continue to improve steadily, subject always to specific regional variations.

We continue to promote our strategic land sites, but we are concentrating on bringing some of these sites to the development stage as I judge market conditions to be sufficiently promising, subject to no economic disruption following the referendum. In our existing portfolio most development properties are valued at cost, usually based on existing use, and, when these sites are developed or sold, it is anticipated that their considerable upside will be realised.

I D Lowe
Chairman 31 March 2016

Consolidated statement of comprehensive income for the six months ended 31 December 2015

	Note	**6 months ended 31 Dec 2015 £000**	**6 months ended 31 Dec 2014 £000**	**Year ended 30 June 2015 £000**
Revenue from properties		**175**	156	334
Property charges		**(114)**	(112)	(224)
Sale of trading properties		**220**	440	440
Cost of sale of trading properties		**(217)**	(273)	(272)
Net rental and related property income		**64**	211	278
Other income		**2**	27	28
Other expenses		**(1)**	(4)	-
Net other income		**1**	23	28
Administrative expenses		**(332)**	(363)	(726)
Operating loss before investment property disposals and valuation movements		**(267)**	(129)	(420)
Profit on sale of investment property		**99**		
Valuation gains on investment properties		**-**	-	1,100
Operating (loss)/profit before net financing costs		**(168)**	(129)	680
Finance income		**-**	-	1
Finance expenses		**(12)**	(58)	(116)
(Loss)/profit before taxation		**(180)**	(187)	565
Income tax expense	5	**-**	-	-
(Loss)/profit for the financial period attributable to equity holders of the company		**(180)**	(187)	565
(Loss)/profit per share				
Basic (loss)/profit per share (pence)	4	**(1.53p)**	(1.59p)	4.79p
Diluted (loss)/profit per share (pence)	4	**(1.53p)**	(1.59p)	4.79p

Consolidated statement of changes in equity for the six months ended 31 December 2015

	Share capital £000	Other reserves £000	Retained earnings £000	Total £000
At 1 July 2015	2,357	2,920	12,633	17,910
Loss for the period	-	-	(180)	(180)
At 31 December 2015	**2,357**	**2,920**	**12,453**	**17,730**
At 1 July 2014	2,357	2,920	12,068	17,345
Loss for the period	-	-	(187)	(187)
At 31 December 2014	2,357	2,920	11,881	17,158
At 1 July 2014	2,357	2,920	12,068	17,345
Profit for the period	-	-	565	565
At 30 June 2015	2,357	2,920	12,633	17,910

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 2015

	Note	31 Dec 2015 £000	31 Dec 2014 £000	30 June 2015 £000
Non current assets				
Investment properties		**10,415**	9,415	10,515
Plant and equipment		**25**	38	24
Investments		**1**	1	1
Total non-current assets		**10,441**	9,454	10,540
Current assets				
Trading properties		**11,273**	11,308	11,418
Trade and other receivables		**161**	99	96
Cash and cash equivalents		**179**	285	131
Total current assets		**11,613**	11,692	11,645
Total assets		**22,054**	21,146	22,185
Current liabilities				
Trade and other payables		**(694)**	(658)	(645)
Interest bearing loans and borrowings		**(3,530)**	(3,330)	(3,530)
Total current liabilities		**(4,224)**	(3,988)	(4,175)
Non current liabilities				
Interest bearing loans and borrowings		**(100)**	-	(100)
Total liabilities		**(4,324)**	(3,988)	(4,275)
Net assets		**17,730**	17,158	17,910
Equity				
Issued share capital	6	**2,357**	2,357	2,357
Other reserves		**2,920**	2,920	2,920
Retained earnings		**12,453**	11,881	12,633
Total equity attributable to equity holders of the parent company		**17,730**	17,158	17,910
Net asset value per share		**150.5p**	**145.6p**	147.2p

Consolidated cash flow statement for the six months ended 31 December 2015

	6 months ended 31 Dec 2015 £000	6 months ended 31 Dec 2014 £000	Year ended 30 June 2015 £000
(Loss)/profit for the period	**(180)**	**(187)**	565
Adjustments			
Profit on sale of investment property	**(99)**	**-**	-
Investment property valuation movements	**-**	**-**	(1,100)
Depreciation	**-**	**-**	14
Net finance expense	**11**	**58**	116
Operating cash flows before movements in working capital	**(268)**	**(129)**	(405)
Decrease in trading properties	**144**	**190**	80
(Increase)/decrease in trade and other receivables	**(65)**	**(32)**	(29)
Increase in trade and other payables	**39**	**75**	3
Cash inflows/(outflows) from operating activities	**(150)**	**104**	(351)
Interest received	**-**	**-**	1
Cash inflows/(outflows) from operating activities	**(150)**	**104**	(350)
Investing activities			
Proceeds from sale of investment property	**200**	**-**	-
Purchases of property, plant and equipment	**(2)**	**(3)**	(3)
Cash inflows/(outflows) from investing activities	**198**	**(3)**	(3)
Financing activities			
Increase in borrowings	**-**	**150**	450
Cash flows from financing activities	**-**	**150**	450
Net increase in cash and cash equivalents	**48**	**251**	97
Cash and cash equivalents at beginning of period	**131**	**34**	34
Cash and cash equivalents at end of period	**179**	**285**	131

Notes to the interim statement

1 This interim statement for the six month period to 31 December 2015 is unaudited and was approved by the directors on 31 March 2016. 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 statements of the Company for the six months ended 31 December 2015 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 2015 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 2015 are available on the Company's website at www.caledoniantrust.com and have been delivered to the Registrar of Companies. These accounts 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 2015.

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 2015 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 2015.

4 Profit or loss per share

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

	6 months ended 31 Dec 2015 £000	**6 months ended 31 Dec 2014 £000**	**Year ended 30 June 2015 £000**
(Loss)/profit for financial period	**(180)**	**(187)**	565
	===	===	===
	No.	No.	No.
Weighted average no. of shares: For basic and diluted profit or loss per share	**11,783,577**	**11,783,577**	11,783,577
	========	========	========
Basic (loss)/profit per share	**(1.52p)**	**(1.59p)**	4.79p
Diluted (loss)/profit per share	**(1.52p)**	**(1.59p)**	4.79p

5 Income tax

Taxation for the 6 months ended 31 December 2015 is based on the effective rate of taxation which is estimated to apply to the year ending 30 June 2016. 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 2015 there is a deferred tax asset which is not recognised in these accounts.

6 Issued share capital

	31 December 2015		31 December 2014		30 June 2015	
	No 000	**£000**	No. 000	£000	No. 000	£000
Issued and fully paid						
Ordinary shares of 20p each	**11,784**	**2,357**	11,784	2,357	11,784	2,357
	=====	====	=====	====	=====	====