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20 December 2023

Caledonian Trust plc

(the "Company" or the "Group")

Audited Results for the year ended 30 June 2023

Caledonian Trust plc, the Edinburgh-based property investment holding and development company, announces its audited results for the year ended 30 June 2023.

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CHAIRMAN'S STATEMENT

Introduction

The Group made a pre-tax profit of £718,000 in the year to 30 June 2023 compared with a loss before tax of £1,302,000 last year. The earnings per share was 6.09p and the NAV per share at 30 June 2023 was 203.4p compared with a loss per share of 11.05p and NAV per share of 197.3p last year. The net valuation gain in the year was £480,000 compared to a net valuation loss in the previous year of £500,000.

Income from rent and service charges increased to £ 373,000 from £306,000 in 2022. Property sales in the year were £2,665,000 whereas there were none in the previous year. Administrative expenses were £626,000 (2022: £887,000), the decrease being attributable to the non-recurring purchase of intellectual property to enhance the value of the potential development of St. Margaret's House for £363,000. Interest payable was £251,000 (2022: £139,000), reflecting the increases in base rate during the year.

Review of Activities

The Group's property investment business continues unchanged, except that the public house in Alloa, the last of the four originally refurbished in the late 1990s, is currently under offer.

In my statement accompanying our interim results issued on 30 March 2023 I reported that we had selected a preferred bidder from unsolicited non-binding proposals from three separate parties for our largest investment property, St. Margaret's House, Meadowbank, Edinburgh, but unfortunately, and for differing reasons, this has not led to an agreement to sell, as detailed in the Company's announcement released on 11 October 2023.

St Margaret's House, continues to be fully let at a nominal rent £1.50 per ft^2 of lettable space (excluding VAT), to a charity, Edinburgh Palette, which has reconfigured and sub-let all the space to over 200 artists, artisans, entrepreneurs and galleries. The exceptional value ensures St Margaret's continues to have a waiting list.

We have gained and, subsequently, endured the planning permission for a development of 377 student bedrooms and 107 residential flats and recently secured a non-material variation of the consent to increase the number of studio rooms in the student block from 73 to 277 while reducing the cluster bedrooms from 304 to 84. Consequently, we continue to receive unsolicited interest in St. Margaret's from a broad spectrum of parties. We have retained Montagu Evans to advise on the sale of St Margaret's House for which we plan to launch a marketing campaign in Spring 2024 provided market conditions are propitious.

At Brunstane, in East Edinburgh, in September 2022 we completed the construction of the third phase of its development, the Steading Courtyard, comprising five new build stone faced houses over 8,650ft^2. We sold three of the houses in October and November 2022 for an aggregate £2.0m and a fourth in March 2023 for £0.7m. The final house was sold in August 2023 for £0.66m. The application for 10 new houses (c.20,000ft^2) "Upper Brunstane", in the field to the east of the steading was granted in November 2022 – we intend to prepare the site for development, take up the planning consent and secure the requisite building warrant with a view to undertaking the development as soon as market conditions improve. An application to modify the consent for a very large house (3,500ft^2), "Plot 10", lying between the Steading phase and Upper Brunstane, by replacing the existing permission with two smaller houses of a combined similar size, was unsuccessful.

At Wallyford, East Lothian, we are currently finalising several minor but important variations to the planning consent for six detached houses and four semi-detached houses totalling over 13,350ft^2. We obtained detailed tender prices last September, but delayed construction in light of the current and prospective market conditions. The site lies within 400m of the East Coast mainline station, is near the A1/A720 City Bypass junction and is contiguous with a large completed development of houses. To the south of Wallyford another very large development of new houses is being built at St Clement's Wells on ground rising to the south, affording extensive views over the Forth estuary to Fife. Taylor Wimpey, Barratt, Cruden Homes and Ambassador Homes are currently building at Wallyford, but recent sales volumes have declined and incentives are often offered. Nearby, Dandara have delayed a site start on their site of 87 homes. Wallyford, no longer a mining village, is rapidly becoming another leafy commuting Edinburgh suburb on the fertile East Lothian coastal strip.

The Company owns thirteen rural development opportunities, nine in Perthshire, three in Fife and one in Argyll and Bute, all of which are set in areas of high amenity where development is more controversial and therefore subject to wider objection, especially as such small developments, outwith major housing allocations, may not merit high priority. We have endured planning consents on all of those sites where planning consent has been granted, most recently at Larennie Farm, Peat Inn near St. Andrews. No further development work has been undertaken at these sites as there are more attractive immediate opportunities for the Group in and around Edinburgh.

Economic Prospects

"Cold Turkey", colourfully describes the UK's present economic condition and prospects. Since the Global Financial Recession ("GFC"), the UK has benefited from negative Real Interest Rates (NIESR, p14), a very powerful drug. The very high doses of the monetary opioid administered by the Monetary Policy Committee ("MPC"), very successfully blurred the pain of the serious economic damage caused by Covid and, post Covid, its supply consequences, Brexit, and the economic effects of the Ukraine war. This "Monetary" opioid was administered in increasing "doses" of lower interest rates and was supplemented by Quantitative Easing ("QE"), the equivalent of adrenaline injections. Opioids trigger the brain's release of endorphins, the feelgood neurotransmitter, substituting for their natural production, creating dependency. The surge of artificial endorphin "highs" ends abruptly whenever the artificial opioid stimulus is withdrawn when it is only very slowly replaced by natural endorphin. The Bank of England ("the Bank") has abruptly withdrawn its artificial low interest endorphin and the economy is enduring the unavoidable transition.

The natural economic functioning of the economy was jeopardised by the many serious economic constraints experienced during and since the Covid pandemic. To supplement the economy's natural functioning the Bank reduced interest rates to ½%, the maximum reduction below which further reductions are ineffective, and maintained them at unnaturally low rates for an extended period while using QE to flood the economy with yet more stimulant. The economy's natural economic function became replaced by, and temporarily reliant on, such artificial stimuli. But the economic "patient",

unlike the human patient, has restarted its innate production of economic stimulus while still receiving the artificial MPC stimulus: the MPC overprescribed.

Indeed, the House of Lords Economic Affairs Committee has just reported that, due to an overreliance on inadequate forecasting, the Bank erred in the conduct of monetary policy by delaying too long before starting to put up interest rates. The outcome of this prolonged over stimulus has been to exacerbate, unnecessarily, all the non-monetary inflation factors, such as supply shortages induced by economic dislocation, wars, weather and by the oil cartel.

Thus, the UK's economy's incipient recovery, reinforced by massive continuing monetary stimulus, has increased demand without increasing supply. Aggregate demand from 1998 to 2020/21 (omitting the "Covid years") was below aggregate supply (1¾%), but in 2022 demand was in excess of supply by 1¼% and is forecast to continue to be in excess of supply by ½% in 2023 (an increase from the ¼% forecast in the May report).

Unfortunately, the inflation resulting from this demand / supply imbalance has been supplemented and overshadowed by external demand / supply commodity imbalances, chiefly "food" and electricity and gas resulting from the Ukraine war. CPI inflation peaked at 11.1% in October 2022 but had fallen to 4.6% by November 2023 primarily as these commodities fell in price. By November about 80% of inflation was in services and in other goods – the UK's inflation is currently endemic and exogenous factors are not expected to contribute to inflation in 2024 to 2026.

The Bank says: - "The UK economy has been in excess demand over recent quarters, but an increasing degree of economic slack is expected to emerge after the middle of next year". The Bank forecasts excess supply to return from 2024 but only of a ¼%, a reduced forecast from the ½% in the May report. Patently, the Bank Rate does not of itself influence the aggregate balance between aggregate supply and demand, but acts through its effect on economic output. Unless the economy is depressed, the Bank Rate has little influence on supply, which depends primarily on productivity in which the Bank expects no change in the years 2023 and 2024. The Bank's indirect influence on the economy is determined almost wholly by its influence on demand. There is a lag between changes in the Bank Rate and changes in demand: there is a high and unquantifiable inertia in the course of the economy.

The course of an ocean racing yacht responds almost instantaneously to instructions to change, but a 250,000 tonne tanker only very slowly. Similarly, if the economy's course has to be changed a touch on the economic "tiller" produces no immediate results, no discernible results at all, even by the time the next tiller adjustment is due in a month's time, when, apparently, nothing has happened: another touch is required… and so on! Since, and including, December 2021, 23 months ago, the Bank has raised interest rates 14 times, 14 touches of the tiller, including a sharper movement of 0.50 percentage points as recently as June 2023. Given the tanker's slow response, had the adjustments before the last touches already been sufficient to bring the tanker about or is even further adjustment needed to gain the desired course?

The response rate of the economy to changes in the Bank Rate, like the tanker's, is both slow and uncertain, depending on specific conditions that vary independently. To adjust policy appropriately the MPC has to determine the specific rate of change relevant – the "transmission rate" – to the economy. Differing opinions on which are inherently expressed by the voting pattern of the MPC members: in August 2023 six members voted to increase the Bank Rate to 5.25%; two preferred to increase the Bank Rate by 0.5 percentage points to 5.5%; and one member preferred to maintain the Bank Rate at 5%!

Imbalances between aggregate supply and demand are rebalanced by increasing supply or reducing demand, or both. However, the supply response is extremely slow, requiring an increase in productivity, a variable which has recently changed only very slowly and for which there is no known mechanism of change. In contrast demand can be varied much more rapidly by changing fiscal policy ("tax") or by changing monetary policy ("interest rates"), the latter being the preferred mechanism instigated when the MPC was created. Interest rates do not directly influence demand and the rate of their influence depends on the rate of transmission – the loosely termed "pass through rate".

The delayed effect of interest rate rises on demand is stark. The Bank Rate has been increased from 0.1% to 5.25% in 21 months, but the economy still suffers from an almost unchanged excess demand of 0.25%. The transmission rate to the economy is a variable incorporated into one of the Bank's economic forecasting models, but the current transmission rate is subject to current economic, social and political

conditions which almost certainly vary considerably from those on which the model was based. Swati Dhingra, a MPC member, considers that only "20-25% of tightening has hit home so far", the Bank Minutes record "For one member, the risks of overtightening policy had continued to build. Lags in the effects of monetary policy meant that sizeable impacts from past rate increases were still to come through". This opinion is that the rate at which the economic tanker will respond has been misinterpreted to the extent that more than sufficient adjustment may already have been made and the correction may prove to have been overdone.

External shocks such as food or fuel price increases directly and immediately affect inflation, but monetary policy has an indirect and delayed effect. It is as if the financial Guy Fawkes, plotting in unprecedented circumstances, having set the fuse alight with no quick response adds more and more gunpowder without knowing the timing or the extent of the subsequent explosions. The unusual circumstances of the current position include: starting from the GFC 13 years of negative real interest rates (excluding seven months only with a real rate of 0.75%), 36 months with interest rates at 0.50% or lower; unprecedented QE resulting in an effective bank rate, designated as "a Shadow rate" of -2% to -6% for several years; and exogenous shocks, including the pandemic and the Ukraine War. Additionally, the rate of rise of the Bank Rate is unprecedented in the last 50 years. As the current economic position is so very materially different from previous conditions, the forecast outcome of the speed of transmission is subject to a wide range of equally likely interpretations – in "Bankspeak" the fan chart of likely outcomes would be very wide.

A model quoted by the Bank shows that between 1992 and 2019 (i.e. mostly before the recent 10 years of low interest rates) a 1% change in Base Rate is expected to have an immediate beneficial effect on CPI – due to a Sterling appreciation – of 0.3 percentage points which moderates after 12 months and subsequently falls off. Currently, any immediate effect on CPI is likely to have been minimal, as increases in interest rates are a worldwide phenomenon and any Sterling appreciation from increased interest rates, reducing import costs, is very much reduced. Significantly, the model's estimate of a 1 percentage point interest rate change on GDP is that "Real GDP" barely moves on impact (i.e. coincident with the 1 percentage point rise in rates), and slowly falls with a statistically significant maximum fall of 1.25% after around two years – an outcome consistent with the 18-24 months of the "long and variable lags story", i.e. there is a "low transmission rate".

The extent of such lagged responses is subject to the important qualification that tightening from a loose stance has less effect on inflation than tightening from a tight stance. Thus, early increases in the Bank Rate up to, say, 3% only a year ago in November 2022 are likely to have a more limited effect than the subsequent increases to 5.25%. Surely this reflects practical reality: an increased interest cost reducing income from £4 to £3, although a 25% drop, is less unpleasant than after a subsequent increase reducing income to only £2, a 33% drop, leaving a foreboding that a further similar increase would reduce income by 50%: increasing rates have increased affects.

Thus, early increases in the Bank Rate will have had disproportionately little effect. Increases in the Bank Rate before May 2022 (Bank Rate 1.00%) are only now approaching maximum GDP influence: all rises before, say, November 2022, i.e. from loose conditions will have less than "normal" effects; and the 2.25 percentage points increase since November 2022 will only start to have a maximum effect from mid-2024. The slow burning fuse is yet to reach a series of economic time bombs. The delayed effect of tightening has probably influenced the MPC who voted 5 – 3 to hold rates steady. Indeed, Swati Dhingra, whom the FT describes as "one of the most dovish members of the MPC", has argued that "just 20 – 25 per cent of the tightening has hit home so far."

Changes in economic circumstances are often sudden: the cause of such sudden change is almost invariably unrecognised, as, if recognised, it would have had influence, changed expectations, and be discounted, at least in part. With unexpected and therefore undiscounted changes, there are precipitate tipping points, most dramatically illustrated when Lehman Brothers collapsed initiating the Global Financial Crisis. Ernest Hemingway's character in the "Sun Also Rises", eloquently illustrates such abrupt changes, being asked: "How did you go bankrupt?" Two ways, he replied, "gradually, then suddenly".

There is a discernible risk that the current expected direction of monetary policy will lead to a moderate recession. The Bank argues that there will be no peak, but a "Table Mountain" of maintained high interest rates at or about the current level, that the economy will grow 0.5% in 2023, nil in 2024, 0.25%

in 2025 and 0.75% in 2026 – effectively "flat lining", giving a period of economic consolidation before returning to an historically low growth pattern, an attractive "Goldilocks" or "soft landing" prospect.

A Bank report says "empirical estimates of the effects of monetary policy on macroeconomic aggregates are strictly speaking", only if, "we believe that the structure of the economy has not changed in any way that would invalidate our estimates." In many important respects the economic background and conditions have changed and may preclude so smooth a transition. The rate of rise in the Bank Rate has been dramatic; it has risen from very low nominal levels; it has risen from negative real levels; the QE is unprecedented; rises in the Bank Rate from a low base have a lower transmission rate; the effect of rises to 2.25% in November 2022 are not yet at their maximum effect; later rises are up almost two years from their maximum effect; and the marginal effect of each successive rise is likely to have a greater impact than the previous marginal effects. These conditions slowing transmission did not apply in the Bank's sample period of 1992 – 2019 therefore the current transmission rate is lower – there is a longer lag in the effects of the interest rate rises.

In 1978 only variable rate mortgages were available and, as recently as 2004 75% were variable, but by 2021 74% were fixed term, 37% originally for two years. Currently 80% of mortgages are fixed with a longer average term. Consequently, for the vast majority of mortgagors, changes in the Bank Rate have no short-term effect, blunting and delaying the impact of Bank Rate rises. The FT put it "monetary policy transmission consisted of subjecting large numbers of indebted households to small and concentrated amounts of financial stress, changed to one in which a small number of indebted households are unnecessarily subjected to large amounts of financial stress". Indeed: on an interest only fixed term £200,000 mortgage at 2% the interest paid of £4,000 per year changes at, say, 6% to £12,000. If joint earnings before tax are £40,000, say £34,000 after tax and NI and pensions the increased interest equals almost an additional quarter of "post-tax" income! Over the next year over 1,600,000 owner-occupied fixed rate mortgages will expire – a delayed effect of the increased interest rates.

A second factor delaying transmissions are the high savings generated during the Covid period, although this is being rapidly depleted. High savings from the high rates currently available are supporting expenditure, but such savings will soon be overwhelmed by the high rates paid on remortgaging. Moreover, the influence of such savings is greatly diminished by the differing average marginal propensities to spend in savers and mortgagors. Savers, broadly wealthier consumers, spend a smaller proportion of their increased savings while mortgagors' consumption is greatly affected by their interest costs. The current savings effect on transmission is diminishing rapidly.

The third factor currently delaying transmission is consumers' delayed recognition of the deterioration of their wealth. The shock of lower assets and relatively higher debt tilts consumers' balance from spending towards saving and paying down debt: psychologically, being "poorer" – and loss aversion is a much stronger behavioural characteristic than gain aspiration – reduces consumption, even if the losses are not realised. Such balance sheet losses become stark when house prices fall, as they are doing, and the recent very high inflation lightly veils the real loss of house value by about 10%. In 2024 further real house price falls of over 5% are forecast, reducing real wealth and consequently spending.

Total consumer assets comprise property, physical assets (cars etc.), pensions and insurances, and financial assets. While property comprised about 36% of consumer assets in 2020 pensions and "insurances" comprised an amazing 42%. Since the December 2021 peak, about 17% of a typical pension fund has recently been wiped out, or about 30% in real terms. In due course, such large losses in wealth are likely to cause apprehension, lower confidence and reduce consumption causing an even longer lag to the transmission process than falls in house price.

Business (non-financial corporations) are unlikely to contribute to any increased lag in the transmission of monetary tightening. 80% of business loans, unlike consumer mortgages, continue on floating rates and are almost immediately affected by the Bank rate. Over the last year corporation interest on loans has increased from £1200m to £2800m partially offset by a rise in savings interest of about £900m. The consumer change in interest cost was wholly offset by interest gained, a short position, but one delaying the effect of the rate change.

In November 2023 the Bank considered a "restrictive monetary stance was likely to be warranted for an extended period of time", reinforcing previous statements that rates will be "higher for longer", and will resemble the "Table Mountain (a plateau) rather than the Matterhorn" (a sharp peak). This does not fully allow for the effect on the economy of the exceptional rate of tightening which, due to a slower

rate than expected of transmission, has not yet had the effect expected, leading the Bank in recent decisions to raise rates to beyond the levels required once their full effects have been transmitted to reduce inflation appropriately. Concluding my opening analogy, the tanker was already set to change course as desired, without needing yet further alterations to the tiller.

Thus, the Bank may already have overdone the necessary tightening – undoubtedly, they were "behind the time" in starting the tightening and may have over compensated. Indeed, the Institute of Economic Affairs recommended in November that the Bank Rate be reduced to 5.0%, Goldman Sachs forecast that rates would start to be cut from mid-2024 and, reflecting such a lowering of rates, the five-year swaps price has fallen from 5.1% in August to 4.5% in November.

The Bank Rate next year will depend on the delayed quickening effect of the severe monetary tightening on an economy that has already stalled, following a contraction of 0.3% in October showing no growth in the last quarter and only a measly 0.2% in the second quarter. Severe industrial stress is already evident and an FT leader says "waves of corporate insolvencies are expected". It comments that prolonged interest rates have addicted many "Zombie" businesses, including 10% of listed global companies. The UK, given its poor economic performance, is unlikely to be an exception and its smaller companies, often more dependent on debt, are likely to be more than proportionally affected. The low interest drug has been withdrawn and many such businesses will not survive the "cold turkey" trauma. The increase in stress in the consumer sector may be even more acute as increasing numbers of mortgages will have had to been refinanced at much higher rates.

Forward economic indicators indicate deteriorating conditions. The Purchasing Managers' Index remains at 48.5, a level historically consistent with contraction, business optimism recently weakened and sharp falls occurred in the growth expectations of both manufacturing and services sectors, together comprising over three quarters of economic output. Consumer confidence has also deteriorated, rapidly falling nine points to minus 30 in October. Most forecasters consider these gloomy expectations only presage a stagnant economy, but Capital Economic forecasts a recession starting later this year and Deutsche Bank, having analysed the historic economic precursors to a recession, concludes the UK economy currently satisfies them: a 2.5 percentage point increase in interest costs; inflation rising by 3 percentage points; and an inverted yield curve. A recession occurred over 30% of the time any one of these conditions were met. Melding all three factors together makes a recession very much more likely, although patently they are not additive!

The average of the recent forecasts reported by His Majesty's Treasury imply that, contrary to historic patterns, the progress of taming inflation will be relatively painless and those forecasts reported by HMT in the last three months expect 2.5% growth in 2024. They forecast that, notwithstanding the Bank Rate averaging 4.7% in Q4 2024, unemployment will only be 4.7% (sic!). In effect the economy will have a "soft landing" giving a near painless adjustment to low inflation: surely, so benign a change is unrealistic! The purpose and the effect of high interest rates is to reduce demand to the extent that existing supply, which is unlikely to be augmented by any growth, equals demand. In previous corrections the consequent decrease in demand has induced recessions in which unemployment increased by 50% which will imply an increase soon in unemployment to about 6.0% or more, from the current 4.2% – a rise far in excess of the HMT's recently reported forecast of 4.7%.

The "soft landing" widely forecast represents an optimal outcome to the current inflationary binge. Moreover, such an outcome is both contrary to precedent and to the specific circumstances. In particular, the effect of the unprecedented rate of increase from an unprecedented low interest rate of 0.1/0.25% for an unprecedented time (the lowest rate since 1650) coupled with the unprecedented delay of the rate of transmission, indicates that economic conditions will prove much less benign than most forecasts. In consequence it is to be hoped that, as this outcome becomes apparent, the MPC will not, as in previous changes, misread the direction of the economy, but will reduce the Bank Rate rapidly in order to staunch the prospective accelerating deterioration in the economy. I am pessimistic for the economy, but optimistic that the Bank's economic model will be modified consequent upon the House of Lords report, and their forecasting improved, so transforming their management of the economy.

I forecast that there will be a more rapid and deeper contraction of the economy than is currently expected with the consequent surge in business collapses, losses of employment and falling income and return on capital. Once this trend is recognised, sooner rather than later, one hopes the Bank Rate will be reduced sufficiently, sharply and quickly, mitigating the worst effects of the past tightening. Due to the current longer delays in transmission, recovery will occur, but unfortunately more slowly than seen

historically. However, the reversal of interest rate rises and the expectation of further faster reductions will have a rapid effect on longer term interest rates. Yields on all assets will fall relatively quickly and the value of bonds, equities, long term assets and property will rise. I expect this rapid yield reversal to occur from late 2024 and interest rates will fall in early 2025 to between three and three and a half percent, a real interest rate of one to one and a half percent. The immediate economic prospects are poorer than generally forecast, but thereafter prospects will prove better than currently forecast.

Property Prospects

The economic prospects provide an unfavourable background for property. Little economic growth is expected, the Bank forecasting none in 2024, a feeble 0.25% by Q4 2025, and only 0.75% in 2026. The per capita NIESR Gross National Product forecasts are -0.2% in 2024, 0.2% in 2025 and 0.8% in 2026. However, for house prices the forecast fall in interest rates by mid-2024 will radically change sentiment and improve their prospects.

The extensive, dramatic and rapid change in monetary policy has increased interest rates and reduced credit availability, the solvency ratio of loans, and the margin between the return on property and other investment classes. In consequence the demand for both investment and residential property is falling and, as the full effects of the change are transmitted, will fall further.

The interest rate rises are increasing financial distress in both business and residential property owners and causing an increasing supply of property. Simultaneously, lower business profitability margins and lower consumer incomes are reducing demand for both business premises and residential premises, reducing rents for business premises, and values for almost all property types.

These adverse monetary effects are being reinforced by a tighter fiscal policy, primarily caused by the fiscal drag caused of not indexing most personal tax allowances.

Interest rates were reduced from December 2007 to mitigate the effects of the GFC and from then until November 2023 (when inflation fell to 4.60%) real interest rates – actual interest rates less CPI inflation – have been negative. Low interest rates were maintained post Covid for much longer than required to support the economy, reinforcing the exogenous inflation resulting from supply shortages caused by the Ukraine War. These shortages coupled with “green” fossil fuel supply restrictions allowed the renewed exploitation by the OPEC+ oligopoly of oil and gas suppliers, transferring considerable wealth from the consuming economies to the supplying economies. Productivity growth for the twenty years before the GFC of 2008 was 2¼%, but fell to only ½% between 2010 – 2019, except a brief improvement to ¾% post Covid in 2022 before becoming negative in 2023, severely reducing economic growth in the years prior to the exogenous shocks imposed by Covid 19 and the Ukraine War period.

The monetary policy response was an effective support for the economy, but it caused a disproportionate benefit by temporarily raising the value of all asset classes and by increasing the incomes of the minority involved in all aspects of asset handling, managing and transferring these assets. The returns to capital have been extraordinarily high and the returns to labour very low, a disequilibrium contributing to the high levels of service inflation and dislocation of the economy by strikes.

The effect on the commercial property sector has become increasingly evident. Until August 2022 the MSCI Index had returned 18.0% over one year and 9.1% per year over 10 years. In September 2023 the MSCI Property Index total returns for one year were -13.8%, which after rental income of, say e.g. 5% per annum, represents a capital fall of 17.9%. These returns are the worst since the GFC in 2008 when the total return to All Property was -22.10% which, after including the reported income of 5.58% represented a fall in capital value of (100-22.10) x 100/105.58 or 26.2%.

The November 2023 CBRE reports on the investment yields of 22 separate classes and sub-classes of Office, Industrial and Retail commercial property, 15 of leisure and 21 separate classes and sub-classes of “bed” investment [residential] property of which they described all 58 categories as “trending weaker”, or falling in value except for High Street Shops (except Secondary Shops) and all 5 categories of student accommodation, a similar trend to that previously shown in October 2023 except that in October all five classes of Industrial were classified as “stable”. Since December 2022, commercial property yields have increased generally except for Supermarkets, Secondary Retail Warehouses and Shops (the latter two are already at 12% to 16%), Hotels, Residential outside London and Student Accommodation.

Changes in capital value vary significantly within and among classes and sub-classes. In the classes of investment "housing" only half of the sub-classes have declined in value, and generally by only 0.25 percentage points while the remainder are stable. Larger falls of up to 0.50 percentage points occurred in Residential investments in London and South East prime properties (yields rising from 3.5% to 4.0% in London Prime) representing a fall in value of 12½%. In contrast, only one sub-class of Student Accommodation, Central London Direct Let, has fallen in value while all other five sub-classes are unchanged since 2022. Of this sub-class CBRE comment: "Sentiment remains positive for best in class "clear and green" properties with strong rental growth prospects …"

In the four Retail classes, High Street Shops, Supermarkets, Shopping Centres and Retail Warehouses yields are higher by 0.25 to 0.50 percentage points, except for Prime Supermarkets, but "secondary" retail sub-classes are unchanged, having already high yields of 12% for Secondary Shops and Secondary Shopping Centres and 16% for Secondary Shopping Centres. These high yields are unchanged since 2021.

In the Industrial and Office classes all sub-classes fell in value over the last year, Industrials by up to 0.5 percentage points. The falls in office values were marked with all sub-classes, except West End, falling last month, notably the City of London where yields rose 1.25 percentage points to 5.75%, a fall of 21.7% in value.

The Investment Property Forum ("IPF") surveys forecasts of return for Office, Industrial and Retail properties whose findings are consistent with the continuing fall in Capital Values reported by CBRE. Their November 2023 survey forecast that in 2023 all their property classes would suffer capital losses and overall "All Property" will fall by 5.1%. City Offices will have the greatest fall of 11.8%, All Offices 10.5%, but West End Offices a lower 6.1%. The Retail sector continues its long fall in value with Standard Retail down 5.0%, Shopping Centres 5.4% and Retail Warehouse by a lesser 1.9%. Industrial Capital Values are expected to fall least – by "only" 1.5%.

In 2023 rental values are estimated to increase by only 2.2% (but decrease in real value!). Values are estimated to fall for Shopping Centres and City Offices, but to be minimal for all sectors except Industrial which is expected to rise by 5.1%. In 2023 the total return to All Property is estimated to be -0.5%, after including rents received. The overall forecast for 2024 is better, but not good, as Offices continue to fall in value, City Offices by a further 2.7% (11.8% in 2023), Offices generally by 1.8% (10.5% in 2023) and West End Offices by 0.5% (gain of 1.5% in 2024). Only Industrials are forecast to gain appreciably by 3.1%.

The forecast for 2025 is noticeably better than that for 2024 forecasting a total return of 7.5%, resulting from both rental and capital value growth in all sectors. Industrials again have both the highest growth in rental value (2.7%) and capital value (3.8%). Forecasts for 2026 and 2027 are similar to 2025, and include a recovery in retail returns of about 5.0%, while Industrials continue to produce the highest returns at 8.0%.

Forecasts by Colliers, but covering a slightly wider range of sectors, are broadly similar to the IPF except that their forecast returns are generally higher with average total return of about 7.0% pa (IPF 5.6%) for the five years 2023 to 2027. Industrials return 10.1% (IPF 6.9%), Shopping Centres 8.3% (IPF 5.9%), City Offices 4.3% (IPF 2.6%) and West End Offices 4.8% (IPF 2.6%). The other sectors are not comparable with IPF sectors.

The immediate prospects for property vary greatly between sectors, being best for Industrials and worst for Offices, particularly "City" offices. Retail Warehouses and Shopping Centres returns are about 25% lower than the best sector, Industrials, but Standard Retail returns are only about 25% better than the worst sector, "Offices".

The prospective poor returns from most commercial property result from three separate factors. The current inflation is caused by excessive demand – the exogenous inflation caused by the Ukraine War and fuel and food shortages now dropping off the index – and is being controlled by severe monetary tightening that will reduce that demand, contracting the economy and demand for almost all types of property.

The second factor influencing the poor returns is exceptional. Since the start of the Great Recession in 2008, interest rates have been held at abnormally low levels by aggressive monetary policies resulting in negative real interest rates – except very briefly in 2015. Capital asset values, including all commercial property, reflecting the very low cost of capital, have risen in value. However, the recent atypical period of unnaturally low interest rates has ended abruptly, and is contributing to a significant fall to investment property values.

The third factor affecting property capital values is secular change, whose nature is specific to each sector where, unfortunately, there are deleterious secular changes in the two predominant commercial sectors: office and retail. In contrast, the much smaller industrial sector, including logistics and distribution, has benefited from the change in distribution systems required by "online" selling. The resurging industrial sector is currently recovering from a temporary set-back in 2022 when overdevelopment temporarily caused rental growth to fall from an estimated 10% to 3% and capital values to fall by 10%.

The secular change affecting demand for office space is caused by "hybrid" working, or working from home. A recent survey concluded that the long-term reduction in space needed would be between 20% and 40%. Of this change in working practice The Economist (World Ahead 2024) says:

> "the consequences are still working their way through the corporate hierarchy and the financial system: in 2024 reality will start to set in".

This new reality, termed "home, and not alone" is that currently 33% of work done outside the office and employees "desire" 47%. Out of 34 major economies surveyed the extent of home working in the UK was only exceeded by Canada. In all the countries surveyed, employees expressed a desire to increase the work from home by about a day to a day and a half.

An initial analysis carried out by Harvard academics in 2021 concluded that call centre workers handled 8% more calls working from home, a finding subsequently revised to 4% fewer. Surprisingly, they found even "solitary" workers perform less well remotely and "Cerebral" workers were also adversely affected, as a survey of 214,810 moves by professional chess masters playing under differing conditions demonstrated. Unsurprisingly, a study showed that creativity also suffers in "remote" working. In this case the researchers suggested that focus on the screen deprived participants of wider stimuli, resulting in less "associative thinking". There are self-evident exceptions to reduction in productivity resulting from working from home, where, for instance, routine, unchanging measurable output tasks can be performed. Examples occur in traditional "piece work" industries, such as Harris Tweed weaving and historically in glove making. Such minor exceptions will not alter the imminent destruction of value of many classes of office space.

The demand even for "modern", non "state of the art", offices will be further reduced by the increased demand for office environments that are "greener", less energy intensive and more sociologically attractive. The effect of such changes is not yet fully reflected in the market where the industry appears to shelter behind a façade of "prime will be fine"!! The same mantra was repeated in the retail sector when the retail downturn started, but the prime sector, while initially appearing immune to value falls, ultimately succumbed, as the downturn persisted.

The pace of the fall in value will be modulated by long-term contractual arrangements. Leases for quality offices are normally for 10-15 years thus protecting the income of the landlord until the earlier of the loan repayment or the lease determination, or a breach of the loan covenant. Thus, as office values decline there are a series of ticking "timebombs" whose continuing detonations will create cumulative self-reinforcing problems. In general, the office sector has not yet endured the reductions in value that have affected almost all aspects of the retail trade. A dramatic harbinger of such a cataclysm has been the recent sale of a vacant building in the City of London, previously leased to JP Morgan, for a third of its price 10 years ago.

The retail sector is continuing to make its necessary adjustments to the penetration of online sales which have stabilised at around 26%. In October 2023 online sales were 0.4 percentage points higher than a year earlier but, while online sales in Q3 were 1.0% higher than in 2022, they were 2 percentage points lower than in 2021. The lagged effect of lease lengths and loans has been substantially worked through as significant online substitution started several years ago. Since 2018 23,000 units have closed of which 5,000 are under redevelopment. Rents have declined 4.5% per annum compound for five years

(shopping centres 6.9%; high street 5.0%; and retail warehousing 3.5%) and yields have increased by 2.8 percentage points. However, according to the Local Data Company net closures in 2024 and 2025 are expected to be lower than in 2023. Vacancy rates in H1 2023, compared to H1 2022, have fallen marginally for High Street Shops to 13.9%, by 1.2 percentage points to 17.8% for Shopping Centres; and by 2.1 percentage points to 8.1% for Retail Parks where the vacancy rate is on a par with H1 2019 (7.9%), but still above the c.5.0% of 2016 to 2018. In the changing flux of H1 2023, "Personal Grooming" shops increased by 576 units (Barbers 304), Fast Food by 186 units and Convenience / Small Scale Supermarkets by 160 units. The largest closures were Ladies Hairdressers (414) and Chemists / Toiletries (310 of which Lloyds Pharmacy in Sainsbury supermarkets 237), Fashion Shops (262) and Estate Agencies and Pubs (221 each). Following this carnage, Knight Frank consider that for the overall retail sector the "bottom" line has been reached, forecasting rental growth for the next five years, but of a meagre 0.7% per annum.

The final adjustment to these structural changes together with a return to real interest rates, the continuing reduction in householders' real income which is forecast to fall by 3.1% between 2020 and 2025, and very slow growth, if any, in the economy do not form a favourable background for the commercial sector. Thus, all sectors of the commercial market, excluding Industrials, are unlikely to prosper in the immediate future, a long-term trend that in real terms has persisted since 2007, the peak of the market. Industrials should continue to prosper, Retail is through its worst, but the Office sector is entering a period of substantial decline.

The residential market is not experiencing, and is not about to experience, the structural changes affecting the commercial market. Indeed, as the Curate said of his egg to the Bishop: "Oh no, my Lord, parts of it are excellent".

The letting market has shown exceptional growth in rents for quite distinct reasons. Demand has increased because of increased housing costs, primarily mortgage costs and restrictions on mortgage availability resulting from the Mortgage Market Review requiring affordability under prospectively higher interest rates. Demand has also increased because of the expansion of university students. UCAS acceptances rose from about 360,000 in 2001 to about 560,000 in 2011 without an accompanying rise in student residences. More importantly, the number of students in the major universities, the Russell Group, paying "international" fees (including non-Scottish UK students) has risen from virtually nil to about 220,000 in 2022. The LSE has the highest percentage of international students, having risen from about 45% in in 2014-15 to about 63% in 2021-22, Edinburgh from 22% to 42%, Cambridge from 20% to about 35%. Obviously, unlike domestic UK students, they almost all require let property, disproportionately increasing demand. While demand for let property increases, supply decreases, as it is being progressively reduced by net sales of letting property caused by the reduction of individual mortgage interest relief to 20%, tighter credit controls, higher buy to let mortgage interest costs, increased stamp duty on second homes and increasingly severe and unpredictable regulatory impositions – especially in Scotland where currently, evictions, except for the persistent non-payment of rent, are unlawful until at least March 2024. Historically, rents do not fall as house prices fall and, even in the Great Financial Crisis in 2008, when house prices fell 17% in the 17 months to May 2009, English rents fell only 2.2%, - a fall from which they recovered quickly. Unsurprisingly, JLL forecast that UK rents (of second-hand properties) will continue to rise by 5.0% in 2024 before the growth rate reduces progressively each year to 3.5% in 2028.

In past housing downturns, such as in 2007 when house prices fell 18%, the supply of rental property may have been noticeably increased by "accidental landlords" who let properties they were unwilling to sell because of reduced prices, including properties available as a result of death, debt or divorce or house moves. In this downturn relatively fewer repossessions are occurring, because the security of lenders has been transformed by the stricter mortgage conditions and prices, so far, have generally "flat-lined" – at least in nominal terms. Given such market conditions no meaningful rise in "accidental landlords" has occurred to provide an extra supply of rental property.

In Scotland rents increased by 13.7% in the year to Q3 2023, and by 8.3% in the year Q3 2022. In Edinburgh rents increased by 15.1% and 14.7% in those years and single bed flats by 13.5% and 13.1% respectively. The Covid 2020 year excepted, rents have risen consistently over the years and in Edinburgh by 197.7/109.5 or 88.5% over 10 years. Edinburgh agents emphasise shortened "time to let and "unsatisfied demand" and Retties comments "advertised rents on new tenancies continue to climb to record levels".

In university towns students comprise a large component of the rental market which is increasingly being supplied with Purpose Built Student Accommodation (PBSA), although "StuRents" report that in 2023 only 12,000 new beds were added against an estimated overall "shortfall" of 490,000 by 2026. This shortfall stems from the expected growth in the student population and the continuing transfer from flats provided by universities and from houses in multiple occupation, currently providing over half the total accommodation.

Individual supply of student flats is declining, while demand for student accommodation is increasing and the demand for the style, type and high quality of PBSA is increasing: and in this market there are no "accidental landlords". Empiric Student Property, a leading supplier, recently reported 10% like-for-like rental growth for the 2023-2024 academic year. PBSA supply, while increasing slowly, is insufficient to meet the growing demand and rents are expected to continue to rise. The FT's summary is:-

> 'the "student housing is the bubble that won't burst…" it has "the sort of market that private equity dreams are made of: a sector with a structural supply imbalance, supported by resilient demand from wealthy foreign students and well-off middle-class parents who prioritise spending on their offspring's education".

Unlike rent, in general house prices are stagnating or falling. Prices have risen dramatically since Covid, growth peaking in the year to September 2022 at 9.9% Halifax, and 7.5% Nationwide; and in Scotland in June 2022 at 9.1% Acadata. Since then, prices have usually fallen further each month until stabilising recently with some recent reported small increases. Last year forecasts of price falls for 2023 ranged widely from 1.3% OBR, 10% Knight Frank and 12% Capital Economics (peak to troughs) and 10% Savills.

In 2023 the economy has performed far better than the major forecasters' forecasts: in March 2023 the OBR forecast a 2% reduction in GDP, but in November it was reviewed to growth of 0.6%. Unsurprisingly, in 2023 house prices have performed better than forecast. To October the Halifax House Price Index fell 3.2% or 4.1% since the peak of £293,992 in August 2022; Nationwide fell 3.3% or 5.2% from the August 2022 peak; and the Acadata (England & Wales) Index 4.1%. In contrast, in Scotland the Acadata Index rose 0.6% in the year to August and is within 0.2% of its peak in June 2023.

Acadata's price of Edinburgh property reports falls of 0.5% in both August 2023 and the year to August 2023. In contrast the more limited and small scale ESPC November survey shows an annual fall of 4.9% in the City of Edinburgh and very varied falls in particular city areas. Edinburgh City Centre (All Properties) has an annual fall of 6.1%, New Town and West End flats a 6.2% fall, but Portobello / Joppa flats a gain of 4.2%.

Forecasts for 2024 vary considerably. The OBR forecasts a fall of 4.7%; HMT 5.1%; Zoopla 2.0%; NIESR 2.6%; and Savills 3.0% for mainstream UK houses and 1.5% to 2.0% for prime UK houses. Savills five-year forecasts are for mainstream houses to resume growth to 3.5% in 2025 and to grow by 17.9% by end 2028. For prime houses they forecast 2025 growth of 2.5% to 4.0% and by 3.5% in Scotland, and five year growth of 16.2% to 21.5% in the UK and of 20.9% in Scotland.

Price falls in 2023 have been lower than generally forecast and 2024 these are now forecast to "average" about 3.0% for a total fall of, say, 7.5% over two years before the price rises forecast for 2025. In contrast, in the GFC, Nationwide recorded peak to trough falls of 18.6%, while in the early 1990 values fell 20%.

Fortunately, current conditions now are significantly different from these two occasions in two important respects. Unemployment remains low at 4½% and is expected to rise only to 4¾% in 2024 and to peak at 5.0% in 2025. Secondly, repossessions and, therefore, increased supply – and at distressed prices – are expected to be much lower than in all previous recent downturns. Since 2015 the lending criteria used have been governed by the stricter conditions of the MMR, including requiring mortgagors to demonstrate ability to service the mortgage at rates several percentage points above the current rates. Reflecting this change average household debt to income in 2022 was 131% compared with the 152% high in 2008. Coupled with higher levels of security Bank guidance requires lenders to consider favourably methods of preventing repossession. Thus, the risk of large-scale repossession has been very significantly reduced. I forecast that, following a further fall in prices in 2024 of up to 5%, prices will subsequently rise by two or three points above inflation or, say, 4% to 5% per annum.

When price rises resume in 2025 houses will continue to be substantially cheaper in real terms than the peak price recorded by the Halifax, £199,000 in August 2007, just before the GFC. The equivalent RPI inflation-adjusted price in October 2023 would have been 82.2% higher or £362,670, and the current Halifax price in October 2023 is £281,974, 22.3% lower in real terms. If house prices rise at 4.0% per annum and inflation is 2.0% per annum, then 13 more years must elapse before the August 2007 price peak is regained in real terms.

House prices have proved difficult to forecast accurately, and past errors have been large, especially around the timing of reversals and the incidence of unusual events such as we have just experienced. For the long-term, I repeat my previous forecasts, "… the key determinant of the long-term housing market in areas where houses are sought will be a shortage in supply, resulting in higher prices".

Future Progress

The Group's strategy continues to be the development of its sites whenever market conditions are favourable in the Edinburgh housing market areas and in the geographical extension north and east that is occurring, while maximising the value of its investment portfolio.

Market conditions are forecast to continue to deteriorate until later in 2024, and it is expected that by early 2025 long-term mortgage interest rates should have declined sufficiently to allow a sustained recovery in the housing market. We are planning developments to become available for sale in the late summer of 2025. While we hold planning permission on the relevant sites, preparatory work will require at least a 12-month lead time before construction commences. Thus, we intend to undertake this preparatory work from early in 2024 on candidate sites, including Brunstane and possibly Wallyford. The next phase of development at Brunstane requires the completion of the access road and the waste pumping station which we will commence as soon as possible. We expect that some moderation in construction costs will allow the start of our 10-house development at Wallyford, East Lothian near the railway station. We are assessing a site with planning permission for six high quality houses near a previous development at Eskbank, Midlothian, which, if acquired, would allow construction to start in late 2024 following the stabilisation of shallow mine workings and the realignment of the existing services.

We have three development sites within commuting distance of St. Andrews where at one of which, Larennie, Peat Inn, we have gained and implemented an access agreement. Development of these sites awaits the expected spread of the very high value currently being obtained at St. Andrews into the neighbouring areas.

We continue the long extended work with our architects to update our existing consents at Belford Road with improvements within the existing consent, so providing 20 modern high amenity flats in keeping with the high quality and varied style of the location. The improved design incorporates changes necessary for new insulation standards and other environmental improvements, and improves fenestration, the internal layout, and the external and internal finishes. The planning process has been subject to continued delays and this updated design, while originally deemed suitable, was then refined and has been further refined, but is yet to be approved. In order to expedite this non-material variation to the planning consent, we have approached a specialist planning consultant to undertake the necessary further negotiations with the planning department.

At St. Margaret's House we hold a planning consent for 377 student bedrooms and 107 flats which we implemented late last year. We recently obtained approval for a non-material variation of that consent which will allow a reconfiguration of the student residences more suited to current market conditions.

In Edinburgh present market conditions are particularly favourable for student development and numerous development proposals are being brought forward. Some developments are for areas deemed unsuitable and many others are encountering widespread community opposition and frequently being denied planning consent. Early in 2024 the already strict regulations governing student consents become even more onerous which we expect will further limit consents granted. Increasing demand and further restrictions on supply together with the prospect of lower interest rates will enhance the value of St. Margaret's House which, given such circumstances, we propose to market early in 2024 or whenever conditions are propitious. We continue to get unsolicited enquiries which, unless there are quite

exceptional circumstances, we do not entertain. Currently, SMH is fully let, but at a greatly discounted value. We are engaging surveyors and tasked them to reduce that discount, so increasing our revenue.

Our developments require a stable and active housing market, and with cost inflation having stabilised, we do not depend on further price increases for successful development, as most of these sites were purchased unconditionally for prices near their then existing use value. A major component of the Group's enhancement of value lies in securing planning permission, and in the extent of that permission. For development or trading properties, unlike investment properties, no change is made to the Group's balance sheet even when improved development values have been obtained. Naturally, however, the balance sheet will reflect such enhanced value as the properties are developed or sold.

The strategy of the Group continues to be conservative, but responsive to market conditions, so continuing a philosophy that underlay our change from being primarily an investment property company to expanding our now extensive development programme. This change in strategy allowed us to escape the devastation caused by the 2008 Great Recession from which most sections of the property sector either never fully recovered or had to be recapitalised, and to avoid both the extensive loss in value associated with the Covid-19 pandemic and the damaging secular market changes that have already and will continue seriously to affect the value of the vast majority of the property investment sector.

The closing mid-market share price on 19 December 2023 was 130p, a discount of 36% per share to the NAV per share as at 30 June 2023 of 203.4p. The Board does not recommend a final dividend, but intends to restore dividends when profitability and consideration for other opportunities and obligations permit.

Conclusion

Economic growth is forecast to be inhibited by short-term and long-terms difficulties. The short-term difficulties arise from the requirement to bring aggregate supply and demand into balance in order to control endogenous inflation. The inflation caused by the exogenous factors arising from the Covid-19 recovery no longer impinges on inflation and the inflation caused by the Ukraine war on fuel and commodity prices is receding fast, although both of these exogenous factors have had lasting deleterious affects on the economy, resulting in a real reduction in living standards in the UK. The reduction in real income, given the high utilisation of labour and capacity, is being resisted by those groups with market power to obtain higher incomes and prices, attempting to offset inflation and thereby reinforcing it.

The residual position is the economy is enduring a classic Minsky cycle of high inflation resulting from an excess of demand over supply, the principal cause of which is the prolonged, and inflationary, period of very loose monetary policy – from which the consequent inflation has been allowed to fester rather than being "nipped in the bud" of which the primary cause has been the Bank's mistiming of the necessary interest rate rises. Ironically, it mirrors exactly the policy mistiming made by the Bank when it raised interest rates in July 2007 just as the economic crisis unfolded.

The long-term difficulty results from the legacy of the economic cost of underwriting the economy during the Covid pandemic, a policy that allowed so swift a recovery, but now constitutes a lasting economic burden. Without doubt it was a price well worth paying while the rapid creation of the vaccines – of a revolutionary type – and their deployment and the management of the vaccination programmes were triumphs of research, management and of social order and the UK Government's decision making. The democratic and social order processes that sanctioned, implemented and suffered these programmes are resounding endorsements of UK democracy, standing in distinct contrast to the mostly failed Covid policy of autocracies. But the gross subsidy, which was provided and prevented the Covid crisis from undermining the economy, was a capital investment, an investment financed by substantial borrowing from the UK Treasury which, like all borrowing, requires interest and principal payments from the recipient, the UK taxpayer.

The Ukraine war put an additional economic burden on the economy. Consequent upon Russia's invasion of Ukraine, Russia's restriction of gas supplies, and its acting, together with the OPEC+ oil cartel, to reduce oil supplies, caused all fuel prices to rise above free market prices. This has effected a transfer of wealth from the consumers, such as in the UK, to the producers. A similar smaller and transitory transfer took place to food producers. As with the Covid pandemic, the UK Government has mitigated the immediate extra cost of fuel by subsidy. This subsidy has required borrowing and, like

the cost of the Covid mitigation, requires interest and capital payments from the recipients, the UK taxpayer.

Thus, for two separate main reasons, the UK economy is poorer and much of this diminution in wealth is represented by the increased borrowing of the Government. It is an unfortunate popular myth that this borrowing is by some entity independent of the taxpayer, the Government. There is a general belief some unspecified party is responsible for these debts, a materialised "ghost", but certainly not "me, the citizen of the UK" – but someone, anyone else! Unfortunately, these obligations do and will continue to burden the economy, the non-acceptance of which in some increasingly dependent sectors of society, and in organisations with market power, will hinder the required adjustments necessary to the economy to create economic growth. Unfortunately, such burdens on an already stressed society appear less burdensome when, unlike at present, they constitute a reduction in an increase in disposable income rather than an actual decrease in disposable income, even although the same quantum reduction occurs: a lesser gain in income is more bearable than the equivalent loss.

Undoubtedly, the UK's greatest long-term difficulty is that the rate of increase in productivity since 2007 has been both small and unevenly distributed, increasingly in favour of capital and of services. Due to persistent artificially low interest rates most owners of capital have benefited from the consequent rise in asset values and accompanying these beneficiaries were those associated with services related to capital, notably financial services, all of which benefits appeared unrelated to performance or merit, as so spectacularly amplified by the banking scandals, and more generally in cartelised professions. The malign influence of such oligarchical "Distributional Coalitions", as so well analysed by the American economist, Mancur Olson, is widespread.

The low improvement in productivity since the Great Recession has not only resulted in little change in average living standards, but the rigidity of the economy and the reaction to minimal improvement or in falling living standards is inhibiting appropriate economic adjustments, an adjustment further hindered by the disproportional distribution of the small gains achieved to a relatively narrow segment of society. Paul Krugman said "Productivity isn't everything, but in the long run it's almost everything".

The diagnosis is clear, but the treatment is opaque. If productivity could be improved by any one singular action or activity – a prescribed productivity "pill" – doubtless it would have already been achieved. The purpose of the "pill" is clear: to create change, a difficulty that has long been diagnosed - "Change is not made without inconvenience, even from worse to better" – Richard Hooker, 1554-1600. Change is multi-faceted, achievable socially, politically, educationally, technically or psychologically, but often requiring integration of two or more such sources. The first, and generally accepted requirement for change, is for technical change: appropriate education and improved skills; the second is for sociological change, including greater freedoms, advancement by application and achievement rather than by affiliation and association; the third is for attitudinal change, including less dependency, an acceptance that improvement to public goods and services, including amenity greening and energy substitution, requires resources which can only be provided without diminution elsewhere by increased output, not miraculously conjured up "out of thin air" or from a mythical Government; the fourth is an institutional change that rewards entrepreneurship, encourages competition and destroys oligopolies; and lastly, political change is required to encourage trade and the interchange of ideas, the independence of universities, the development of research findings and support of growth areas and industries rather than subsidising failures.

The policies necessary to provide higher productivity are circumscribed, not only by cultural, sociological and political barriers, but by the present overriding necessity to continue to "fight fires". When these are doused there will be a greater opportunity to surmount these barriers, but until then productivity is expected by the Bank to increase during their forecast period to 2027 at only about ¾% per annum.

The forecast interest rates of three to three and a half percent may appear aberrantly high, but it was the decade or more, suffused with the stimulants of negative real rates and oceans of liquidity, that was the aberration. "Cold turkey" is the new reality.

I D Lowe
Chairman

20 December 2023

Strategic report for the year ended 30 June 2023

Operating and Financial Review

Principal Activities

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

Results and proposed dividends

The Group profit for the year after taxation amounted to £718,000 (*2022 loss: £1,302,000).* The directors do not propose a dividend in respect of the current financial year (*2022: Nil*). The Group net asset value amounts to £23,971,000 (*2022: £23,253,000*).

Business review

A full review of the Group's business results for the year and future prospects is included in the Chairman's Statement within the Review of Activities on pages 2 and 3 and Future Progress on pages 13 to 14. In accordance with legislation the accounts have been prepared in accordance with UK-adopted International Accounting Standards. As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent Company is not presented as part of these financial statements.

Key performance indicators

The key financial performance indicators for the Group are net asset value, gross profit when developments are sold and maintaining a contribution to costs from rental activities. The progress on these in 2023 are discussed in the Chairman's statement.

As a small organisation with a small number of staff working from a small office, we monitor our impact on the environment mainly through appropriate upgrading of rental properties and in the design and delivery of new homes. Professional advisers ensure we are aware of best practice.

Principal risks and uncertainties

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

Development risk
Market conditions including interest rate increases could depress the sales value of new homes. The Group monitors economic and property prospects and only proceeds with developments when the margin between cost and expected selling price is satisfactory.

The most significant risk to construction cost of developments is the financial failure of the building contractor. The Group mitigates against this risk by careful selection of contractors and by engaging professionals to monitor progress and financial outlays as on site work progresses.

Both risks are also mitigated as developments tend to be for small numbers of new homes and so the construction to sales period is relatively short.

Planning risk
The risk is that planning permission is not obtained for sites acquired before planning permission has been granted. This risk is mitigated by a portfolio approach and acquiring sites without planning permission at prices which are close to current use values. Planning permissions are endured once permission has been obtained.

Property values
The risk is that a market condition reduces the value of investment properties significantly. This risk is mitigated because the Group's more valuable investment properties have development potential which insulates them against the full extent of any general investment downgrade in commercial property.

Availability of funding
The risk is that external funding may not be available to finance developments. The relatively low cost of some development sites may not meet some banking criteria and increases the rate of interest sought by the lender. This is mitigated through funding from a related party loan and that, together with cash resources, should meet foreseen expenditure. As set out in note 17, an interest rate cap agreed after 30 June 2023 mitigates the risk of increasing interest rates.

Tenant relationships
All property companies have exposure to the covenant of their tenants as rentals drive capital values as well as providing income. The Group seeks to minimise exposure to any single sector or tenant across the portfolio and continually monitors payment performance.

Environmental policy
Buildings owned and let out are upgraded when they become vacant to the required EPC levels before re-letting. The houses which the Group delivers are designed to be energy efficient and are environmentally sustainable. As proposals for sites are worked up, the Group seeks to consider environmental risks for each of the development sites. The majority of development sites are on brownfield land where as much as practicable of the material on site is recycled and re-used. Many risk factors are considered including flood risk, existing land contamination issues, archaeological assessment where appropriate, water pollution and biodiversity impacts which are assessed and addressed ensuring that we support the natural environment, mitigate adverse environmental impacts and enhance biodiversity where possible.

Corporate Governance

The directors recognise the need for sound corporate governance. As a company whose shares are quoted on AIM, the Board adopts the Quoted Companies Alliance's Corporate Governance Code ("the QCA Code"). Its corporate governance statement including any disclosures required pursuant to the QCA Code is published on the Company's website www.caledoniantrust.com.

Section 172 Compliance

Section 172 of the Companies Act 2006 imposes a general duty on every Director to act in a way they consider, in good faith, would be the most likely to promote the success of the Group and Company for the benefits of its shareholders as a whole. In doing so, Directors should have regard to several matters including:

a) The likely consequences of any decision in the long term;
b) The interests of the Company's employees;
c) The need to foster the Group and Company's business relationships with suppliers, customers and others;
d) The impact of the Group and Company's operations on the community and environment;
e) The desirability of the Group and Company maintaining a reputation for high standards of business conduct; and

f) The need to act fairly as between members of the Company.

The Board factors stakeholder interest into its long-term policies and objectives. The business of the Group and Company requires engagement with shareholders, customers and tenants, local planning authorities, employees and suppliers.

When considering stakeholder interest, the Board is responsible for ensuring that the long-term policies and objectives implemented allow the Group and Company to provide tenants with properties which meet their needs and to produce consistently high quality homes on its developments.

The Executive Directors are responsible for the operations of the business while the Non-Executive Director is independent and well positioned to provide objective judgement and scrutiny over decisions made by the Board.

Information about stakeholders and how the Board has discharged its duties are included on pages 20 and 21.

M J Baynham
Secretary
20 December 2023

Corporate Governance
QCA Code Compliance and Section 172 Statement
for the year ended 30 June 2023

The corporate governance report is intended to provide shareholders with a clear understanding of the Group's corporate governance arrangements, including analysing compliance with the QCA Code and where the Group does not comply with the QCA Code, an explanation of why it does not.

The QCA Code provides a robust framework which enables the Group to maintain high standards of corporate governance appropriate for the size of the Group. The QCA Code sets out ten principles and each principle and the Group's actions in relation related thereto are set out below. Douglas Lowe, in his capacity as Executive Chairman, is responsible for ensuring the Group has the necessary corporate governance framework in place and that, except for Principles Five and Nine in relation to director appointments, the ten principles are followed across the Group.

Additionally, the Group complies with Section 172 of the Companies Act 2006. This report sets out how the Board has discharged its duties.

Principle One
Business Model and Strategy

The Group's business model is that of a property investment and development company, which is focused on the Scottish property market. Further details regarding application of the Group's business model, its activities and its properties can be found in the 'Review of Activities' section of the Chairman's Statement on pages 2 and 3 of the Group's annual report and accounts for the year ended 30 June 2023. The 'Future Progress' section of the Chairman's Statement on pages 13 to 14 of the Group's annual report and accounts for the year ended 30 June 2023 provides a summary of the Group's strategy. The key challenges in the execution of the Group's business model and strategy and how the Group seeks to address these can be found in the 'Principal risks and uncertainties' section on pages 17 and 18 of the Group's annual report and accounts for the year ended 30 June 2023.

Principle Two
Understanding Shareholder Needs and Expectations

As well as compliance with the QCA Code, Directors are required in accordance with Section 172 of the Companies Act 2006 to include a statement of how they have taken into account the shareholders in promoting the success of the Company. This section and information on pages 22 and 23 set out how the Board has discharged its duties.

It is important to note that the executive directors are the two largest shareholders, together holding over 85% of the Company's issued share capital.

Investors have access to current information on the Company through its website, www.caledoniantrust.com, through its regulatory announcements, its annual and interim accounts and through the directors who are available to answer investor related enquiries.

Shareholders may contact the Company in writing via email (webmail@caledoniantrust.com), by telephone on 0131 220 0416 or in writing to the Company's Head Office, 61A North Castle Street, Edinburgh EH2 3LJ. Any information provided in response to any such enquiries will be information that is freely available in the public domain.

All shareholders are encouraged to attend the Company Annual General Meeting ("AGM") where the Directors listen to the views of the shareholders formally during the AGM and informally following the AGM. In the event of a voting decision not being in line with its expectations the Board would seek to engage with those shareholders to understand and address any concerns as appropriate. Shareholders can continue their engagement with the Directors through any of the channels already mentioned.

The Board dedicates sufficient time to ensure that communication is effective with existing and potential shareholders and other key stakeholders. The Board believes the Company's mode of engaging with shareholders is adequate and effective.

Principle Three
Wider Stakeholder and Social Responsibilities

On the basis of the Directors' knowledge and long experience of the operations of the Group the Board recognises that the long-term success of the Group is reliant upon the efforts of the employees of the Group, its professional advisors and its contractors. The directors engage directly on a regular basis with all these stakeholders which ensures that there is close Board oversight and contact with the Group's key resources and relationships.

Employees: The Group has a small number of full and part-time employees. The Executive Directors are in regular contact with the Group's employees, which provides an opportunity for employees to discuss matters they wish to raise. The administrative staff are in contact with the Directors on a daily basis. A pay review took effect from 1 November 2023.

Customers: The Group aims to deliver quality homes and other developments. It invests in strong design features and should any snagging work be required, it ensures rectification is completed quickly. The Group's interaction with its tenants is constructive and cordial and any contentious points are quickly resolved. The Group recognises the important role of all relevant Regulations and seeks to conform with both the spirit and the requirement of the regulations.

Suppliers and professional advisors: The Group engages contractors after appropriate formal and informal vetting, and for larger projects after formal tendering. The Executive Directors meet with contractors regularly throughout large projects to review their recommendations and to review progress. Advisors are selected on the basis of suitability and experience for the advice required. For each firm engaged an agreed nominated partner or director is responsible for the Group's instructions and advice who reports to the executive directors as required.

Environment: The Board recognises the growing awareness and requirements in respect of environmental issues and is working with its professional advisors to promote an environmentally friendly approach to the design of its new developments.

The Group takes into account feedback received from its key stakeholders and considers making amendments to working arrangements and operational plans where appropriate and where such

amendments are consistent with the Group's strategy and objectives. However, no material changes to the Group's working processes were required over the year to 30 June 2023, or more recently, as a result of stakeholder feedback received by the Company.

Principle Four
Risk Management

In addition to its other roles and responsibilities, the Audit and Compliance Committee is responsible to the Board as a key control for ensuring that procedures are in place, and are being effectively implemented to identify, assess and manage the significant risks faced by the Group in respect of the execution and delivery of the Group's strategy. The Board and executive management team also consider and monitor risk on an ongoing basis.

The principal risks and uncertainties which have been identified within the business and which could have a material impact on the Group's long-term performance can be found in the 'Principal risks and uncertainties' section on pages 17 and 18 of the Company's annual report and accounts for the year ended 30 June 2023.

The risks which the Group faces are subject to change and the measures to counter or to mitigate them are reviewed regularly. The Board considers that an internal audit function is not necessary, due to the close day to day control exercised by the Executive directors.

Principle Five
Maintaining a Well Functioning Board of Directors

As at 20 December 2023 the Board comprised the Chairman and Chief Executive Officer, Douglas Lowe, one executive director, Michael Baynham and one non-executive director, Roderick Pearson. Of the Board's members, Mr Pearson is considered to be independent. A further commentary on this topic is provided below.

Mr Lowe has been both Chairman and Chief Executive Officer of the Company for many years. He is the largest shareholder holding over 79% of the issued share capital and since the banking crisis of 2007 a private company under his control, Leafrealm Limited, has provided significant loans to the Group to fund its working capital requirements. The Board believes that Mr Lowe's shareholding aligns his interests with the other members' interests and there is ample evidence to support this.

The Board consider that in these circumstances it is in the best interests of the Group to maintain Mr Lowe's positions as both Chairman and Chief Executive Officer contrary to recommended best practice in the QCA Code. The Board has been assured that, subject to all debt owed to Leafrealm Limited being repaid, a return to contractual remuneration levels for Mr Lowe and after the currently forecast recession, further Board appointments and changes will be made. Separately, the Board has received an undertaking from Mr Lowe that if he ceases to work full-time, appropriate Board changes will be made.

The Company presently does not comply with the QCA Code recommendation to have at least two non-executive directors who are identified as independent. For those reasons the Board believes that, given the present size of the Company and the nature of its business and operations it is well served by the current composition of the Board which functions effectively and is well balanced. This position is considered regularly and where appropriate and necessary further appointments will be made.

Mr Pearson has been a non-executive director since March 2007 and the rest of the Board consider him to continue to be independent. Mr Pearson brings the weight of his professional qualification and experience to the valuations of investment properties but is sufficiently removed from the day to day operations of the Company to retain a critical and independent view. As such he represents the best interests of all the shareholders.

Mr Lowe and Mr Baynham work full time and Mr Pearson currently works on average two days per month. Biographical details of the current directors are set out below. Executive and non-executive directors are not presently subject to re-election.

The Board met formally on eleven occasions during the year to 30 June 2023 and all directors attended all meetings except that Mr Lowe and Mr Pearson absented themselves from one meeting each where

they had an interest in the matter being discussed. It has established an Audit and Compliance Committee and a Remuneration Committee, details of which are set out further below. The Audit and Compliance Committee met on two occasions during the year ended 30 June 2023 with all members of the committee attending. The Remuneration Committee met once during the year with all committee members attending.

As appointments to the Board are made by the Board as a whole it is not considered necessary to create a Nominations Committee.

Principle Six
Appropriate Skills and Experience of the Directors

The Board currently consists of three directors. Mr Baynham is also the Group Company Secretary. The Board recognises that it currently has limited diversity and increasing diversity will be considered as and when the Board concludes that replacement or additional directors are required.

The Board is satisfied that with the Directors, it has an effective and appropriate balance of skills and experience to deliver the strategy of Group for the benefit of the shareholders over the medium to long-term. All directors are able to take independent professional advice in the furtherance of their duties.

During the year ended 30 June 2023, neither the board nor any committee has sought external advice on a significant matter and no external advisers to the board or any of its committees have been engaged.

I Douglas Lowe
Chairman and Chief Executive Officer
Mr Lowe is a graduate of Clare College Cambridge (MA Hons in Natural Science and Diploma in Agriculture) and Harvard Graduate School of Business Administration (MBA and Certificate in Advanced Agricultural Economics). Until 1977 he was Chief Executive of his family business, David Lowe and Sons of Musselburgh, property owners, farmers and market growers established in 1860, which farmed intensively 2,000 acres and employed over 200 people.

In 1978 and 1979 Mr Lowe was Deputy Managing Director of Bruntons (Musselburgh), a listed company which manufactured mainly wire and wire rope and employed approximately 1,000 people. He was a significant shareholder and, from 1986 until shortly after joining the Company, Executive Deputy Chairman of Randsworth Trust PLC, a property company with a dealing facility on the Unlisted Securities Market. The market capitalisation of Randsworth Trust PLC increased from £886,000 to over £250 million between April 1986 and sale of the company in 1989.

Mr Lowe purchased shares in Caledonian Trust PLC in August 1987, at which time he became Chief Executive. Mr Lowe attends two broadly constituted private political and economics discussion groups throughout the year. He maintains close contact with all of the Group’s professional advisers in order to discuss and identify any new laws, regulations or standards which may affect the Group. He studies a wide range of relevant economic, political and technical publications and undertakes extensive research in preparation of the Chairman’s Statements, which accompany the Annual and Interim Accounts. Mr Lowe’s experience in many senior executive positions in many organisations ensures that he has the necessary ability to develop and implement the Group’s strategy.

Michael J Baynham
Executive Director and Company Secretary
Mr Baynham graduated in law (LLB (Hons)) from Aberdeen University in 1978. Prior to joining the Company in 1989, he worked as a solicitor in private practice specialising in commercial property and corporate law. He was a founding partner of Orr MacQueen WS in 1981 and from 1987 to 1989 was an associate with Dundas & Wilson CS.

Mr Baynham maintains his Practising Certificate with the Law Society of Scotland and attends professional development seminars and other relevant seminars on a regular basis throughout the year. He maintains close contact with all of the Group’s professional advisers in order to understand and apply any new laws, regulations or standards relevant to the business.

Mr Baynham’s experience of corporate law, commercial property law, commercial property finance, investment and development ensures that he has the necessary ability to implement the Group’s strategy.

Roderick J Pearson
Non-Executive Director
Mr Pearson is a graduate of Queens' College Cambridge (MA Modern Languages and Land Economy) and is a Fellow of the Royal Institution of Chartered Surveyors. He has held senior positions in Ryden and Colliers International, practising in Edinburgh, Aberdeen and Glasgow, and now has his own practice, RJ Pearson Property Consultants Limited.

Mr Pearson's experience of property as a surveyor in private practice together with his experience in senior management positions ensures that he has the ability to support the executive directors and also to challenge strategy, and decision making and to scrutinise performance.

All three members of the Board bring relevant sector experience through their long and varied careers throughout the property, financial, legal and consulting sectors. The Board believes that its members possess the relevant qualifications and skills necessary to effectively oversee and execute the Group's strategy.

Principle Seven
Evaluation of Board Performance

The directors consider that the size of the Company does not justify the use of third parties to evaluate the performance of the Board on an annual basis. The Company does not currently have a formal appraisal process for Directors but the Chairman assesses the effectiveness of the Board as a whole and the individual directors to ensure that their contribution is relevant and effective. This process is performed over the course of the year. He also assesses the effectiveness of the Audit Committee and the Remuneration Committee. During the year ended 30 June 2023, the Chairman's assessment did not find any shortcoming in Board or committee effectiveness and did not lead to any material recommendations for any changes.

The Chairman is the majority shareholder and the above arrangements are acceptable to him. The Board will continue to assess this position on at least an annual basis, and if and when it is deemed appropriate it will establish more prescribed evaluation processes.

The Directors have given consideration to succession planning and have in place a strategy to address succession as and when it becomes necessary. The Board believes the current board and current committee structure and membership is appropriate, but will consider whether any board and other senior management appointments are required on at least an annual basis and will consider the feedback from the Chairman's assessments, as described above, in this process.

Principle Eight
Corporate Culture

The Board acknowledges that their decisions on strategy and risk determine the corporate culture of the Group and its performance. High standards of ethical, moral and social behaviour is deemed important in achieving the Group's corporate objectives and strategy and such standards are actively promoted.
The Group only has a small number of employees who work closely with the Executive directors. Accordingly, the Board is always well placed to assess its culture which respects all individuals, permits open dialogue and facilitates the best interest of all of the Group's stakeholders. The Board are prepared to take appropriate action against unethical behaviour, violation of company policies or misconduct.

The Company has adopted a policy for directors' and employees' dealings in the Company's shares which is appropriate for a company whose securities are traded on AIM, and is in accordance with rule 21 of the AIM Rules and the Market Abuse Regulation of the European Union.

Principle Nine
Maintenance of Governance Structures and Processes

Board Roles and Responsibilities

Ultimate authority for all aspects of the Group's activities rests with the Board, with the respective responsibilities of the Directors delegated by the Board. Given the size and nature of the Group's business both of the executive directors engage directly with all key stakeholders on a regular basis.

As noted in the disclosure above in respect of Principle Five, Mr Lowe is both Chairman and Chief Executive Officer of the Company and the Company therefore does not comply with the QCA Code in this respect. In his role as Chairman, Mr Lowe has overall responsibility for corporate governance matters in the Company, leadership of the board and ensuring its effectiveness on all aspects of its role. In his role as Chief Executive Officer Mr Lowe leads the Group's staff and is responsible for implementing those actions required to deliver on the agreed strategy.

Matters reserved specific to the Board include formulating, reviewing and approving the Group's strategy, budget, major items of capital expenditure, acquisitions and disposals, and reporting to shareholders and approving the Annual and Interim Statements. The Board is also responsible for assessing the risks facing the Group and where possible developing a strategy to mitigate such risk.

The Board complies with the Companies Act 2006 and all other relevant rules and regulations including their duty to act within their powers; to promote the success of the Group; to exercise independent judgement; to exercise reasonable care, skill and diligence; to avoid conflicts of interest; not to accept benefits from third parties and to declare any interest in any proposed transaction or arrangement.

At present, the Board is satisfied with the Group's corporate governance, given the Group's size and the nature of its operations, and there are no specific plans for changes to the Company's corporate governance arrangements in the shorter term. As the Group expands and when its programme of developments increase, future Board appointments and Board changes will be considered.

Audit Committee
During the period under review the Audit Committee was chaired by Mr Pearson. It met to review the Interim Report, the Annual Report, to consider the suitability of and to monitor the internal control processes. It also reviewed the directors' valuations of the investment and stock properties, bringing Mr Pearsons professional experience and market awareness to the review. The Audit Committee reviewed the findings of the external auditor and reviews accounting policies and material accounting judgements.

The independence and effectiveness of the external auditor is reviewed annually and the Audit Committee meets at least once per financial year with the auditor to discuss their independence and objectivity, the Annual Report, any audit issues arising, internal control processes, auditor appointment and fee levels and other appropriate matters.

The Audit Committee have reported that they are satisfied that the internal control processes are robust. The accounting policies meet regulatory requirements and any material judgements are stated in Note 3 of the consolidated accounts for the year ended 30 June 2023. The Audit Committee is satisfied that the external auditor is independent and effective.

The Audit Committee terms of reference can be found here http://www.caledoniantrust.com/CR11-AUDIT-COMMITTEE-M0918.pdf .

Remuneration Committee
The Board resolved to increase salaries as more fully set out in the Remuneration Committee report on page 31. During the year, the following increases were agreed and implemented:

I D Lowe	£ 6,000 (with effect from 1 January 2023)
M J Baynham	£40,000 (with effect from 1 January 2023)
R J Pearson	£ 2,000 (with effect from 1 July 2022)

Mr Lowe's remuneration remains below the contracted rate.

The Remuneration Committee terms of reference can be found here www.caledoniantrust.com/CR11-REMUNERATION-COMMITTEE-M0918.pdf .

As ID Lowe is a member of the Remuneration Committee, the Remuneration Committee is not made up of independent directors as envisaged by the QCA Code and the Company therefore does not comply with the QCA Code in this respect.

No director who sits on the Remuneration Committee takes part in discussions or votes on matters pertaining to their individual performance or remuneration.

Details of the directors' remuneration can be found in Note 6 of the consolidated accounts for the year ended 30 June 2023.

Nomination Committee
The Board have agreed that appointments to the Board will be made by the Board as a whole and have not created a Nomination Committee.

At present, the Board is satisfied with the Company's corporate governance, given the Company's size and the nature of its operations, and as such there are no specific plans for changes to the Company's corporate governance arrangements in the shorter term.

As the Group expands and when its programmes of developments increase, future Board appointments and Board changes to reflect such changes will be considered, as appropriate.

Principle Ten
Shareholder Communication

The work of the Company's Audit Committee and Remuneration Committee during the year is described above and in the reports of the Audit Committee and Remuneration Committee.

Shareholders have access to current information on the Company through its website, http://www.caledoniantrust.com, though its regulatory announcements, its annual and interim financial reports and via Mr Lowe, Chairman, who is available to answer investor relations enquiries. Shareholders may contact the company in writing, via email (webmail@caledoniantrust.com) or by telephone on 0131 220 0416. Enquiries that are received will be directed to the Chairman, who will consider an appropriate response.

The results of voting on all resolutions in future general meetings will be posted to the Group's website and announced via RNS. Where a significant proportion of votes (e.g. 20% of independent votes) have been cast against a resolution at any general meeting, the Board will post this on the Group's website and will include, on a timely basis, an explanation of what actions it intends to take to understand the reasons behind that vote result, and, where appropriate, any different action it has taken, or will take, as a result of the vote.

The Company's financial reports since 2002 can be found here http://www.caledoniantrust.com/accounts_details.html. Notices of General Meetings of the Company for the last five years can be found here http://www.caledoniantrust.com/AGM_Notices.html .

The Group engages in open communication with its shareholders and endeavours to reply to all shareholder queries received. The Chairman prepares a detailed summary of the Group's activities in his Statement which accompanies the Annual and Interim Financial Statements. Regulatory announcements are distributed in a timely fashion through appropriate channels to ensure shareholders are able to access material information on the Group's progress. A report of the audit and remuneration committees is included in respect of Principle Nine above. All shareholders are encouraged to attend the Company's Annual General Meeting.

M J Baynham
Secretary
20 December 2023

Corporate Governance
Audit Committee report for the year ended 30 June 2023

Statement from the Chairman of the Audit Committee

On behalf of the Board, I am pleased to present the Audit Committee Report for the year to 30 June 2023. This report provides shareholders with an overview of the activities carried out by the Audit Committee during the year. The Audit Committee ensures the financial performance of the Group is properly measured and reported.

Committee Members

The Audit Committee comprises R J Pearson (Chairman) and I D Lowe. R J Pearson is the independent non-executive Director.

Other members of the Board occasionally attend Audit Committee meetings when requested by invitation. In the year to 30 June 2023 the Audit Committee met twice with both members being present, and the other member of the Board attended one of those meetings.

Responsibilities

The Audit Committee, *inter alia*, determines and examines matters relating to the financial affairs of the Group including the terms of engagement of the Group's auditor and, in consultation with the auditor, the scope of the annual audit. It receives and reviews reports from management and the Company's auditor relating to the half yearly and annual accounts and the accounting and internal control and risk management systems in use throughout the Group; reviews the Group's overall risk appetite and strategy; and monitors, on behalf of the Board, the Group's current risk exposures. The Audit Committee monitors the integrity of the financial statements produced by the Group and makes recommendations to the Board on accounting policies and their application. The Audit Committee receives reports from compliance functions within the Group and is responsible for reviewing and approving the means by which the Group seeks to comply with its regulatory obligations. The Committee also ensures that the arrangements for employees and contractors to raise concerns confidentially about possible wrongdoing in financial reporting (or other matters) are proportionate and allow for independent investigation. The duties of the Audit Committee are set out in its terms of reference, which are available from the Company's website. These are regularly reviewed to ensure they remain applicable and up-to-date with legislation, regulation and best practice.

The Audit Committee meets at least twice a year. For the year ended 30 June 2023, the Audit Committee has met twice to review the Group's draft half year and full year results prior to Board approval and to consider the external auditor's detailed reports.

Internal Audit

The Group does not currently have an internal audit function. The Audit Committee considered the size and nature of the Group and believes that existing management within the Group is able to derive assurance as to the adequacy of internal control and risk management systems without the introduction of an internal audit function.

Risk Management and Internal Controls

The Group has a range of internal controls, policies and procedures in place. The Audit Committee works alongside the Board to review, and where necessary suggest changes to, the current systems in place.

The Audit Committee is satisfied that the current systems in place are operating effectively.

External Audit

Johnston Carmichael LLP were re-appointed for the year to 30 June 2023. The Audit Committee monitors the relationship with the external auditor to ensure independence and objectivity at all times. The Audit Committee also reports to the Board on the independence, objectivity and effectiveness of the external auditor. Johnston Carmichael have been the external auditor for the Group since 2017 with David Holmes as the Partner for three years and Grant Roger taking responsibility as Partner in 2020.

The Audit Committee has recommended that Johnston Carmichael LLP are appointed for the next financial year. Johnston Carmichael LLP do not carry out any non-audit work for the Group.

External Audit Process

Johnston Carmichael LLP prepare an audit plan. This plan sets out the scope and timetable of the audit as well as the areas to be specifically targeted. The plan is provided to the Audit Committee for approval in advance of the audit. On completion of the audit, the findings are presented to the Audit Committee by the auditor for discussion. There were no significant areas of concern highlighted by the auditor this year.

The Group accountant has regular contact and communication with the auditor during the year. This allows for any areas of concern or of significance to be raised with the auditor throughout the year.

Main Issues Discussed and Conclusions

The table below highlights the issues at the audit close meeting: -

Issue	How it was addressed by the Audit Committee
Revenue recognition	
Revenue from sales of investment and trading properties is recognised on legal completion which is when the buyer takes control of the property whether it is commercial property, private houses or plots of land. Using legal completion minimises the management judgements required to determine when ownership is transferred.	During the year, sales comprised four newly completed houses at Brunstane, Edinburgh. Legal completions took place well before the year end date and the committee is satisfied that sales were correctly recognised in the year ended 30 June 2023.
Revenue from rents are spread over the life of the lease and for service charges over the period to which the service relates.	One rent free period arose during the year and was spread over the life of the lease concerned.
Fair value	
The approach to assessing fair value of investment properties is conservative. The directors assessed fair value taking note of the RICS guidance relevant at 30 June 2023. The directors' assessment of fair value at 30 June 2023 was based on changes to the lettings and changes in house price values as well as the independent valuations by Montagu Evans, Chartered Surveyors, at 30 June 2022. Valuations were prepared in accordance with relevant industry standards using transactional evidence and an established methodology.	The Committee discusses each of the valuations and is satisfied that the valuations reflect the market and the manner in which the markets perform. The values ascribed to specific assets are also considered and commented upon in the audit report by our auditor, Johnston Carmichael LLP.
Development properties held as stock	
Trading properties are carried at the lower of cost and net realisable value. The net realisable	The Committee monitors progress and intentions for each location and the timing of

value is an area of judgement based on demand, future costs and the availability of planning consent.	work to ensure that planning consents already given endure.

R J Pearson
Chairman of the Audit Committee
20 December 2023

Corporate Governance
Remuneration Committee report for the year ended 30 June 2023

The Remuneration Committee comprises, R J Pearson (Chairman), the independent, non-executive director and I D Lowe.

The Committee met once during the year, with both members being present, to review the remuneration of the Executive Directors. No director who sits on the Remuneration Committee takes part in discussions or votes on matters pertaining to their individual performance or remuneration.

It was resolved that following the easing of the constraints of Covid-19, the remuneration of the Chair and Chief Executive increase by £6,000 per annum to £48,000 per annum. The salary of M J Baynham had not increased since 2010 and indeed Mr Baynham had accepted a reduced salary from 2017 to 2022 when the Group's activities and cash flow were affected by market conditions. In recognition of the current level of activity and movement in executive salaries over the last 12 years, it was resolved to increase Mr Baynham's salary by £40,000 per annum with effect from 1 January 2023.

A meeting of the Executive Directors resolved to increase the remuneration of the Non-Executive Director by £2,000 per annum with effect from 1 July 2022.

After the increases, the annual salaries of the directors at 30 June 2023 were:

I D Lowe	£ 48,000
M J Baynham	£165,000
R J Pearson	£ 10,000

Mr Lowe's salary continues to be below his contracted rate.

Details of the directors' remuneration can be found in Note 6 of the consolidated accounts for the year ended 30 June 2023.

R J Pearson
Chairman of the Remuneration Committee
20 December 2023

Directors' report for the year ended 30 June 2023

Directors

The directors who held office at the year end and their interests in the Company's share capital and outstanding loans with the Company at the year-end are set out below:

Beneficial interests - Ordinary shares of 20p each

	Percentage held	**30 June 2023**	30 June 2022
		£	£

I D Lowe	79.1	9,324,582	9,324,582
M J Baynham	6.2	729,236	729,236
R J Pearson	-	-	-

Beneficial interests – Unsecured loans

I D Lowe	100.0	4,020,000	4,380,000

The interest of I D Lowe in the unsecured loans of £4,020,000 (*2022: £4,380,000*) is as controlling shareholder of the lender, Leafrealm Limited.

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

Rule 9 of the UK City Code on Takeovers and Mergers (the "Takeover Code") provides, among other things, that where any person who, together with persons acting in concert with him, holds over 50 per cent. of the voting rights of a company, acquires any further shares carrying voting rights, then they will not generally be required to make a general offer to the other shareholders to acquire the balance of their shares.

Douglas Lowe is part of a concert party pursuant to the Takeover Code, which includes the interests in the Company's Ordinary Shares of his Close Relatives (as defined in the Takeover Code) and Leafrealm Limited and Sheriffhall Business Park Limited, companies where Douglas Lowe is the controlling shareholder (the "Douglas Lowe Concert Party"), which holds in aggregate over 50% of the voting rights of the Company. The Douglas Lowe Concert Party is interested in a total of 9,527,582 Ordinary Shares which carry 80.9% of the voting rights of the Company. Douglas Lowe or entities controlled by Douglas Lowe may accordingly increase their aggregate interests in shares without incurring any obligation to make an offer under Rule 9.

Results and dividends

The results for the year are set out on page 43. Ordinary dividends were not paid in the year (*2022: £Nil*). The directors do not recommend payment of a further dividend.

Political and charitable donations

Neither the Company nor any of its subsidiaries made any charitable or political donations during the year.

Disclosure of information to auditor

The directors who held office at the date of approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of Johnston Carmichael LLP will be put to the Annual General Meeting.

By Order of the Board

M J Baynham
Secretary

20 December 2023

Directors' Responsibilities Statement in respect of the annual report and financial statements

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with UK-adopted International Accounting Standards and applicable law and the directors have elected to prepare the parent company financial statements on the same basis.

The group financial statements are required by law and UK-adopted International Accounting Standards to present fairly the financial position and performance of the Group and Parent Company. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the profit or loss of the Group for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and parent Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the website of Caledonian Trust PLC at www.caledoniantrust.com. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Opinion

We have audited the financial statements of Caledonian Trust PLC (the 'Parent company') and its subsidiaries (the 'Group') for the year ended 30 June 2023, which comprise the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Balance Sheet, Company Statement of Changes in Equity, Company Statement of Cash Flows and Notes to the consolidated financial statements and notes to the Parent company financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted International Accounting Standards.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and Parent company's affairs as at 30 June 2023 and of the Group's profit for the year then ended;

- the Group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the Parent company financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our approach to the audit

We planned our audit by first obtaining an understanding of the Group and Parent company and its environment.

We tailored the scope of our audit to reflect our risk assessment, taking into account such factors as the business model and activities, accounting processes and controls, and the industry in which the Group and Parent company operates.

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in the evaluation of the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

We evaluated the significance of the Group's components and determined our planned audit responses based on a measure of materiality. The Group is made up of a consolidation of three trading subsidiaries plus the Parent company. We completed full scope audit statutory audits of the Parent company and the three trading subsidiaries.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters include those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements, as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in arriving at our audit opinion above, together with how our audit addressed these matters and the results of our audit work in relation to these matters.

Key audit matter	How our audit addressed the key audit matter
Carrying value of investment properties (note 4 and 10 Group, and note 5 Parent) Group - 2023: £17.1M (2021: £16.6M) Parent company – 2023: £1.7M (2022: £1.7M) The Group has a large portfolio of investment properties, which provide significant rental income to the Group. We focus on the valuation of investment properties because of their materiality to the	We obtained the directors' assessment of the valuation at 30 June 2023, prepared by the non-executive director. We assessed the inputs and the assumptions inherent in these valuations as follows: • We considered external local market data for sales or listings for comparable properties, relevant to each property held by the Group. This included consideration of the impact of higher inflation and interest levels and fluctuations in the housing market.

Group's and Parent company's balance sheet and the inherent level of judgement required in estimating the year-end value. The value at 30 June 2023 is a valuation by the directors, based on a third-party valuation as at 30 June 2022, updated for the directors' assessment of current year factors that impact the valuation. The credentials of the non-executive director who performed the valuation can be found in principle 6 of the Corporate Governance Code. The valuation assessment is that two properties have increased in value, while one property has decreased in value with the remainder all retaining their 2022 value as at 30 June 2023. The assessment has been based on current year assessment of rental yields, estimated rental value and local market conditions.	• We have compared the underlying inputs driving the valuations including agreement of market rent assumptions to the Group's rental income and comparison of yields used in the valuations to industry data. • We assessed the competence of the non-executive director by considering his credentials, and benchmarking valuations against local market data as specified above. The results of our testing did not indicate any audit findings in respect of the valuation of investment properties.
Carrying value of trading properties held in stock (note 4 and 13 Group, and note 8 Parent) Group - 2023: £9.5M (2022: £10.7M) Parent company – 2023: £1.4M (2022: £1.4M) The Group has a large portfolio of land and properties, which are held for development and/or sale. We focus on the valuation of trading properties because of their materiality to the Group's and Parent company's balance sheet. Trading properties are included at the lower of cost and their net realisable value. There is a considerable level of inherent management judgement required in estimating net realisable value. Net realisable value is dependent upon availability of planning consent and demand for sites.	We reviewed the year end valuation of trading properties held in stock and challenged the key assumptions and inputs as follows: • We obtained management's reconciliation of the opening carrying value to the closing carrying value of the trading property stock and agreed a sample of additional costs incurred in the year to supporting documentation. • We obtained the current planning status and development plans for each site from the directors, to understand if these sites are to be developed internally or sold as plots to external developers, including copies of the latest planning permissions and consents. • For properties to be developed internally, we compared management's expected build cost per square foot to the build costs for similar sites and industry data on build costs and obtained explanations for any variances. • For properties being sold to an external developer, we formed an auditor's estimate of future build costs and developer margins by utilising external market data to calculate expected total cost. This was compared to management's valuation, with any variations investigated and reconciled. • We challenged management's forecast sales prices by comparing prices per square foot to local market data and recent housing sales. We also considered the overall market in Scotland and the relevant regions by reviewing external reports on house price movements in Scotland, including consideration of the increased levels of

	inflation and general cost increases and fluctuations in the housing market. • Finally, we reviewed transactions in year, and post year end transactions to confirm that sales values were in excess of carrying value. The results of our testing did not indicate any audit findings in respect of the valuation of trading properties.

Our application of materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature and extent of our work and in evaluating the results of that work. Materiality was determined as follows:

Materiality Measure	Group	Parent company
Materiality for the financial statements as a whole – we have set materiality as 1% of the total assets of the Group/Company as we believe that benchmark is the primary performance measure used by investors and is the key driver of shareholder value given the nature of the business and significant asset value in the investment properties and trading property stock. We determined the measurement percentage to be commensurate with the risk and complexity of the audit and the Group's listed status.	£280,000 (2022: £290,000)	£220,000 (2022: £215,000)
Performance materiality – performance materiality represents amounts set by the auditor at less than materiality for the financial statements as a whole, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting this we consider the Group's overall control environment, our past experience of the audit that indicates a lower risk of material misstatements. Based on our judgement of these factors, we have set performance materiality at 75% of our overall financial statement materiality.	£210,000 (2022: £217,500)	£165,000 (2022: £161,250)
Specific materiality - recognising that there are transactions and balances of a lesser amount which could influence the understanding of	£10,000 (2022: £10,000)	£10,000 (2022: £10,000)

users of the financial statements we calculate a lower level of materiality for testing such areas. We have set a specific materiality of £10,000 in respect of related party transactions. We used our judgement in setting these thresholds and considered our past experience of the audit, the history of misstatements and industry benchmarks for specific materiality.		
Audit Committee reporting threshold - we agreed with the Audit Committee that we would report to them all differences in excess of 5% of overall materiality in addition to other identified misstatements that warranted reporting on qualitative grounds, in our view. For example, an immaterial misstatement as a result of fraud.	£14,000 (2022: £14,500)	£11,000 (2022: £10,750)

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group and Parent company's ability to continue to adopt the going concern basis of accounting included:

- evaluating the Directors method of assessing going concern, including consideration of the nature and reliability of revenues and costs;
- assessing and challenging the forecast cashflows used by the Directors in support of their going concern assessment;
- assessing the adequacy of the Group's and Parent company's going concern disclosures included in the Annual Report; and
- obtaining confirmation that support from Leafrealm Limited would continue to be provided for at least twelve months from sign off and that there is no intention to seek repayment of the remaining loan balance in 2024.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group or Parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information
The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the Parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Directors
As explained more fully in the Directors' Responsibilities Statement set out on pages 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We assessed whether the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations by considering their experience, past performance and support available.

All engagement team members were briefed on relevant identified laws and regulations and potential fraud risks at the planning stage of the audit. Engagement team members were reminded to remain alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Parent Company and the sector in which they operate, focusing on those provisions that had a direct effect on the determination of material amounts and disclosures in the financial statements. The most relevant frameworks we identified include:

- UK-adopted International Accounting Standards;
- Companies Act 2006;
- UK Corporate Tax legislation;
- AIM Rules for Companies; and
- UK Market Abuse Regulation.

We gained an understanding of how the Group and Parent company are complying with these laws and regulations by making enquiries of management and those charged with governance. We corroborated these enquiries through our review of any relevant correspondence with regulatory bodies and board meeting minutes.

We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management and those charged with governance to understand where it was considered there was susceptibility to fraud. This evaluation also considered how management and those charged with governance were remunerated and whether this provided an incentive for fraudulent activity. We considered the overall control environment and how management and those charged with governance oversee the implementation and operation of controls. We assessed that a heightened fraud risk exists in relation to Management override of controls and Revenue recognition.

The audit procedures we performed in response to these risks are included below.

In addition to the procedures outlined above and in our response to the identified key audit matters, the following procedures were performed to provide reasonable assurance that the financial statements were free of material fraud or error:

- Substantive analytical procedures over rental income, supported by agreement of a sample of rental revenue to relevant documentation, including agreement of a sample of transactions to underlying contracts and/or invoices and bank statements, ensuring income has been recorded in the correct period;
- For total property sales during the year and post year end, we reconciled the number of sales recorded in the year with external third-party invoices from Estate Agents, and confirmed sales value to underlying contracts, missives and bank statements, ensuring it has been included in the correct period;
- Reviewing minutes of meetings of those charged with governance for reference to: breaches of laws and regulation or for any indication of any potential litigation and claims; and events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud;
- Reviewing the level of and reasoning behind the Group's and Parent company's procurement of legal and professional services;
- Performing audit work procedures over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of any significant transactions outside the normal course of business and reviewing judgements made by management in their calculation of accounting estimates for potential management bias. There were no transactions outside the normal course of business identified;
- Agreement of the financial statement disclosures to supporting documentation;

- Completion of appropriate checklists and use of our experience to assess the Group and the Parent Company's compliance with the Companies Act 2006 and AIM Rules for Companies; and
- Agreement of the financial statement disclosures to supporting documentation.

Our audit procedures were designed to respond to the risk of material misstatements in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve intentional concealment, forgery, collusion, omission or misrepresentation. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

Use of our report
This report is made solely to the Parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent company and the Parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Roger (Senior Statutory Auditor)
for and on behalf of Johnston Carmichael LLP ....

Chartered Accountants
Statutory Auditor

7-11 Melville Street
Edinburgh
EH3 7PE

Consolidated statement of comprehensive income for the year ended 30 June 2023

	Note	**2023 £000**	2022 £000
Revenue			
Revenue from development property sales		**2,665**	-
Gross rental income from investment properties		**373**	306
Total Revenue	5	**3,038**	306
Cost of development property sales		**(1,795)**	-
Property charges		**(139)**	(90)
Cost of Sales		**(1,934)**	(90)
Gross Profit		**1,104**	216
Administrative expenses		**(626)**	(887)
Other income		**10**	8
Net operating profit/(loss) before investment property disposals and valuation movements		**488**	(663)
Valuation gains on investment properties	10	**560**	190

	Note	2023	2022
Valuation losses on investment properties	10	**(80)**	(690)
Net gains/(loss) on investment properties		**480**	(500)
Operating profit/(loss)	5	**968**	(1,163)
Financial income		**1**	-
Financial expenses	7	**(251)**	(139)
Net financing costs		**(250)**	(139)
Profit/(loss) before taxation		**718**	(1,302)
Income tax	8	**-**	-
Profit/(loss) and total comprehensive income for the financial year attributable to equity holders of the parent Company		**718**	(1,302)
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share (pence)	9	**6.09p**	(11.05)p

The notes on pages 47 – 67 form an integral part of these financial statements.

Consolidated balance sheet as at 30 June 2023

	Note	2023 £000	2022 £000
Non-current assets			
Investment property	10	**17,090**	16,610
Plant and equipment	11	**10**	8
Investments	12	**1**	1
Total non-current assets		**17,101**	16,619
Current assets			
Trading properties	13	**9.451**	10,672
Trade and other receivables	14	**154**	134
Cash and cash equivalents	15	**1,953**	1,317
Total current assets		**11,558**	12,123
Total assets		**28,659**	28,742
Current liabilities			
Trade and other payables	16	**(668)**	(1,109)
Interest bearing loans and borrowings	17	**-**	(360)
Total current liabilities		**(668)**	(1,469)
Non-current liabilities			
Interest bearing loans and borrowings	17	**(4,020)**	(4,020)
Total liabilities		**(4,688)**	(5,489)
Net assets		**23,971**	23,253

Equity			
Issued share capital	21	**2,357**	2,357
Capital redemption reserve	22	**175**	175
Share premium account	22	**2,745**	2,745
Retained earnings		**18,694**	17,976
Total equity attributable to equity holders of the parent Company		**23,971**	23,253
NET ASSET VALUE PER SHARE		**203.4p**	197.3p

The financial statements were approved by the board of directors on 20 December 2023 and signed on its behalf by:

I D Lowe
Director
The notes on pages 47 - 67 form an integral part of these financial statements.

Consolidated statement of changes in equity as at 30 June 2023

	Issued share capital £000	Capital redemption reserve £000	Share premium account £000	Retained earnings £000	Total £000
At 1 July 2021	2,357	175	2,745	19,278	24,555
(Loss) and total comprehensive expenditure for the year	-	-	-	(1,302)	(1,302)
At 30 June 2022	2,357	175	2,745	17,976	23,253
Profit and total comprehensive income for the year	**-**	**-**	**-**	**718**	**718**
At 30 June 2023	**2,357**	**175**	**2,745**	**18,694**	**23,971**

Consolidated statement of cash flows for the year ended 30 June 2023

	Note	**2023 £000**	2022 £000
Cash flows from operating activities			
Profit/(loss) for the year		**718**	(1,302)
Adjustments for:			

Net (gains)/loss on revaluation of investment properties	**(480)**	500
Depreciation	**5**	5
Net finance expense	**250**	139
Net operating cash flows before movements in working capital	**493**	(658)
Decrease/(increase) in trading properties	**1,221**	(1,359)
(Increase)/decrease in trade and other receivables	**(20)**	1
(Decrease)/increase in trade and other payables	**(377)**	574
Cash generated from/(absorbed by) operations	**1,317**	(1,442)
Interest received	**1**	-
Interest paid	**(315)**	(251)
Net cash inflow/(outflow) from operating activities	**1,003**	(1,693)
Investing activities		
Acquisition of property, plant and equipment	**(7)**	(10)
Cash flows (absorbed by) investing activities	**(7)**	(10)
Financing activities		
(Decrease) in borrowings	**(360)**	-
Cash flows (used) from financing activities	**(360)**	-
Net increase/(decrease) in cash and cash equivalents	**636**	(1,703)
Cash and cash equivalents at beginning of year	**1,317**	3,020
Cash and cash equivalents at end of year	**1,953**	1,317

Notes to the consolidated financial statements as at 30 June 2023

1 Reporting entity

Caledonian Trust PLC is a public company incorporated in England and domiciled in the United Kingdom. The consolidated financial statements of the company for the year ended 30 June 2023 comprise the Company and its subsidiaries as listed in note 7 in the parent Company's financial statements (together referred to as "the Group"). The Group's principal activities are the holding of property for both investment and development purposes. The registered office is c/o Womble Bond Dickinson, The Spark, Draymans Way, Newcastle Helix, Newcastle upon Tyne, NE4 5DE and the principal place of business is 61a North Castle Street, Edinburgh EH2 3LJ.

2 Statement of Compliance

The Group financial statements have been prepared and approved by the directors in accordance with UK-adopted International Accounting Standards. The company has elected to prepare its parent Company financial statements in accordance with UK-adopted International Accounting Standards; these are presented on pages 68 to 87.

3 Basis of preparation

The financial statements are prepared on the historical cost basis except for investments and investment properties which are measured at their fair value.

The preparation of the financial statements in conformity with UK-adopted International Accounting Standards requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These financial statements have been presented in pounds sterling which is the functional currency of all companies within the group. All financial information has been rounded to the nearest thousand pounds.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 2 to 16. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in note 18 to the consolidated financial statements.

In addition, note 18 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group and parent Company finance their day to day working capital requirements through related party loans and bank funding is considered for specific development projects. The related party lender has indicated its willingness to continue to provide financial support and not to demand repayment of its principal loan before 30 June 2025.

The directors have prepared cash flow projections for the period ending eighteen months from the date of their approval of these financial statements. The Group's cash reserves and existing loan arrangements are expected to be sufficient for the Group's cash flow needs for that period.

For these reasons they continue to adopt the going concern basis in preparing the financial statements.

Areas of estimation uncertainty and critical judgements

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is contained in the following notes:

Estimates

- *Valuation of investment properties (note 10)*
  The fair value of property is formally measured every 3 years by suitably qualified, independent individuals in accordance RICS Appraisal and Valuation Standards, and informally assessed by Management in the intervening years. Management consideration includes future rental income, anticipated void costs, the appropriate discount rate or yield and the potential for redevelopment. The fair value of a property is deemed to be the estimated amount for which a property should exchange, on the date of valuation, in an arm-length transaction.

- *Valuation of trading properties (note 13)*
  Trading properties are carried at the lower of cost and net realisable value. The net realisable value of such properties is based on the amount the company is likely to achieve in a sale to a third party. This is then dependent on availability of planning consent and demand for sites which is influenced by the housing and property markets.
  .

Judgements

- *Deferred Tax (note 20)*
  The Group's unrecognised deferred tax asset relates to tax losses being carried forward and to differences between the carrying value of investment properties and their original tax base. A decision has been taken not to recognise the asset on the basis of uncertainty regarding the availability and timing of future taxable profits.

4 Accounting policies

The accounting policies below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation
The financial statements incorporate the financial statements of the parent Company and all its subsidiaries all of which have the same accounting date (see parent Company note 7). Subsidiaries are entities controlled by the Group. Control exists when the Group has a) power over the investee; b) exposure or rights to variable returns from its involvement with the investee; and c) the ability to use its power over the investee to affect the amount of the investor's returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date it ceases. Inter-company balances are eliminated on consolidation.

Revenue
Turnover is the amount derived from ordinary activities, stated after any discounts, other sales taxes and net of VAT.

Revenue from the sale of investment and trading properties is recognised in the income statement on legal completion, being the date on which control passes to the buyer. Standard payments terms are for payment to be received contemporaneously with completion.

Rental income from properties leased out under operating leases is recognised in the income statement on a straight-line basis over the term of the lease. Costs of obtaining a lease and lease incentives granted are recognised as an integral part of total rental income and spread over the period from commencement of the lease to the earliest termination date on a straight-line basis. Standard payment terms for rent is payment in advance of the period to which the relates.

Other income
Other income comprises income from agricultural land and other miscellaneous income recognised on receipt.

Finance income and expenses
Finance income and expenses comprise interest payable on bank loans and other borrowings. All borrowing costs are recognised in the income statement using the effective interest rate method. Interest income represents income on bank deposits using the effective interest rate method.

Taxation
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the charge / credit is recognised in equity. Current tax is the expected tax payable on taxable income for the current year, using tax rates enacted or substantively enacted at the reporting date, adjusted for prior years under and over provisions.

Deferred tax is calculated using the balance sheet liability method in respect of all temporary differences between the values at which assets and liabilities are recorded in the financial statements and their cost base for taxation purposes. Deferred tax includes current tax losses which can be offset against future capital gains. As the carrying value of the Group's investment properties is expected to be recovered through eventual sale rather than rentals, the tax base is calculated as the cost of the asset plus indexation. Indexation is taken into account to reduce any liability but does not create a deferred tax asset. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognised initially at cost.

Subsequent to initial recognition:

i. investment properties whose fair value can be measured reliably are held at fair value. Any gains or losses arising from changes in the fair value are recognised in the income statement in the period that they arise; and

ii. no depreciation is provided in respect of investment properties applying the fair value model.

Rental income from investment property is accounted for as described in the Revenue accounting policy.

Investment property is measured at fair value at each balance sheet date. The directors assess market value at each balance sheet date and external independent professional valuations are prepared at least once every three years. The fair values are based on market values, being the estimated price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date.

Tangible assets
Tangible assets are stated at cost, less accumulated depreciation and any provision for impairment. Depreciation is provided on all tangible assets at varying rates calculated to write off cost to the expected current residual value by equal annual instalments over their estimated useful economic lives. The periods used are:

Fixtures and fittings	-	3 years
Motor vehicles	-	3 years
Other equipment	-	5 years

Trading properties

Trading properties held with a view to development or subsequent disposal are stated at the lower of cost or net realisable value. Initial and development cost is calculated by reference to invoice price plus directly attributable professional fees. Interest and other finance costs on borrowings specific to a development are capitalised through stock and work in progress and transferred to cost of sales on disposal. Net realisable value is based on estimated selling price less estimated cost of disposal.

Financial instruments

The Group had no hedge relationships at 1 July 2021, 30 June 2022 or 30 June 2023.

Financial assets

Investments
The Group's investments in equity instruments are measured initially at fair value which is normally transaction price. Subsequent to initial recognition investments which can be measured reliably are measured at fair value with changes recognised in the profit or loss. Dividend income

is recognised when the Group has the right to receive dividends either when the share becomes ex dividend or the dividend has received shareholder approval.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Listed investments are held at fair value and subsequently measured at fair value, with any changes to fair value recognised in the profit and loss statement.

Current receivables

Trade and other debtors are recognised initially at transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method less any impairment losses.

Cash and cash equivalents

Cash includes cash in hand, deposits held at call (or with a maturity of less than 3 months) with banks.

Financial liabilities

Current payables

Trade payables are non-interest-bearing and are initially measured at transaction price and thereafter at amortised cost.

Interest bearing loans and borrowings

Interest-bearing loans and bank overdrafts are initially carried at transaction price less allowable transactions costs and then at amortised cost.

Changes in accounting policies

There are no new standards or amendments to existing standards which are effective for annual periods beginning on or after 1 July 2022 which are relevant to the Group. There are no new standards or amendments to existing standards or interpretations that are effective as at 30 June 2023 and relevant to the Group. The directors have considered standards which are issued but are not yet effective and do not expect them to have any significant impact on financial measurement and disclosures.

Operating segments

The Group determines and presents operating segments based on the information that is internally provided to the Board of Directors ("The Board"), which is the Group's chief operating decision maker. The directors review information in relation to the Group's entire property portfolio, regardless of its type or location, and as such are of the opinion that there is only one reportable segment which is represented by the consolidated position presented in the primary statements.

5 Operating profit/(loss)

	2023	2022
	£000	£000
Revenue comprises: -		
Rental income from investment properties	**373**	306
Sale of properties	**2,665**	-
	3,038	306

All revenue is derived from the United Kingdom. Details of performance obligations and payment terms are disclosed in accounting policy 4, *Revenue*.

	2023	2022
	£000	£000
Rental income from investment properties	**373**	306
Direct operating expenses		
- for properties generating income	**(126)**	(80)
- for properties not generating income	**(13)**	(10)
Gross Profit	**234**	216

	2023	2022
	£000	£000
Sale of Properties	**2,665**	-
Cost of development property sales	**1,795**	-
Gross Profit	**870**	-

	2023	2022
	£000	£000
The operating profit is stated after charging: -		
Depreciation	**5**	5
Amounts received by auditors and their associates in respect of:		
- Audit of these financial statements (Group and Company)	**24**	19
- Audit of financial statements of subsidiaries pursuant to legislation	**14**	10

6 Employees and employee benefits

	2023	2022
	£000	£000
Employee remuneration		
Wages and salaries	**318**	232
Social security costs	**31**	17
Other pension costs	**28**	28
	377	277

Other pension costs represent contributions to defined contribution plans.

The average number of employees including executive directors during the year was as follows:

	No.	No.
Management	**2**	2
Administration	**4**	3
	6	5

	2023	2022
Remuneration of directors	£000	£000
Directors' emoluments	**206**	135
Company contributions to money purchase pension schemes	**25**	25

Salary and	Pension	2023	2022

Director	Fees £000	Benefits £000	Contributions £000	**Total £000**	Total £000
I D Lowe	45	6	-	**51**	33
M J Baynham	145	-	25	**170**	119
R J Pearson	10	-	-	**10**	8
	200	**6**	**25**	**231**	160

Key management personnel are the directors, as listed above. The total remuneration of key management personnel, including social security cost, in the year was £256,705 (*2022: £173,491*).

	2023 £000	2022 £000
Highest paid director (included above)		
Management remuneration	**145**	94
Pension contributions to money purchase schemes	**25**	25
	170	119
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**1**	1

7 Finance expenses

	2023 £000	2022 £000
Finance expenses		
Interest payable:		
- Other loan interest	**251**	139

8 Income tax

There was no current nor deferred tax charge in the current or preceding year.

Reconciliation of effective tax rate

	2023 £000	2022 £000
Profit/(loss) before tax	**718**	**(1,302)**
Current tax at 20.5% *(2022: 19%)*	**147**	**(247)**
Effects of:		
Expenses not deductible for tax purposes	**1**	**72**
Excess depreciation over capital allowances	**(4)**	**(6)**
Income not taxable	**(2)**	**-**
Losses carried forward	**39**	**86**
Losses brought forward	**(83)**	**-**
Revaluation of property not taxable	**(98)**	**95**
Total tax charge	**-**	**-**

An increase in the UK corporation tax rate from 19% to 25% (effective from 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Group's tax charge accordingly.

Deferred tax has been calculated at 25% as this is the rate effective in the period it is expected to reverse.

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 (see note 20).

9 Earnings per share

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

	2023	2022
	£000	£000
Profit/(loss) for financial period	**718**	(1,302)
	======	======
	No.	No.
Weighted average no. of shares: for basic earnings per share and for diluted earnings per share	**11,783,577**	11,783,577
	========	========
Basic earnings/(loss) per share	**6.09p**	**(11.05) p**
Diluted earnings/(loss) per share	**6.09p**	**(11.05) p**

The diluted figure per share is the same as the basic figure per share as there are no dilutive shares.

10 Investment properties

	2023	2022
	£000	£000
Valuation		
At 1 July	**16,610**	17,110
Fair value gain/(loss) in year	**480**	(500)
Valuation at 30 June	**17,090**	16,610
	========	========

The fair value of investment property at 30 June 2023 was determined by the directors based on changes in leases for one property and changes in market conditions for others. The non-executive director holds an appropriate professional qualification and has recent experience in the location and category of property being valued. Cognisance was also taken of the independent valuation by Montagu Evans, Chartered Surveyors as at 30 June 2022.

The valuation methodology applied by the directors and the external valuers was in accordance with the RICS Valuation Global Standards July 2017 which is consistent with the required IFRS 13 methodology. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market sector participants at the measurement date. The properties were valued individually and not as part of a portfolio.

The 'review of activities' and 'property prospects' within the Chairman's statement provides commentary on the Group's properties.

The historical cost of investment properties held at 30 June 2023 is £8,805,509 (2022: £8,805,509). The cumulative amount of interest capitalised and included within historical cost in respect of the Group's investment properties is £451,000 (2022: £451,000).

Valuations were based on vacant possession, rental yields or residual (development) appraisal rather than investment income in order to achieve the highest and best use value. To obtain the residual valuation the end development value is discounted by profit for a developer and cost to build to reach the base estimated market value of the investment. Only two properties were valued using an appropriate yield with allowance for letting voids, rent free periods and letting/holding costs for vacant accommodation and early lease expiries/break options, together with a deduction for purchaser's acquisition costs in accordance with market practice. The resulting net yields have also been assessed as a useful benchmark. Yields of 7.5% and 11% were applied respectively.

Assuming all else stayed the same, a decrease in net rental income or estimated future rent will result in a decrease in the fair value whereas a decrease in the yields will result in an increase in fair value. A decrease of 1% in the yields would result in an increase in valuation of £206,000 (*2022: £221,000*). An increase of 1% in the yields would result in a decrease in the fair value of £172,000 (*2022: £181,000*).

All the investment properties have been categorised as Level 2 in both years as defined by IFRS 13 Fair Value Measurement. Level 2 means that the valuation is based on inputs other than quoted prices that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The amount of unrealised gains or losses on investment properties is charged to the statement of comprehensive income as the movement in fair value of investment property. For the year to 30 June 2023 this was a fair value profit of £480,000 *(2022: loss £500,000).* There were no realised gains or losses on the disposal of investment properties in the year ended 30 June 2023.

11 Plant and equipment

	Motor Vehicles £000	**Fixtures and fittings £000**	**Other equipment £000**	**Total £000**
Cost				
At 30 June 2021	1	15	69	85
Addition in year	-	10	-	10
At 30 June 2022	1	25	69	95
Depreciation				
At 30 June 2021	1	15	66	82
Charge for year	-	3	2	5
At 30 June 2022	1	18	68	87
Net book value				
At 30 June 2022	-	7	1	8

	Motor Vehicles £000	**Fixtures and fittings £000**	**Other equipment £000**	**Total £000**
Cost				
At 30 June 2022	1	25	69	95

Additions in year	-	3	4	7
At 30 June 2023	1	28	73	102
Depreciation				
At 30 June 2022	1	18	68	87
Charge for year	-	4	1	5
At 30 June 2023	1	22	69	92
Net book value				
At 30 June 2023	**-**	**6**	**4**	**10**

12 Investments

	2023	2022
	£000	£000
Listed investments	**1**	1

13 Trading properties

	2023	2022
	£000	£000
At start of year	**10,672**	9,313
Additions	**574**	1,359
Sold in year	**(1,795)**	-
At end of year	**9,451**	10,672

Finance costs related to borrowings specifically for a development are included in the cost of developments. At 30 June 2023 the total finance costs included in stock and work in progress was £1,910 (*2022: £9,552*).

14 Trade and other receivables

	2023	2022
	£000	£000
Amounts falling due within one year		
Other debtors	**118**	103
Prepayments and accrued income	**36**	31
	154	134

The Group's exposure to credit risks and impairment losses relating to trade receivables is given in note 18.

15 Cash and cash equivalents

	2023	2022
	£000	£000
Cash	**1,953**	1,317

Cash and cash equivalents comprise cash at bank and in hand. Cash deposits are held with UK banks. The carrying amount of cash equivalents approximates to their fair values. The Company's exposure to credit risk on cash and cash equivalents is regularly monitored (note 18).

16 Trade and other payables

	2023 £000	2022 £000
Trade creditors	**21**	59
Other creditors including taxation	**13**	14
Accruals and deferred income	**634**	1,036
	668	1,109

The Group's exposure to currency and liquidity risk relating to trade payables is disclosed in note 18.

17 Other interest bearing loans and borrowings

The Group's interest bearing loans and borrowings are measured at amortised cost. More information about the Group's exposure to interest rate risk and liquidity risk is given in note 18.

Current liabilities

	2023 £000	2022 £000
Unsecured loan	**-**	360
Non-current liabilities		
Unsecured loans	**4,020**	4,020

Net debt reconciliation

	2023 £000	2022 £000
Cash and cash equivalents (note 15)	**1,953**	1,317
Liquid investments (note 12)	**1**	1
Borrowings – repayable with one year (note 17)	**-**	(360)
Borrowings – repayable after one year (note 17)	**(4,020)**	(4,020)
Net debt	**(2,066)**	(3,062)
Cash and liquid investments	**1,954**	1,318
Gross debt – variable interest rates	**(4,020)**	(4,380)
Net debt	**(2,066)**	(3,062)

	Cash/bank overdraft £000	**Liquid investments £000**	**Borrowing due within 1 year £000**	**Borrowing due after 1 year £000**	**Total £000**
Net debt at 30 June 2021	3,020	1	(360)	(4,020)	(1,359)
Cashflows	(1,703)	-	-	-	(1,703)
Net debt at 30 June 2022	1,317	1	(360)	(4,020)	(3,062)
Cashflows	636	-	360	-	996

Net debt at 30 June 2023	**1,953**	**1**	**-**	**(4,020)**	**(2,066)**

Terms and debt repayment schedule
Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	**2023** Fair value £000	**2023** Carrying amount £000	2022 Fair value £000	2022 Carrying amount £000
Unsecured loan	GBP	Base +3%	**4,020**	**4,020**	4,020	4,020
Unsecured development loan	GBP	Base +0.5%	**-**	**-**	360	360
			4,020	**4,020**	4,380	4,380

The unsecured loan of £4,020,000 is from Leafrealm Limited and is repayable in 12 months and one day after the giving of notice by the lender. Interest was charged at 3% over the Bank of Scotland base rate until 10 October 2023 when the terms were amended to a margin of 2% over the Bank of Scotland base rate, capped at 5% overall and with a minimum rate, including margin, of 2%. Leafrealm Limited retains the right to require the interest rate to return to 3% over the Bank of Scotland base rate and the maximum and minimum cap to be varied at any time on the giving of not less than 3 months notice.

The short-term unsecured development loan of £360,000 for Brunstane was from Leafrealm Limited and was repaid during the year. Interest was charged at a margin of 0.5% over the Bank of Scotland base rate.

The weighted average interest rate of the floating rate borrowings was 5.7% *(2022: 3.2%)*.

18 Financial instruments

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	2023 Fair value £000	**2023** Carrying amount £000	2022 Fair value £000	2022 Carrying amount £000
Trade and other receivables (note 14)	**118**	**118**	103	103
Cash and cash equivalents (note 15)	**1,953**	**1,953**	1,317	1,317
	2,071	**2,071**	1,420	1,420
Loans from related parties (note 17)	**4,020**	**4,020**	4,380	4,380
Trade and other payables (note 16)	**21**	**21**	59	59

	4,041	**4,041**	4,439	4,439

Estimation of fair values

The following methods and assumptions were used to estimate the fair values shown above:

Trade and other receivables/payables – the fair value of receivables and payables with a remaining life of less than one year is deemed to be the same as the book value.

Cash and cash equivalents – the fair value is deemed to be the same as the carrying amount due to the short maturity of these instruments.

Other loans – the fair value is calculated by discounting the expected future cashflows at prevailing interest rates.

Overview of risks from its use of financial instruments

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework and oversees compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Board's policy is to maintain a strong capital base so as to cover all liabilities and to maintain the business and to sustain its development.

The Board of Directors also considers whether or not dividends should be paid to ordinary shareholders.

For the purposes of the Group's capital management, capital includes issued share capital and share premium account and all other equity reserves attributable to the equity holders. There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group's principal financial instruments comprise cash, short term deposits and loan finance. The main purpose of these financial instruments is to finance the Group's operations.

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

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers, cash held at banks and its investments.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The majority of rental payments are received in advance which reduces the Group's exposure to credit risk on trade receivables.

Other receivables

Other receivables consist of amounts due from tenants and purchasers of investment property along with a balance due from a company in which the Group holds a minority investment.

Credit risk (continued)

Investments

The Group does not actively trade in equity investments.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying value	
	2023	2022
	£000	£000
Investments (note 12)	**1**	1
Other receivables (note 14)	**118**	103
Cash and cash equivalents (note 15)	**1,953**	1,317
	2,072	1,421

The Group made an allowance for impairment on trade receivables of £Nil (*2022: £31,000*). As at 30 June 2023, trade receivables of £41,000 (*2022: £37,000*) were past due but not impaired. These are long standing tenants of the Group and the indications are that they will meet their payment obligations for trade receivables which are recognised in the balance sheet that are past due and unprovided. The ageing analysis of these trade receivables is as follows:

Number of days past due date	**2023** **£000**	2022 £000
Less than 30 days	**19**	19
Between 30 and 60 days	**1**	1
Between 60 and 90 days	**7**	5
Over 90 days	**14**	12
	41	37

Credit risk for trade receivables at the reporting date was all in relation to property tenants in United Kingdom. The Group's exposure is spread across a number of customers and sums past due relate to 9 tenants (*2022: 8 tenants*). One tenant accounts for 21% (*2022: 34%*) of the trade receivables past due by more than 90 days.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group's reputation. Whilst the directors cannot envisage all possible circumstances, the directors believe that, taking account of reasonably foreseeable adverse movements in rental income, interest or property values, the Group has sufficient resources available to enable it to do so.

The Group's exposure to liquidity risk is given below

30 June 2023 £'000	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**2-5 years**

Unsecured loan	4,020	4,226	72	134	4,020
Trade and other payables	668	668	668	-	-

30 June 2022 £'000	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**2-5 years**
Unsecured loan	4,020	4,261	136	105	4,020
Unsecured development loan	360	365	365	-	-
Trade and other payables	1,109	1,109	1,109	-	-

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group borrowings are at floating rates of interest based on the Bank of Scotland base rate.

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

	2023 £000	2022 £000
Unsecured loan – Base +3%	**4,020**	4,020
Unsecured loan – Base +0.5%	**-**	360
	=====	=====

The effect of the interest rate change and the cap described in note 17 is to reduce the interest rate by 3% from the rate applicable at 30 June 2023 and is expected to increase profits for the year ending 30 June 2024 by £93,000. As a result of the cap, there would be no further change in the Group's sensitivity to an increase or decrease in base rate movements of up to 1%, which the Directors consider to be a reasonably possible change.

Should Leafrealm Limited amend the margin from 2% to 3% and change the caps, any 1% movement would be expected to change the Company's/Group's annual net interest charge by £40,200 (£43,800).

19 Operating leases

Leases as lessors

The Group leases out its investment properties under operating leases. Operating leases are those in which substantially all the risks and rewards of ownership are retained by the lessor. Payments, including prepayments made under operating leases (net of any incentives such as rent free periods) are charged to the income statement on a straight line basis over the period of the lease. The future minimum receipts under non-cancellable operating leases are as follows:

	2023 £000	2022 £000

Less than one year	**184**	209
Between one and five years	**304**	352
Greater than five years	**206**	261
	694	822

The amounts recognised in income and costs for operating leases are shown on the face of the income statement.

20 Deferred tax

At 30 June 2023, the Group has a potential deferred tax asset of £1,607,000 *(2022: £1,662,000)* of which £113,000 *(2022: £120,000)* relates to differences between the carrying value of investment properties and the tax base. In addition, the Group has tax losses which would result in a deferred tax asset of £1,494,000 (*2022: £1,542,000*). This has not been recognised due to uncertainty regarding the availability and timing of future taxable profits.

Movement in unrecognised deferred tax asset

	Balance 1 July 21 at 25%	Additions/ (reductions)	Balance 30 June 22 at 25%	Additions/ (reductions)	**Balance 30 June 23 at 25%**
	£000	£000	£000	£000	**£000**
Investment properties	79	41	120	(7)	**113**
Tax losses	1,409	133	1,542	(48)	**1,494**
Total	1,488	174	1,662	(55)	**1,607**

21 Issued share capital

	30 June 2023		30 June 2022	
	No	**£000**	No.	£000
Authorised share capital				
Ordinary shares of 20p each	**20,000,000**	**4,000**	20,000,000	4,000
Issued and fully paid				
Ordinary shares of 20p each	**11,783,577**	**2,357**	11,783,577	2,357

Holders of ordinary shares are entitled to dividends declared from time to time, to one vote per ordinary share and a share of any distribution of the Company's assets.

22 Capital and reserves

The capital redemption reserve arose in prior years on redemption of share capital. The reserve is not distributable.

The share premium account is used to record the issue of share capital above par value. This reserve is not distributable.

23 Ultimate controlling party

The ultimate controlling party is Mr I D Lowe.

24 Related parties

Transactions with key management personnel

Transactions with key management personnel consist of compensation for services provided to the Company. Details are given in note 6.

Other related party transactions

The parent company has a related party relationship with its subsidiaries.

The Group and Company has an unsecured loan due to Leafrealm Limited, a company of which I D Lowe is the controlling shareholder. The balance due to this party at 30 June 2023 was £4,020,000 (*2022: £4,020,000*) with interest payable at 3% over Bank of Scotland base rate per annum. The margin applies with effect from 1 July 2020 in line with the terms of the loan. Interest charged in the year amounted to £243,017 *(2022: £135,694).* With effect from 10 October 2023 the terms were amended to a margin of 2% over the Bank of Scotland base rate, capped at 5% overall and with a minimum rate of 2%.

During the year, the Company repaid an unsecured development loan due to Leafrealm Limited, a company of which I D Lowe is the controlling shareholder. The balance due to this party at 30 June 2023 was £Nil (*2022: £360,000)* with interest payable at a margin of 0.5% over base rate. Interest charged in the year amounted to £8,132 *(2022: £2,163).*

Contracting work on certain development and investment property sites has been undertaken by Leafrealm Land Limited, a company which was under the control of I D Lowe. The value of the work done by Leafrealm Land Limited charged in the accounts for the year to 30 June 2023 amounts to £2,396 (*2022: £8,219*) at rates which do not exceed normal commercial rates. The balance payable to Leafrealm Land Limited in respect of invoices for this work at 30 June 2023 was £Nil (*2022: £630*).

Lowe Dalkeith Farms, a business wholly owned by I D Lowe, provided equipment used in the maintenance of the Group's investment or development sites. The value of the equipment hire from Lowe Dalkeith Farms charged in the accounts for the year to 30 June 2023 amounts to £398 (*2022: £2,249*) at rates which do not exceed normal commercial rates. The balance payable to Lowe Dalkeith Farms in respect of invoices for this work at 30 June 2023 was £Nil (*2022: £630*).

In 2022, property advisory services on two investment property transactions was undertaken by RJ Pearson Property Consultants Limited, a company under the control of R J Pearson. The value of the work done charged in the accounts for the year to 30 June 2023 amounts to £Nil (*2022: £25,000*) at rates which do not exceed normal commercial rates. The balance payable to RJ Pearson Property Consultants Limited in respect of invoices for this work at 30 June 2023 was £Nil (*2022: £Nil*).

For a full listing of investments and subsidiary undertakings please see note 7 of the parent Company financial statements.