Caledonian Trust PLC

Directors' report and financial statements
30 June 2006
Registered number: 1040126

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Company Information

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Registered number	1040126

Chairman's Statement

for the year ended 30 June 2006

Introduction

The Group made a profit of £129,509 in the year to 30 June 2006 compared with £412,150 last year. Earnings per share were 1.09p and NAV was 222.5p, compared with 205.8p last year. Income from rent and service charges was £870,745, an increase of £163,736 over last year. Gains on the sale of properties were £295,229 compared with £501,420 last year. Administrative costs of £992,992 were £142,249 higher than last year due primarily to a rise of £98,420 in property costs related principally to the vacancy at St Margaret's House and the repair costs at Ashton Road, Rutherglen, prior to the successful sale. Net interest payable was £43,506, higher than last year's payment of £12,630, due to increased borrowings. The weighted average base rate for the year was 4.52%, almost the same as the 4.72% for the year to June 2005.

On 30 June 2006 the Group's portfolio comprised by value 37.7% office investment property (of which 67.6% is open plan) 36.9% retail property, 3.6% industrial property, and 21.8% development property.

Review of Activities

The Group's property activities reflect our continuing strategy of purchasing assets with medium-term development prospects and of making niche and opportunistic acquisitions. Investment assets will probably be sold when they "mature".

Significant changes are taking place in our Edinburgh New Town investment portfolio. The twenty-five year leases on our two properties in Young Street, adjacent to Charlotte Square, determined on 28 August 2006. The smaller of the two properties, 17 Young Street, together with two garages, has been let to the former sub-tenants for ten years with breaks at a slightly enhanced rent. The other property, 19 Young Street, also with two garages, has been unoccupied for some years and we have agreed a satisfactory dilapidations settlement. Many New Town offices have reverted to residential use where the values are usually over £300/ft^2 refurbished. In this instance residential conversion would cost around £50/ft^2 which produces a poorer return than office values at this location. The unrefurbished offices as are being marketed at a price which reflects offers over £260/ft^2. The two garages are being retained by the Group for letting.

We have made a similar analysis of the vacant space at 61 North Castle Street, where office values are similar to Young Street, but have arrived at the opposite conclusion. The Georgian Castle Street property is particularly elegant and is built on a much more generous scale than Young Street and, on refurbishment, is expected to have a residential value of over £450/ft^2, substantially in excess of office values. We propose to undertake this refurbishment and to incorporate the Edwardian extension at the rear of 61 North Castle Street into the contiguous office space in Hill Street.

In South Charlotte Street the first five year review due in December 2006 of the 4,500ft^2 restaurant let to La Tasca for twenty five years is being negotiated. Our agents have indicated that a substantial rental increase should be achieved.

Our largest property in Edinburgh, St Margaret's House, was let to the Scottish Ministers until November 2002 and was the subject of a long dilapidations litigation in the Commercial Court until an acceptable offer was made in January 2005. Discussions with City of Edinburgh Council officials over the years have indicated that any redevelopment proposals for St Margaret's would require to be considered in the context of a master plan for the island site which St Margaret's shares with, *inter alia*, Meadowbank House, the 125,000ft^2 1970s office block owned and occupied by the Registers of Scotland, between the A1 and the main east coast railway line and "Smokey Brae". In consequence we have had discussions for several years with Registers of Scotland to enhance our mutual interests. Unfortunately Registers, like many Scottish Government Agencies and Departments, are subject to a policy of dispersal away from Edinburgh and they have been engaged in a relocation review process for five years. Stage 1 of the review was delivered to the Scottish Ministers in December 2004 and, in line with the review's recommendations, Ministers ruled out the relocation of the whole Meadowbank operation and requested the Registers to undertake a Stage 2 appraisal comparing a phased partial move from Edinburgh to one of six local authority areas short-listed in Stage 1 with the "status quo" – i.e. no move. In their appraisal Registers concluded that for operational efficiency any partial move should be

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of a whole sub-section and selected one currently employing 222 full time employees, just over a fifth of their current full time staff. Due to a planned staff reduction to c800 by 2011/12 this subsection was expected to have 162 full-time employees. To counter the decline in the number of employees being relocated, the proposed new feudal abolition unit of 24 full-time employees was to be added to the relocated site.

The marginal cost of such a move, given a range of variations, was the main substance of the Stage 2 appraisal. Registers have a large existing office in Glasgow. Due primarily to economies of scale, adding the existing staff there is the least expensive relocation. The report states that on the premises stated such a relocation would have a "net present cost" of £8m, and involve "significant and continuing loss of efficiency, the costs of which will have to be met by the Registers of Scotland's client base". However, if such a partial relocation is required, relocation to Glasgow "delivers socio-economic benefits in line with policy and also represents the least disadvantageous location in terms of cost and impact on the Registers of Scotland's core business".

Registers submitted their extensive Stage 2 Relocation Appraisal to the Ministers on 8 July 2005. A decision was originally expected in late 2005, then at a later date and latterly in the third week of July 2006. On 21 September 2006, in response to a question in the Chamber, the Minister, George Lyon, replied: "The Executive will announce the outcome of Stage 2 of the location review of the Registers of Scotland shortly". Bizarrely on 24 November 2006 the Minister announced that the Executive was "deferring" a decision and had asked Registers to report back in a year. The referral complicates our analysis by introducing several additional options and uncertainties and by lowering the probability of any one particular outcome.

The deferral relates to 186 jobs only as the Stage 1 recommendation to maintain the vast majority of jobs in Edinburgh was accepted. The cost of the job transfer is high, although the Executive avers that the policy can be justified on "socio-political" grounds. However, Audit Scotland has recently reported that "the policy had been operated inconsistently with no systematic evaluation and an absence of explanations . . .". In view of the criticism, the deferral and the forthcoming election and, possibly, a change of policy and the carefully argued appraisal by Registers, the move of the 186 jobs now seems less likely. The retention of the majority of jobs, c. 600, seems very likely.

Unfortunately these conclusions are necessarily uncertain. What is certain is that Registers remain in the relocation review "pending tray" and as such will be unable to plan coherently beyond the ongoing relocation review, which now may be subject to almost indefinite review. Indeed the policy may be dead but the death as yet unconfirmed. Next year, following the May 2007 election, there will be a new parliament and a new administration.

While the Group's preferred option was to undertake a development in conjunction with or for the benefit of Registers, outline contingency plans have been prepared. We will now promote a phased development in which the St Margaret's site provides the first phase. Key elements will be a landmark tower on the west boundary suitable for a hotel, office or residential use and a piazza entering off a new street frontage on London Road. In due course the redevelopment of the Meadowbank House site would complement that at St Margaret's.

In our property at Baylis Road/Murphy Street neat Waterloo, in the borough of Lambeth, London, the tenants, who had been in occupation on short-term leases since the early 1990's, exercised the option to break the two year lease in May 2006. A dilapidations schedule was served at that time and a substantial amount of the reinstatement works undertaken by the tenant are nearing completion and discussions are underway to agree a financial settlement in respect of the outstanding items. There are many options for the properties on which we are being advised by our London agents. Office rents have risen 17.7% in the West End over the last three years and best rents in the South Bank are now £38/ft^2 equivalent to say £25/ft^2 in Baylis Road. Residential values have risen sharply, 25.4% in Lambeth in the year to September 2006, and are now estimated to be over £600/ft^2. If fewer than fifteen flats are developed, no affordable housing is required and a mixed commercial

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and residential development of 14 flats may optimise value. Alternatively, once the dilapidations works are completed, a moderate upgrade may result in a rental value with an investment value higher than the residual value of any development. We continue to receive unsolicited offers to let or to buy the property.

The sale of Ashton Road, Rutherglen was our only investment disposal in the period. This industrial property was purchased for minor refurbishment and letting in an area likely to benefit from the proposed extension of the M74 to the Kingston Bridge. Although planning permission had been granted for this extension it became subject to a judicial review, the outcome of which was uncertain. Thus, when an unsolicited offer was made, even although refurbishment had started, we accepted it and realised a surplus of £189,726 after all costs.

The Group gained several important planning consents during the year. In Tradeston, Glasgow, on the south side of the Clyde opposite the Broomielaw we obtained permission for a development of 191 flats, predominantly two and three bedrooms together with associated car parking and open space, and 10,000ft^2 of commercial space. The property is let and currently the rent review due in May 2006 is being negotiated but is subject to a minimum uplift which should be exceeded.

In August 2005 planning permission was received for forty-five large detached houses near Dunbar, which has a station on the main east coast line. The dual carriageway section of the A1 from Edinburgh has recently been further extended and our site, just off the A1, is now only four miles beyond the dual carriageway. On 6 June 2006 we received planning permission for a further twenty-eight houses including four "affordable" on a second site nearby. The report of an enquiry into a proposed superstore and a budget hotel on the A1 just south east of Dunbar is still awaited. Five years after our original application planning permission was granted in August 2006 for eight detached houses at our site at Wallyford, which borders Musselburgh and is within 400 yards of the east coast mainline station with easy access to the A1 near the City Bypass. Construction is proceeding rapidly on a contiguous site on which two national house builders are developing around two hundred and fifty houses.

In Belford Road, Edinburgh, we have undertaken site works sufficient to implement our long-standing 22,500ft^{2}office consent which otherwise would have lapsed on 12 October 2005, the day we obtained another consent for 20,000ft^2 of residential development together with parking for 20 cars. Belford Road, which is less than 500m from Charlotte Square and the West End of Princes Street, has recently become a quiet cul-de-sac. Residential values should average over £365/ft^2, the spectacular views from the upper floors commanding much higher values. However the implementation of our office consent may yet prove to have been an astute move. Since Q3 2005 office rents in Edinburgh have risen by about 5% and yields fallen by 0.8 percentage points, sufficient to increase the office investment value by 21.85% to say £500/ft^2.

In East Edinburgh at Brunstane Farm, adjacent to the rail station, planning and listed building consent was granted on 13 December 2006 to convert the listed steading to provide ten houses of varying sizes totalling 14,000ft^2. In addition to the steading we own five stone-built two storey cottages for refurbishment and possible extension, two further medium-sized brick farm buildings and two-and-a-half acres of land adjacent to other residential property, but at present in the Green Belt fringe.

Last year we bought a farmhouse, a farm steading and adjacent land in an elevated location with commanding views over open country in central Perthshire just off the A9 near Bankfoot. We expect to submit an application for a complete residential redevelopment shortly.

In the year to 30 June 2006 we have acquired eight development sites and since the year end we have acquired a further four, including the second site near Dunbar on which we gained consent for twenty-eight detached houses. Currently we are negotiating the purchase of a large rural property in Central Scotland with long term potential.

Ardpatrick is the largest and the most extensive of the twelve properties acquired but it is potentially the most rewarding. The Ardpatrick.estate occupies a peninsula in West Loch Tarbert and at present comprises a mansion house based on a Georgian house built in 1769, ten estate houses or former houses, a farm house (High Ardpatrick) and a farm steading and other buildings for potential residential development and a number

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of possible new housing sites in locations considered suitable in the Finalised Draft Local Plan. The property extends over 1,000 acres, has over 10 km of coastline, commands striking views, and includes a grassland farm, an oak forest, a private beach, a named island and coastal salmon fishing and other sporting rights.

The estate is in very poor condition but, as progress since our purchase on 4 April 2006 confirms, the medium-term development value of the Estate is considerable. Immediately following a very long delayed completion we sold on part of the property on which we realised a trading profit of £105,000. Three of the outlying cottages have been repaired, redecorated and brought up to a saleable standard and are currently under offer. We have recently obtained planning consent to convert and extend a stone-built bothy for residential use. The small south Lodge cottage on the west drive has a wonderful coastal setting and consent has recently been granted to extend it to just over 1,000ft^2.

Like many West Highland estates houses Ardpatrick House enjoys a beautiful setting looking SE over West Loch Tarbert to the Kintyre peninsula, but, unlike most estate houses or shooting lodges, the house is built to a splendid classic Georgian design originally comprising a central three-storey building with two flanking pavilions.

Internally also it is set apart by many fine original Georgian features, many of which are in their original condition. Sadly the same is not true of the fabric of the building where maintenance has been woeful. At first, restoration of this fine building seemed wholly uncommercial. However, due to its construction in three separate portions and the existence of three staircases, a natural division is possible without disrupting the principal rooms. A further partition can be easily achieved by introducing another staircase in the Victorian servants' quarters towards the rear of the house, currently a maze of storage and preparation rooms. Ardpatrick will then become four separate houses ranging from 1760ft^2 to 3478ft^2 each with its own front door, one of which will be a reinstated 1769 entrance. Planning and listed building consents for the conversion have been granted and the necessary remedial works have started.

The Group's policy for the estate is to arrest the continuing decay in the infrastructure and then to repair, renew or improve it sufficiently for its function but also, wherever practicable, restore it as appropriate for the amenity and style of the estate. Such a setting will make the properties considerably more attractive to occupiers, purchasers and visitors. We also intend to restore or provide limited central amenities available to a wide range of occupiers or potential occupiers.

In a quite different part of Britain, Herne Bay, our joint venture development of 39 houses is on budget. Fifteen houses have been sold and 14 are reserved, slightly fewer than expected at this time.

Economic Prospects

The world economy grew by 5.0% in 2005 and is expected to grow by 5.3% in 2006, the highest for over 20 years, before declining slightly in 2007 and 2008 to 4.7%, due to tighter monetary policy. This favourable outlook is conditional on the non-crystallisation of a number of political and economic risks, most of which fortunately are remote.

A world recession and deflation posed a real but limited risk in 2000, but growth was maintained, primarily by active monetary policies and world interest rates are currently rising to moderate growth. Japan, whose economy has suffered a long, often deflationary, recession has now recovered and the economy is estimated to grow by 2.8% this year. The war in Iraq threatened a severe oil shortage and subsequent economic dislocation, but oil supplies were largely maintained. Oil prices did rise subsequently, doubling in 2004-05, but this was largely due to increased global demand and as the world economy expanded by 5.0%, less than in the previous year, possibly due to the estimated 0.3% reduction in growth per $10 rise in oil. The disruption caused by international terrorism is having a profound and widespread effect, particularly on individual freedom and convenience but, like natural disasters, the consequences, however awful locally, are confined and limited.

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A widespread conflagration in the Middle East, centred on Iraq but including Shiite Iran and possibly other states, is a major and increasing risk to world stability. Near anarchy prevails in Iraq with numerous separate factions fighting the coalition forces and each other and murdering the civilian population, the worst effects of which are being mitigated by the presence of the Coalition Forces. There seems no military, political or economic circumstance that will bring stability and a military withdrawal appears inevitable after which the position is likely to deteriorate further, possibly accompanied by a regrouping of the civilian population, until local supremacies are established and any fighting is then concentrated between these warlords.

If the occupying forces effect a partition, then the worst aspects of a civil war might be avoided. In other contexts partitioning has reduced conflict but Iraq appears inherently unstable. In particular, the influence of the Iranian Shiite theocracy in southern Iraq is already very strong and the risk of a war with the previously dominant Sunni Iraq minority is high. The long Iran-Iraq war of 1980 – 1988 had little effect on the world economy in spite of the huge loss of life and, if another conflict were to be confined to these combatants, disruption to oil supplies, although significant, should not prove catastrophic.

Other states did not enter the 1980 – 1988 war, but the Iranian nuclear programme is indicative of Iran's political ambition, a position likely to be interpreted as inimical to the interests of the other nearby states who might seek to limit the further spread of Iran's influence in Iraq, if necessary by force, so threatening the stability of the whole region. Self-interest and the still considerable influence of the West which has provided security for client states, as in Kuwait, should ensure any military involvement is contained, but the events unfolding in the Middle East represent the incipient undermining of the present status quo, the regional balance of power, the status of the Nuclear Non-Proliferation Treaty and the influence of the US in world politics. The present engagement in and the manifest failure in Iraq and, to a lesser extent in Afghanistan, has impaired the ability of the US to "hold the peace".

The twin US imbalances in savings and balance of payments are potentially the greatest threat to the world economy. At present one-seventh of the rest of the world's gross savings (and more of the net) are being absorbed by the US current account deficit, which is financing a huge boom in consumption fuelled by unprecedented deficits – household debt at 7% GDP and large government deficits – as the US has enjoyed a housing-led consumption boom. However this has apparently now come to an abrupt halt and the reduced growth of consumption will slow the economy. A remedial fiscal stimulus would increase the Federal deficit when the economy and hence tax revenue was already declining, while a monetary stimulus would reduce the attraction of $ holdings and might damage confidence in the $. In any down turn political pressure might mount for a weaker $ and some protection against imports, principally China whose current account surplus is 7% of GDP. A large and sudden $ decline would stimulate domestic demand and mitigate the effects of a downturn but it would seriously affect imports and world trade. Such an economic shock could be avoided if non-US demand expanded as US import demand declined: a "Goldilocks" solution. Last year Morgan Stanley said "The history of economic crises is clear: the longer any economy holds off facing its imbalances, the greater the probability of a hard landing . . . .", but the US has not faced its imbalances, as Alan Greenspan said in 2004 "given the size of the US current account deficit a diminished appetite for adding to dollar balances must occur at some point". However, overvaluations can persist for a long time, as they did in the dot-com bubble described, as early as 1996, by Alan Greenspan as "irrational exuberance". But as the FT leader said last year "a long-term requirement does not make a short-term bet. The [US] current account dynamics may not bite for several years yet" – one year has passed!

Recent political events may accelerate these necessary US economic adjustments. The US adventure in Iraq may represent a turning point similar to the abortive UK adventure in Suez fifty years ago. That failure clearly demonstrated that the UK's actual position was considerably different from its perceived position; the UK was no longer a prominent independent world power, and, even in alliance with France, both clinging to the relics of empire, they could not act independently. The withdrawal took place subsequent to President Eisenhower's intervention, notwithstanding that Nasser had unlawfully seized the Suez Canal, closed it to warships and threatened other interests East of Suez, particularly those in the Persian Gulf, all circumstances that

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compounded the UK's public humiliation. The US-led invasion of Iraq bears a frightening similarity. Saddam, like Nasser, seemed to threaten the vital interests of the West; in both cases UN support was sought but not gained; and both invasions were categorised as being in self-defence. Moreover, the failures in Suez and in Iraq have had similar outcomes: the balance of power shifted against the invaders – Nasser was greatly bolstered by his effective defiance and in Iraq fundamental Islamists, Al Qaeda and other terrorists along with anti-American factions successfully defy the world's greatest military and political power. In both cases the invaders grossly overestimated their own capabilities, miscalculated the response of the population, had little preparation for post-invasion policy and acted contrary to respected advice. Suez highlighted the diminished real influence of the UK and Iraq, at the very least, questions the unassailable power of the US.

The supremacy of the US position arose on the fall of the "Wall" in 1989 which marked the defeat of the Soviet Union, not by the passage of arms but by the implosion of Communism as a result of its prolonged economic failure. The world has seen few such unipolar powers, the most notable being the Roman Empire. Gibbon, writing in 1776, the year the Declaration of Independence was signed, makes two observations and an analysis of telling relevance – "it was easy for him (Emperor Augustus) to discover that Rome, in her present exalted situation, had much less to hope than to fear from the chance of arms; and that, in the prosecution of remote wars, the undertaking became, every day more difficult, the event more doubtful, the possession more precarious and less beneficial . . . ." and "the forests and morasses of Germany were filled with a hardy race of barbarians; and though, on the first attack, they seemed to yield to the weight of Roman power, they soon, by a signal act of despair, regained their independence". Gibbon analyses the decline and fall as a revolt against Roman "universalism" driven by Christian values and an egalitarian protest against the unequal distribution of property.

The unipolar US has a current account deficit of nearly 7% of GNP, but previous empires were not so exposed. The British Empire in its heyday, just before WW1, had a current account surplus of about 7%, and, although both sixteenth century Spain and Rome had current account deficits, these were covered by the acquisition of long- term assets – colonies and silver and gold.

The potential fragility of the US undermines the existing unipolar position of the U.S., or, as the Hudson Institute says "Debt saps the world power of America". The hegemony of the US was amply demonstrated by the defiance of the UN, by the recruitment of a coalition and by buying positions in Pakistan and Central Asia to assist is the rout of the Taliban and of Iraq's forces. However, hegemony is not omnipotence and, as in Indochina and Vietnam, big nations lose small wars, where local combatants do not need to prevail, but only to survive, to win.

The limits to US military power are cruelly exposed in the Middle East and the financial exposure and dependence on China's $ deposits represent a changed perspective. These factors will have contributed to the political failures in Iran and North Korea which in turn undermines confidence in the strength of the US and exposes the increasing risk inherent in the US twin imbalances.

UK economic growth is expected to be approximately 2.75% in 2006, and the economy has expanded for the last fifty-seven consecutive quarters since the economy emerged from the recession of the early 1990s, the longest unbroken expansion period on record. The average annual growth rate in the nine years since Labour came to power, benefiting from the reforms of the previous administration and from granting operational independence to the Bank of England, has been 2.8%. In 1997 UK output per capita was the lowest of the G7 nations but by 2006 it was second only to the USA. Growth in 2005 was reduced to 1.9% as a result of a fall in the growth of consumer consumption from 3.5% in 2004 to 1.3%, the slowest rise since 1992, probably largely due to the stabilisation of house prices. Over the next few quarters the Bank of England expects consumption growth to be at its historical average following stabilisation of tax rates and a fall in energy prices and its central forecast for growth in 2007 is 3.0%

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Deloittes suggest that in 2007 UK growth will be affected by a slowdown in exports to the US where growth is expected to drop from 3.4% this year to only 1.5% in 2007. In the US existing house prices have fallen by 3% and new houses by 9.7%. The wealth effect on consumption – together with the related sharp fall in MEW – is larger than in the collapse of the tech stocks in 2000, as property, unlike the tech stocks, constitutes a significant part of household wealth. In the UK recent interest rate rises should result in interest payments of 9.5% of household income, the highest proportion since 1992 and savings are also expected to increase slightly. In view of these constraints Deloittes forecast growth of 2.0% similar to the EIU's 2.2%, but lower than the Economist's 2.4% forecasted growth and much less than the Bank of England's central forecast.

Two years ago, when house price rises were still above 15% some commentators, notably Capital Economics and HSBC, argued that a house price bubble existed which, when pricked, would lead to a sharp fall in house values, greatly increased savings and reduced consumption. By October 2005 house price inflation had dropped to 2.5%, after being negative in April and May 2005, causing the contraction in consumption noted earlier. The bubble contracted, but there has been no pricking. Recently commentators have reported rises of up to 12.3% which have brought new warnings from the relatively mild statement by the Governor of the Bank of England: "the level of house prices seems remarkably high relative to average earnings or average incomes or anything else you could look at" to an estimate by PwC that prices were 15% overvalued and a forecast of "significant" falls in real house prices within one or two years by Morgan Stanley.

Capital Economics is no longer predicting a collapse in house prices because they had been "proved wrong". Morgan Stanley say that it is only possible to explain the more than doubling of house prices in the past decade if demand for houses has been heavily influenced by expectations of further rapid rises ie a bubble had formed which by default occurs when the dominant motive for purchase is the expectation of selling on soon at a profit – "pass the parcel". Alternatively, house price rises can be explained in respect of reduced inflation, asset price variation and supply. House prices have risen but so have other assets, including the only safer asset class, gilts. Recently a fifty year indexed gilt was issued which, if it had been issued ten years ago, would have now doubled in value. Most asset class values vary around uncertain estimates of fundamental value and changes in that fundamental value. These prices usually slow positive serial correlation in the short term and negative serial correlation in the long term: a series of above average increases are followed by a series of below average increases: knowledge of the timing of the switchover would make one very very rich! Houses also derive value from prime location and from perceived social status, benefits that are highly income sensitive. These properties attract the wealthy whose time is expensive, the establishment and those aspiring to the establishment, an increasing demand, but as the supply is fixed, prices rise. The current huge boom in City bonuses is probably reflected in the 54.9% and 47.8% price rises in Kensington and Chelsea and in the City of Westminster respectively. Where houses are outwith locational and social value and supply is plentiful, house prices should reflect the highest other use of the land on which they are built, normally farmland in the UK, plus the commercial cost, including return on capital, of providing them, a position approached in the American mid-west. In the UK supply is usually constrained by rationing, the coupons being planning consents. House completions (including flats) in the UK have now risen from 175,000 in 2001 to 206,000 in 2005, slightly above the 190,000 typically produced in the 1990s. Conversions and demolitions reduce these figures by about 50,000 per year. Over the next twenty years Government estimates are that in England alone 209,000 new households will be formed each year.

Kate Barker's report to the Treasury says UK real house prices have risen 2.4% over the thirty years to 2004 (EU average 1.1%, Germany 0.0%!) or 2.7% over the last twenty years. She estimates that for England to reduce real growth to 1.8% would require an additional 70,000 private sector houses per annum and, to 1.1%, a further 50,000. Given the constraints on supply in the UK it seems most unlikely that supply increases will influence prices significantly.

CPI inflation is at its highest for ten years but largely due to recent oil and energy prices which have now largely passed through the economy and current estimates are for oil prices to be stable or to fall. Although interest rates have recently risen and market projections are for a further small increase in early 2007 the

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Bank of England's central projection is for inflation to fall back to 2% in late 2007. Thus debt-servicing costs should not rise further, inflation should be low and growth in the economy should continue at 2% to 3% pa. These are conditions that will support demand for houses.

Property Prospects

In the year to September 2006 the CBRE All Property Yield Index fell 0.5 percentage points to 5.0%. Falls of 0.8 percentage points were reported last year which, together with the same fall the previous year, result in a 2.1 percentage point fall over 3 years. If there had been no other changes in these three years in the CBRE portfolio, its value would have increased by 42%. Over these three years all sectors of the index rose in value by 30% or more, and offices at 46.1% were the best sector. In Scotland the value of Retail Warehouses rose by 35% compared with 30% for UK Retail Warehouses, but all other Scottish sectors rose less than the average. In September 2006 10-year Gilts yielded 4.5% exactly the same as three years ago but then the yield gap between gilts and property was 2.6 percentage points whereas now it is 0.5 percentage points. Gilt yields were higher than All Property yields for the 25 years from 1972 to 1997 except for two quarters in 1993/1994. Since then property yields have always been higher than gilts but the current small margin of 0.5 percentage points is the smallest positive yield gap since the negative yield gap was eliminated in 1997.

In the year to September 2006 the yield on retail investment property fell only 0.2 percentage points but industrials fell 0.8 percentage points to 5.7% and offices fell 0.9 percentage points to 5.2%. The All Property rent index rose 3.9% compared with 2.3% last year and -1.1% the previous year. The largest rises were shops, 3.1%, and offices, 6.6%, of which London's West End and City rose 12.0% and 13.4% respectively. In spite of these rises office rents in London and the South East are still lower than 5 years ago.

Over the last five years the All Property rent index has grown 13.6%, but, as RPI has increased 17.1%, has fallen in real terms. Since the market peak in 1990 the All Property rent index has grown 33.6% but has fallen 14.9% in real terms. In real terms offices have been the worst performing sector, falling 28.6% with the notable exception of Docklands up 5.5%, industrials have fallen 2.2% but shops have regained the previous rental value while retail warehouses show a remarkable 64.1% rise.

The rumoured sale of Beaufort House in the heart of the City for £280m provides an illustration of poor real performance. Mountleigh of the 1980s boom (& then bust) fame sold Beaufort House for £200m in 1987, the year the RPI was rebased to 100.0 – it is now 200.4!

Capital Economics has provided an interesting historical analysis of property yields compared with other asset classes. Since the 1920s there has been an average 0.31% points reverse yield gap – ie property yielded less than gilts. Property is an inherently riskier asset than gilts suggesting that investors should require a premium to hold property in preference to gilts. This premium existed from the 1920s until the early 1970s and has again been present since the mid 1990s. The 1970s and 1980s were characterised by high inflation – the RPI was 25 in 1974, 50 in mid 1978 and 100 on 1 January 1987, a fourfold increase or a reduction in value of 75%! If this period of exceptional inflation is set aside, on the basis that the existence of a negative, or reverse yield gap, is anomalous, property yields have been 1.5 percentage points higher than gilts, a higher premium than is currently obtained. Capital Economics also argue that property is expensive compared to Equities. For the last eighty five years the initial yield on property has been on average 2.6 percentage points more than equities, or 3.7 percentage points since 1990, but the current premium is only 1.7 percentage points.

The fall in the property premium has continued and current yields of 5.0% together with a rise in rents have again provided excellent total returns. In the twelve months to September 2006 the IPD index showed a total return of 20.7%, higher than the twelve-month figure of 17.5% I reported last year, with all three constituent sectors having almost similar returns. Not surprisingly capital growth provided almost 75% of the increased return. These returns compare with 14.7% for equities and just 2.5% for gilts. Over the last three, five and ten years total returns from property have exceeded those in all other asset classes, although the equity return over three years of 18.3%pa is only a fraction below property, 18.4%pa. Over ten years the equity return is 7.7%pa compared with property's 13.5%pa.

Chairman's Statement (continued)

Property funds continue to be set up for investment in the UK which are attracting large inflows of capital. The introduction of REITS next year is likely to bring further additional capital to the investment market. However, as the supply of UK investment property is relatively inelastic, even a small increase in demand results in relatively large price rises. These new sources of demand will reinforce demand which has been buoyed up by recent excellent performance. Prices are positively serially correlated in the short-run – i.e. if prices rose last period, they will probably rise in the next period – but, in the long-run they show negative serial correlation. The question for property is: is it still the short-run?

Last year I reported that commentators including Cluttons, Colliers CRE and the Estates Gazette IPF forecast predicted 2006 returns of 7% – 9%, based on moderate rental growth but no further fall in yields. All those commentators understated the excellent returns for 2006, in particular the fall in yields that has taken place in spite of a background of rising gilt yields. Their predictions for 2007 are similar to their predictions last year for 2006 – total all property returns of 7% – 10%, based again on moderate rental growth and little change in yields. Offices are expected to be the best-performing sector with those in London's City and West End areas forecast to return over 12%. Only once in the last 31 years have All Property yields remained constant from year to year – at 8% from 1982 – 1984. This precedent has been quoted in the last two years' reports and yields changed: they fell, but any change in 2007 seems finely balanced.

Rydens report Scottish investment property performed well in the year to June 2006 with the office sector returning 27.4%, above the UK figure of 23.8%, industrial 20.3% and retail 20.5%. The excellent performance of the office sector was due to yields falling to 4.5% in Glasgow, to under 5% in Edinburgh and to 5.25% in Aberdeen. Surprisingly such low yields are not unprecedented. In April 1988 Rydens reported Charlotte Square, Edinburgh at "sub 5%" and 5.25% in Blythswood Square, Glasgow. In October 1989 they reported an investment sale to a "French Institution" at 5%. Headline rents at £27/ft^2 in Central Edinburgh and about £19/ft^2 in West Edinburgh have been unchanged for two years. The static rental level reflects an almost unchanged ratio between uptake and supply. For two years uptake has been 395,000ft^2 per half year and the average supply has been 2,337,000ft^2. With new schemes such as the Quartermile continuing to be built, certain insurance companies releasing space and the transfer of large professional firms from traditional space to modern open plan space virtually complete, it is unlikely that rents will increase significantly unless new occupiers are attracted to the City. In all adjoining local authority areas offices are being built or are planned near their boundary with Edinburgh which will compete with Central Edinburgh locations.

Glasgow headline rents have risen from £19/ft^2 two years ago to over £20/ft^2 last year and to about £23/ft^2 to £25/ft^2 this year as uptake has averaged 571,000ft^2 over the last four six- month periods as opposed to 279,000ft^2 for the four periods ended two years ago. Supply is now 1,708,000ft^2, the lowest since April 2001. Compared with Edinburgh, Glasgow offers lower occupation costs and cheaper and more available labour together with better financial assistance. Glasgow is also the preferred location for most civil service jobs relocated from Edinburgh. Glasgow's office sector seems likely to continue to improve.

In Aberdeen the takeup of office space in the year to end September 2006 was 555,381ft^2 the highest ever reported and the total supply then was 832,407ft^2 the lowest level since 2000; rents have risen to a record £22/ft^2. Oil prices of over $60 per barrel since 2004 have boosted North Sea investment which is expected to rise to £4.8bn in 2006, a significant increase from an earlier estimate of £3.2bn. Employment in the offshore sector is expected to be 380,000 this year compared to 365,000 last year and 349,000 in 2004. Higher activity has increased output which had been declining steadily from the peak of 4.5m boe in 1999, but it is now expected to remain over 3m boe a day until 2011. At the historic rate of decline economic production in existing fields will be under 1m boe in ten years time and will cease by 2026.

Last year I reported that house prices had risen 2.5% in England and Wales but at the much higher rate of 17.7% in Scotland although Edinburgh's average growth was "only" 5% – 8%. This year, according to the FT House Price Index prices in England and Wales have risen 7.3% (to end November 2006). Rightmove who

Chairman's Statement (continued)

monitor "asking" prices report rises of 12% overall but of 18.2% in London and of 50% in Kensington and Chelsea. Lloyds TSB report Scottish prices 11.6% higher and the ESPC report Edinburgh city centre prices to be 15.2% higher, possibly reflecting similar market conditions to central London.

Commercial and residential property prices are at peaks, both supported by a long period of stable growth, low inflation and interest rates and high employment but the stability of these two peaks varies. The commercial market is supported by recent good performance, by a puncturing of the equity cult following the dotcom boom, and by a professional move towards a reallocation of asset classes that has spread to private investors and has a considerable overseas following. These investments are made into a market with very low short-term supply elasticity and so susceptible to rapid price increases. However the long-term supply elasticity of most classes of commercial property has been considerably increased in recent years as consents for offices, now contained in the much looser "business space", have been eased and users' preferences and prejudices for some locations have changed. An increased supply with wider choice reduces prices and the protection of "location" has been diluted.

Property investment is at times regarded as a fixed bond yielding to maturity, but this is not always a stable foundation. Some commercial investments are wasting assets as a portion of the investment value relates to the quality of the covenant rather than to the site or to the building. When the lease ends or the tenant defaults the covenant value disappears and, in extreme circumstances, the asset becomes a liability. A further disadvantage is that recent price rises are arguably due to a short-term speculative serial correlation – a momentum effect – which ultimately will be susceptible to a long-term reversal.

The support for the residential price peak is much broader. Short and long-term supply continue to be constrained in most places by planning restrictions, by the growing need to consult, by the slow and poor administration of the planning system and by the increasingly vocal and better-organized pressure groups. Most housing is held for owner occupation with only a small proportion as an "asset class" available to switch class. In contrast most investment property is subject to realisation and reinvestment – an inherently less stable position. The residential market is highly price sensitive and absorbs increased short-term supply, but in commercial property demand is relatively price insensitive. Demand for residential property in "higher quality" areas appears highly income sensitive but many investment property locations have lost exclusiveness and their premium prices. Certainly recent rises have been greatest in the better boroughs of London and the centre and more desirable areas of Edinburgh which locations provide convenience and aspirational satisfaction for their consumers, factors which are of increasingly less importance for commercial ownership. The present residential property peak has a much more stable base than the commercial peak and, should conditions become adverse, will fall less far.

In the residential property market the highest return on capital is achieved by obtaining consent for change of use. Change of use can be obtained by promoting existing land in the local plan process, by buying land likely to be re-zoned or by buying land where planning criteria are about to change. Additional returns can be gained if the consent is obtained in an area where the infrastructure is improved or the communications upgraded.

Future Progress

In addition to its investment portfolio the Group now owns twelve rural development sites and has a further very large site under offer, four significant city centre sites, two small sites in the Edinburgh area and eighty five plots near Dunbar. Most of these sites can be developed over the next few years but some will be promoted through the five year local plan process. Development of two of these sites should be started next calendar year. Most of these sites were purchased unconditionally, i.e. without planning permission, and when permission is obtained should increase in value significantly. For development or trading properties no change in value is made to the company's balance sheet even when open market values have increased considerably. Naturally, however, the balance sheet will reflect the value of such properties on their sale or subsequent to their development.

Chairman's Statement (continued)

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

The Company expects the current year's results to be satisfactory given the early stage of the development cycle. The overall value of our investments and developments should continue to improve, although such improvements will not necessarily be reflected in these valuations where development properties are held at cost. The full outcome of the current financial year will depend on any net change in valuation and the timing of the realisation of development properties.

The mid market share price at 15 December 2006 was 190p, a discount of 32.5p to the NAV of 222.5p. The Board recommends an increased dividend of 1.75p making total dividends of 2.75p for the year, and the Board intend to increase the dividend at a rate consistent with profitability and with consideration for other opportunities.

A tax credit of £5,070 is provided in the current year. Although not recognised in the financial statements due to uncertainty over the availability of future taxable profits to use its tax losses, the Group has tax losses and allowances carried forward of £966,908 which we hope to utilise over the next few years. Many of the Group's investment properties benefit from indexation mitigating tax on disposal.

Conclusion

The UK economy is expected to continue to grow next year at or above the trend rate. There is a small risk that a re-alignment of the US$ associated with a slow down in the American economy will adversely affect other economies including the UK. Continuing strife in many areas of the Middle East will have minimal effect on world economic growth.

In the UK investment property seems fully priced as rental growth is likely to be limited, yields are unlikely to fall further and interest rates are above recent low levels. Residential property continues to increase in price and, if economic conditions continue benign, price falls are unlikely. However, general increases at the current level will not persist in the medium term, but prices will continue to rise in the long term, provided economic growth continues and provided housing supplies continue to be allocated by rationing rather than by price. These conditions will continue to provide highly profitable niche opportunities to create substantial value by effecting planning change.

I. D. Lowe

Chairman

18 December 2006

Directors' Report

The Directors present their report together with the financial statements of the Company and of the Group for the year ended 30 June 2006.

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

2. **Results and Dividends**
The Group profit for the year after taxation amounted to £129,509 (2,005 – £412,150). The Directors have proposed a final dividend in respect of the current financial year of 1.75p per share. This has not been included within creditors as it was not approved before the year end. Dividends paid during the year comprise a final dividend of 1.50p per share in respect of the previous year ended 30 June 2005 together with an interim dividend in respect of the year ended 30 June 2006 of 1p per share.

3. **Enhanced Business Review**
The Group is required to comply with the Enhanced Business Review disclosures required by the Companies Act 1985 as amended to comply with the EU Modernisation Directive. A full review of the Group's business results for the year and future prospects is included in the Chairman's Statement on pages 2 – 12.

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

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

- Planning and Development
The increasing development profile of the Group places increased emphasis on the planning stage of each project. The Group seeks to minimise this risk with its firmly established risk control strategy, which includes detailed research and planning advice. On obtaining planning consent a decision will be taken on progressing the project on its own or with a joint development partner. At all stages the Company seeks professional advice, conducts thorough diligence and continually monitors each development.

- Property Values
Property values have generally benefited from positive yield shift in recent times. A reversal of this would lead to falls in property values. Neither the current market nor the economic climate suggests such a reversal. The Company seeks to mitigate this by implementing value added initiatives, which would support values in the event of such a downturn.

- Tenant Relationships
All property companies have exposure to the covenant of their tenants as rentals drive capital values as well as providing the necessary cash flow to service debt. The Company seeks to minimise exposure to any single sector or tenant across the portfolio and continually monitors payment performance.

- Availability of funding
The Group is dependent upon bank borrowings for current and future property transactions. Bank facilities are negotiated and tailored to each project in terms of quantum and timing. In the current economic climate it is anticipated that intended borrowings for future projects will be readily available.

Directors' Report (continued)

- Management of Funding Risk
  The Group seeks to ensure that adequate resources are available to meet the short and long-term funding requirements of the Group at all times and that any funding risks arising from Group activities be effectively identified and managed.
- Management of Interest Rate Risks
  Group borrowings are primarily in relation to and secured by properties, which are held as investments or are being developed. As and when future development projects are undertaken banking facilities will be negotiated and tailored to each project. Interest rate risk is constantly monitored and reviewed. This risk is managed by securing floating rate debt, which can be fixed from time to time by the Company or by the use of interest rate swap or other financial instruments.
- Environmental Policy
  The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by the Groups' activities.

4. **Directors**
The Directors who held office during the year and their interests in the Company's share capital are set out below:

Beneficial interests – Ordinary Shares of 20p each

	Percentage held	18 December 2006	30 June 2006	30 June 2005
I. D. Lowe	81.7	9,324,582	9,324,582	9,324,582
M. J. Baynham	6.4	730,191	730,191	730,191
B. J. Rankin	0.9	100,000	100,000	100,000
J. N. Little	0.1	16,250	16,250	16,250

Beneficial interests – Floating rate loan stock 2003/2007

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

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

5. **Suppliers**
It is the Company's policy to settle suppliers' invoices within sixty days of their receipt. There were 14 days suppliers outstanding at the year end.

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

7. **Donations**
The Company made no political or charitable donations in the year.

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

Directors' Report (continued)

9. Auditors

In accordance with Section 304 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as Auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 1SB

By Order of the Board

M. J. Baynahm
Secretary
18 December 2006

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

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

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

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and parent company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent Auditors' Report (continued)

Independent Auditors' Report to the members of Caledonian Trust Plc

kpmg

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

We have audited the group and parent company financial statements of Caledonian Trust Plc for the year ended 30 June 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and parent company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditors' Report (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 30 June 2006 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
18 December 2006

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Consolidated Profit and Loss Account

for the year ended 30 June 2006

	Note	2006 £	2005 £
INCOME – CONTINUING OPERATIONS			
Rents and service charges		870,745	707,009
Trading property sales		410,000	—
Trading sales		108,163	278,406
		1,388,908	985,415
OPERATING COSTS			
Cost of trading property sales		(304,500)	—
Cost of other sales		(113,200)	(262,124)
Administrative expenses	2	(992,992)	(850,743)
		(1,410,692)	(1,112,867)
OPERATING LOSS		(21,784)	(127,452)
Profit on disposal of investment property		189,729	501,420
Profit on sale of investments		—	85,522
Bank interest receivable		275,644	279,854
Interest payable	3	(319,150)	(292,492)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		124,439	446,852
Taxation	6	5,070	(34,702)
PROFIT FOR THE FINANCIAL YEAR	16	129,509	412,150
Earnings per ordinary share	19	1.09p	3.51p
Diluted earnings per ordinary share	19	1.09p	3.51p

Statement of Total Recognised Gains and Losses

for the year ended 30 June 2006

	2006 £	2005 £
Profit for the financial year	129,509	412,150
Unrealised surplus on revaluation of properties	1,978,506	4,178,082
Total recognised gains relating to the financial year	2,108,015	4,590,232
Prior year adjustment (note 1)	178,244	
Total gains and losses recognised since last annual report	2,286,259	

Note of Historical Cost Profits and Losses

for the year ended 30 June 2006

	2006 £	2005 £ Restated
Reported profit on ordinary activities before taxation	124,439	446,852
Realised (deficit) on previously revalued property	—	(92,605)
Historical cost profit on ordinary activities before taxation	124,439	354,247
Taxation on profit for year	5,070	(34,702)
Historical cost profit for the year after taxation	129,509	319,545
Historical cost (loss)/profit for the year retained after taxation and dividends	(167,564)	52,305

Consolidated Balance Sheet

at 30 June 2006

	Note	2006 £	2006 £	2006 £	2006 £ Restated
FIXED ASSETS					
Tangible assets:					
Investment properties	8		24,030,896		23,142,302
Other assets	9		21,117		4,056
			24,052,013		23,146,358
Investments	10		43,013		20
			24,095,026		23,146,378
CURRENT ASSETS					
Stock of development property	11	7,034,258		—	
Debtors	12	968,314		1,018,560	
Cash at bank and in hand	13	2,203,611		4,761,664	
		10,206,183		5,780,224	
CREDITORS: amounts falling due within one year	14	(2,177,356)		(3,583,372)	
NET CURRENT ASSETS			8,028,827		2,196,852
TOTAL ASSETS LESS CURRENT LIABILITIES			32,123,853		25,343,230
CREDITORS: amounts falling due after more than one year	14		(5,680,000)		(710,319)
NET ASSETS			26,443,853		24,632,911
CAPITAL AND RESERVES					
Called up share capital	15		2,376,584		2,376,584
Share premium account	16		2,745,003		2,745,003
Capital redemption reserve	16		175,315		175,315
Revaluation reserve	16		6,625,414		4,646,908
Profit and loss account	16		14,521,537		14,689,101
SHAREHOLDERS' FUNDS			26,443,853		24,632,911

These financial statements were approved by the Board of Directors on 18 December 2006 and were signed on its behalf by:

I. D. Lowe

Director

Company Balance Sheet

at 30 June 2006

	Note	2006 £	2006 £	2006 £	2006 £ Restated
FIXED ASSETS					
Tangible assets:					
Investment properties	8		6,310,897		4,782,030
Equipment and vehicles	9		17,597		536
			6,328,494		4,782,566
Investments	10		11,200,350		13,126,665
			17,528,844		17,909,231
CURRENT ASSETS					
Stock of development property	11	1,670,000		—	
Debtors	12	21,834,809		12,762,714	
Cash at bank and in hand	13	2,061,612		4,721,280	
		25,566,421		17,483,994	
CREDITORS: amounts falling due within one year	14	(10,971,431)		(14,245,676)	
NET CURRENT ASSETS			14,594,990		3,238,318
TOTAL ASSETS LESS CURRENT LIABILITIES			32,123,834		21,147,549
CREDITORS: amounts falling due after more than one year	14		(5,680,000)		—
NET ASSETS			26,443,834		21,147,549
CAPITAL AND RESERVES					
Called up share capital	15		2,376,584		2,376,584
Share premium account	16		2,745,003		2,745,003
Capital redemption reserve	16		175,315		175,315
Revaluation reserves					
Property	16		2,609,227		1,796,256
Investments	16		1,305,120		3,274,428
Profit and loss account	16		17,232,585		10,779,963
SHAREHOLDERS' FUNDS			26,443,834		21,147,549

These financial statements were approved by the Board of Directors on 18 December 2006 and were signed on its behalf by:

I. D. Lowe

Director

Consolidated Cash Flow Statement

for the year ended 30 June 2006

	Note	2006 £	2005 £
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(a)	(5,694,720)	(1,959,437)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(b)	(34,896)	(35,889)
TAX PAID		(29,632)	—
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(b)	5,814	1,015,574
DIVIDENDS PAID ON SHARES CLASSIFIED IN SHAREHOLDERS' FUNDS		(297,073)	(267,240)
CASH OUTFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		(6,050,507)	(1,246,992)
FINANCING	(b)	3,572,183	(294,104)
DECREASE IN CASH IN PERIOD		(2,478,324)	(1,541,096)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS	Note	£	£
	(c)		
DECREASE IN CASH IN PERIOD		(2,478,324)	(1,541,096)
Cash (outflow)/inflow from decrease in debt		(3,572,183)	602,354
MOVEMENT IN NET FUNDS IN THE PERIOD		(6,050,507)	(938,742)
NET FUNDS AT THE START OF THE PERIOD		877,848	1,816,590
NET (DEBT)/FUNDS AT THE END OF THE PERIOD		(5,172,659)	877,848

Notes to the Cash Flow Statement

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

	2006 £	2005 £
Operating (loss)	(21,784)	(127,452)
Depreciation charges	4,682	134
Increase in stock	(5,825,167)	—
Decrease/(increase) in debtors	50,246	(896,527)
Increase/(decrease) in creditors	97,303	(935,592)
Net cash outflow from operating activities	(5,694,720)	(1,959,437)

(b) ANALYSIS OF CASH FLOWS

	2006 £	2006 £	2005 £	2005 £
RETURNS ON INVESTMENT AND SERVICING OF FINANCE				
Interest received	275,644		279,854	
Interest paid	(310,540)		(315,743)	
		(34,896)		(35,889)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
Purchase of tangible fixed assets	(866,776)		(3,446,816)	
Sale of investment property	915,583		2,236,414	
Contribution to dilapidations received	—		2,049,576	
Purchase of investments	(42,993)		—	
Sale of investments	—		176,400	
		5,814		1,015,574
FINANCING				
Issue of ordinary share capital	—		308,250	
Debt due within a year:				
(Decrease)/increase in short-term borrowings	(3,969,681)		939,827	
Debt due beyond a year:				
Increase/(decrease) in long-term borrowings	397,498		(1,542,181)	
		3,572,183		(294,104)

Notes to the Cash Flow Statement (continued)

(c) ANALYSIS OF NET FUNDS

	At beginning of year £	Cash flow £	Other non-cash changes £	At end of year £
Cash at bank and in hand	4,761,664	(2,558,053)	—	2,203,611
Overdrafts	(79,729)	79,729	—	—
		(2,478,324)		
Debt due after one year	(710,319)	(3,969,681)	(1,000,000)	(5,680,000)
Debt due within one year	(3,093,768)	397,498	1,000,000	(1,696,270)
		(3,572,183)	—	
TOTAL	877,848	(6,050,507)	—	(5,172,659)

Notes (forming part of the financial statements)

30 June 2006

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items, which are considered material in relation to the financial statements, except as noted below. In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- The presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985. The presentation requirements of FRS 25 result in dividends no longer being presented on the face of the profit and loss account.

Prior year adjustment

As a result of the adoption of FRS 21 'Events after the balance sheet date', a prior year adjustment has been made in respect of the recognition of proposed dividends. This adjustment has resulted in an increase of £237,658 in the reported net assets at 30 June 2006 (2005 – £178,244).

(a) Basis of preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties and investments and in accordance with applicable accounting standards. The Company has not presented its own profit and loss account in accordance with section 230 of the Companies Act 1985.

(b) Basis of consolidation

The consolidated financial statements combine the results of the Company and its subsidiary undertakings for the year ended 30 June 2006.

(c) Income

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

(d) Properties

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

Investment properties

Investment properties are stated at their open market valuation at the balance sheet date, valued either by the directors or by independent professional advisers. Independent professional valuations are prepared at least once every three years.

Surpluses or deficits arising on revaluations are taken to the revaluation reserve except in the case of deficits which are considered to be permanent which are taken to the profit and loss account. The revaluation reserve is not distributable.

On disposal of an investment property the profit and loss account includes the effect of comparing sales proceeds and the book amount of the asset sold. Any previous revaluation surplus or deficit realised on disposal is transferred from revaluation reserve to accumulated profit and loss reserves.

Properties held as stock

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

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

Notes (continued)

30 June 2006

1 ACCOUNTING POLICIES (continued)

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

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

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

(g) Depreciation
In accordance with SSAP 19 no depreciation or amortisation is provided in respect of freehold investment properties or leaseholds with over twenty years to run, including equipment therein. This treatment, as regards the Group's investment properties, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount, which might otherwise have been shown, cannot be separately identified or quantified.

Other tangible fixed assets are depreciated by equal instalments over their estimated useful lives at the following rates:

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

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

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

2 ADMINISTRATIVE EXPENSES

	2006 £	2005 £
Directors' emoluments (see note 4)	276,154	277,831
Management expenses	685,146	549,350
Auditors' remuneration		
—audit – company	11,360	10,528
—audit – subsidiaries	15,650	9,900
—non-audit	—	3,000
Depreciation	4,682	134
	992,992	850,743

3 INTEREST PAYABLE

	2006 £	2005 £
Bank loans and overdrafts	243,578	214,486
Loan stock repayable within five years	75,572	78,006
	319,150	292,492

Notes (continued)

30 June 2006

4 REMUNERATION OF DIRECTORS

	2006 £	2005 £
Directors' emoluments	228,654	230,331
Company contributions to money purchase pension schemes	47,500	47,500

The aggregate of emoluments of the highest paid director was £112,347 (2005 – £114,311), and company pension contributions of £27,500 (2005 – £27,500) were made to a money purchase scheme on his behalf.

	Number of directors 2006 £	2005 £
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	2

5 EMPLOYEES

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

Group	2006 Number	2005 Number
Management	4	4
Administration	2	2
Other	11	14
	17	20

Company	2006 Number	2005 Number
Management	4	4
Administration	2	2
	6	6

The aggregate payroll costs of these persons were as follows:

Group	2006 Number	2005 Number
Wages and salaries	341,514	389,068
Social security costs	35,085	63,050
Other pension costs	50,112	50,420
	426,711	502,538

Company	2006 Number	2005 Number
Wages and salaries	295,514	287,842
Social security costs	32,049	56,623
Other pension costs	50,112	50,420
	377,675	394,885

Notes (continued)

30 June 2006

6 TAXATION

Analysis of charge in period

	2006 £	2005 £
UK corporation tax		
Current tax on income for the period	—	34,702
Overprovision in respect of previous year	(5,070)	—
Tax on profit on ordinary activities	(5,070)	34,702

The current tax charge for the period is lower (2005 – lower) than the standard rate of corporation tax in the UK (30%, 2005 – 30%). The differences are explained below:

Current tax reconciliation

	2006 £	2005 £
Profit on ordinary activities before tax	124,439	446,852
Current tax at 30%	37,332	134,056
Effects of:		
Expenses not deductible for tax purposes	4,281	4,427
Capital allowances for period in excess of depreciation	(21,474)	(29,232)
Capital gains tax indexation	(8,493)	(34,490)
Utilisation of tax losses	(11,646)	(11,111)
Prior year revaluations	—	(27,782)
	(37,332)	(98,188)
Marginal relief	—	(1,166)
Overprovision in respect of previous year	(5,070)	—
Total current tax charge (see above)	(5,070)	34,702

Taxation losses amounting to £966,908 (2005 – £933,042) are available to relieve future taxable profits of the group. A deferred tax asset has not been recognised due to uncertainty over future profits against which these losses may be utilised.

7 DIVIDENDS – AMOUNTS RECOGNISED AS DISTRIBUTIONS IN THE YEAR

	2006 £	2005 £
Interim dividend paid in respect of the current year 1.0p (2005 – 1.0p) per share	118,829	118,829
Final dividend paid in respect of prior year but not recognised as liability in that year 1.50p (2005 – 1.25p) per share	178,244	148,411
Aggregate amount of dividends paid in the financial year	297,073	267,240

DIVIDENDS – PROPOSED BUT NOT PAID OR INCLUDED IN THE ACCOUNTS

	2006 £	2005 £
Final dividend for year 1.75p (2005 – 1.50p) per share	207,951	178,244

Notes (continued)

30 June 2006

8 INVESTMENT PROPERTIES

	Freehold Group £	Freehold Company £
Investment properties:		
Valuation at 1 July 2005	18,282,881	4,782,030
Transferred from properties held for development	3,650,330	—
Revaluation in year	1,978,506	812,971
Acquired in year	845,033	715,896
Sold in year	(725,854)	—
Valuation at 30 June 2006	24,030,896	6,310,897

	Freehold Group £	Freehold Company £
Properties held for development:		
Valuation at 1 July 2005	4,859,421	—
Transferred to investment properties	(3,650,330)	—
Transferred to stock	(1,209,091)	—
Valuation at 30 June 2005	—	—
Net book value at 30 June 2006	24,030,896	6,310,897
Net book value at 1 July 2005	23,142,302	4,782,030

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

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

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Investment properties	17,441,911	19,555,865	3,701,670	2,523,056

The cumulative amount of interest capitalised in respect of the Group's investment properties is £869,467 (2005 – £869,467). The cumulative amount of such interest capitalised for the Company is £343,063 (2005 – £343,063).

During the year the directors carried out a full review of properties held for development within fixed assets and re-allocated these to investment properties or stock depending on their current plans for the properties.

Notes (continued)

30 June 2006

9 OTHER ASSETS

GROUP	Motor vehicles £	Office equipment £	Other equipment £	Total £
Cost at 1 July 2005	12,750	195,076	—	207,826
Additions in year	—	1,491	20,252	21,743
Cost at 30 June 2006	12,750	196,567	20,252	229,569
Depreciation at 1 July 2005	12,750	191,020	—	203,770
Charged in year	—	631	4,051	4,682
Depreciation at 30 June 2006	12,750	191,651	4,051	208,452
NET BOOK VALUE AT 30 JUNE 2006	—	4,916	16,201	21,117
Net book value at 1 July 2005	—	4,056	—	4,056
COMPANY				
Cost at 1 July 2005	12,750	43,836	—	56,586
Additions in year	—	1,491	20,252	21,743
Cost at 30 June 2006	12,750	45,327	20,252	78,329
Depreciation at 1 July 2005	12,750	43,300	—	56,050
Charged in year	—	631	4,051	4,682
Depreciation at 30 June 2006	12,750	43,931	4,051	60,732
NET BOOK VALUE AT 30 JUNE 2006	—	1,396	16,201	17,597
Net book value at 1 July 2005	—	536	—	536

Notes (continued)

30 June 2006

10 INVESTMENTS

GROUP	Shares in subsidiary investments £	Listed investments £	Other unlisted investments £	Total £
Cost and net book value at 1 July 2005		—	20	20
Purchased in year		42,993	—	42,993
At 30 June 2005		42,993	20	43,013
COMPANY				
Cost at 1 July 2005	4,932,978	—	—	4,932,978
Purchased in year	—	42,993	—	42,993
At 30 June 2006	4,932,978	42,993	—	4,975,971
Revaluation surplus at 1 July 2005	8,193,687	—	—	8,193,687
Revaluation deficit in year	(1,969,308)			(1,969,308)
At 30 June 2006	6,224,379	—	—	6,224,379
NET BOOK VALUE AT 30 JUNE 2006	11,157,357	42,993	—	11,200,350
Net book value at 1 July 2005	13,126,665	—	—	13,126,665

The company's investment in unlisted investments is as follows:

	% held	Activity
Bedrocks Limited	19.9%	Leisure activity operator

The company is registered in Scotland.

The principal subsidiary undertakings of the company are as follows:

Subsidiary undertaking	% held	Activity
Caledonian Scottish Developments Ltd	100%	Property Development
South Castle Properties Ltd	100%	Property Investment
Caledonian Stoneywood Ltd	100%	Investment Holding Company
Caledonian City Developments Ltd	100%	Property Development
West Castle Properties Ltd	100%	Property Investment
Melville Management Ltd	100%	Property Investment

All the principal subsidiary undertakings are registered in Scotland except Caledonian City Developments Limited and Caledonian Stoneywood Ltd, which are registered in England and Wales.

11 STOCK OF DEVELOPMENT PROPERTY

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Properties held for resale or development	7,034,258	—	1,670,000	—

Notes (continued)

30 June 2006

12 DEBTORS

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Amounts falling due within one year				
Amounts owed by subsidiary undertakings	—	—	21,825,510	12,762,379
Other debtors	697,509	723,593	—	—
Prepayments and accrued income	270,805	294,967	9,299	335
	968,314	1,018,560	21,834,809	12,762,714

13 CASH AT BANK AND IN HAND

Group bank balances totalling £5,247 (2005 – £51,065) were held by the Group's bankers as collateral against loans provided to group undertakings.

14 CREDITORS: amounts falling due within one year

	Group 2006 £	Group 2005 £ Restated	Company 2006 £	Company 2005 £ Restated
Bank loans and overdrafts	1,696,270	2,173,497	—	1,173,229
Amounts owed to subsidiary undertakings	—	—	10,632,968	11,808,702
Floating rate unsecured loan stock	—	1,000,000	—	1,000,000
Corporation tax payable	—	34,702	—	—
Other creditors and accruals	481,086	375,173	338,463	263,745
	2,177,356	3,583,372	10,971,431	14,245,676

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

CREDITORS: amounts falling due after more than one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Bank loans	4,680,000	710,319	4,680,000	—
Floating rate unsecured loan stock	1,000,000	—	1,000,000	—
	5,680,000	710,319	5,680,000	—

ANALYSIS OF DEBT
Debt can be analysed as falling due:

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
In one year or less, or on demand	1,696,270	3,173,497	—	2,173,229
Between one and two years	1,000,000	710,319	—	—
Between two and five years	4,680,000	—	—	—
	7,376,270	3,883,816	—	2,173,229

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

The floating rate unsecured loan stock was renegotiated during the year and is now repayable on 2 July 2007. Interest is charged at a margin of 3% over the Bank of Scotland base rate.

Notes (continued)

30 June 2006

15 SHARE CAPITAL

	2006 No	2006 £	2005 No	2005 £
Authorised:				
Ordinary shares of 20p each	20,000,000	4,000,000	20,000,000	4,000,000
Allotted, called up and fully paid				
Ordinary shares of 20p each	11,882,923	2,376,584	11,412,923	2,282,584
Issued in year	—	—	470,000	94,000
	11,882,923	2,376,584	11,882,923	2,376,584

16 RESERVES

	Share premium account £	Revaluation reserve £	Capital redemption reserve £	Profit and loss account £	Total £
GROUP					
Balance at 1 July 2005 as previously stated	2,745,003	4,646,908	175,315	14,510,857	22,078,083
Prior year adjustment	—	—	—	178,244	178,244
As restated	2,745,003	4,646,908	175,315	14,689,101	22,256,327
Property revaluation in year	—	1,978,506	—	—	1,978,506
Profit for the financial year	—	—	—	129,509	129,509
Dividends paid	—	—	—	(297,073)	(297,073)
BALANCE AT 30 JUNE 2006	2,745,003	6,625,414	175,315	14,521,537	24,067,269

	Share premium account £	Revaluation reserves Property £	Revaluation reserves Ivestments £	Capital redemption reserve £	Profit and loss account £	Total £
COMPANY						
Balance at 1 July 2005 as previously stated	2,745,003	1,796,256	3,274,428	175,315	10,601,719	18,592,721
Prior year adjustment	—	—	—	—	178,244	178,244
As restated	2,745,003	1,796,256	3,274,425	175,315	10,799,963	18,770,965
Property revaluation in year	—	812,971	(1,969,308)	—	—	(1,156,337)
Profit for the financial year	—	—	—	—	6,749,695	6,749,695
Dividends paid	—	—	—	—	(297,073)	(297,073)
BALANCE AT 30 JUNE 2006	2,745,003	2,609,227	1,305,120	175,315	17,232,585	24,067,250

Notes (continued)

30 June 2006

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006 £	2005 £ Restated
Profit for the financial year	129,509	412,150
Dividends paid	(297,073)	(267,240)
	(167,564)	144,910
Revaluation surplus	1,978,506	4,178,082
Ordinary shares issued	—	308,250
Net addition to shareholders' funds	1,810,942	4,631,242
Opening shareholders' funds (originally £24,454,667 before prior year adjustment of £178,244)	24,632,911	20,001,669
Closing shareholders' funds	26,443,853	24,632,911

18 TRANSACTIONS WITH DIRECTORS

B. J. Rankin received £14,225 (2005 – £13,950) in respect of consultancy fees in the year in addition to his emoluments as a director. I. D. Lowe is the controlling shareholder of Leafrealm Limited which received £75,572 (2005 – £78,007) interest in respect of its holding of Floating Rate Unsecured Loan Stock 2003/2007.

19 EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on the reported profit of £129,509 (2005: £412,150) and on the weighted average number of ordinary shares in issue in the year, as detailed below.

	2006	2005
Weighted average of ordinary shares in issue during year – undiluted	11,882,923	11,754,154
Weighted average of ordinary shares in issue during year – fully diluted	11,882,923	11,754,154

20 FINANCIAL INSTRUMENTS

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

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

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

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

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

	2006 £	2005 £
Fixed Rate	—	250,000
Floating Rate	7,376,270	3,633,816
	7,376,270	3,883,816

At the end of the year the weighted average interest rate of the floating rate borrowings was 6.27% pa.

Notes (continued)

30 June 2006

20 FINANCIAL INSTRUMENTS (continued)

LIQUIDITY RISK

The group's policy is to maintain a balance between continuity of funding and flexibility through loans secured on its property assets from banks and unsecured loan stocks held by third parties sufficient to enable it to meet its commitments and to make further investments.

The maturity profile of the group's financial liabilities was as follows:

	2006	2005
	£	£
In one year or less, or on demand	1,696,270	3,173,497
Between one and two years	1,000,000	710,319
Between two and five years	4,680,000	—
	7,376,270	3,883,816

A comparison of book values and fair values of the group's financial assets and liabilities at 30 June 2006 is as follows:

	Book Value	Fair value
	£	£
Floating rate borrowings	7,376,270	7,376,270
Cash and short term deposits	2,203,611	2,203,611

Notice of Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of CALEDONIAN TRUST PLC will be held at 61 North Castle Street, Edinburgh EH2 3LJ on Friday 19 January 2007 at 12.30 pm for the following purposes:

1. To receive the Report of the Directors and the Financial Statements for the year ended 30 June 2006 and the Report of the Auditors thereon.

2. To re-appoint KPMG Audit Plc, Chartered Accountants and Registered Auditors, as Auditors and to authorise the Directors to fix their remuneration.

3. To declare a dividend.

   As special business to consider and, if thought fit, pass the following resolutions which will be proposed as Special Resolutions:

4. That the Directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of that Act) pursuant to the authority conferred by such Resolution as if Section 89 of the Companies Act 1985 did not apply to any such allotment provided that this power shall be limited:

   (a) to the allotment otherwise than pursuant to sub-paragraph (b) below of equity securities which are, or are to be, wholly paid up in cash having an aggregate nominal amount equal to 5% of the issued Ordinary Share capital of the Company as shown in the audited consolidated accounts of the Company and its subsidiaries for the year ended 30 June 2005; and

   (b) to the allotment of equity securities in connection with an offer to Ordinary Shareholders in proportion (as nearly as may be) to the respective numbers of Ordinary Shares held by them, subject to the Directors having a right to aggregate and sell for the benefit of the Company all fractions of a share which may arise in apportioning equity securities among the Ordinary Shareholders of the Company and subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to legal or practical problems under the law of, or the requirements of, any regulatory body or any stock exchange in any overseas territory;

   and shall expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution provided that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power hereby conferred had not expired.

5. That authority be and is hereby generally and unconditionally given pursuant to Section 166 of the Companies Act 1985, for the Company to make one or more market purchases as defined in *Section 163(3) of the Companies Act 1985 of any of its own Ordinary Shares of 20p each in such* manner and on such terms as the Directors may from time to time determine provided that:

   (a) the authority hereby given shall, unless previously varied, revoked or renewed expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution, save that the Company shall be entitled by such authority to make at any time before the expiry thereof any contract to purchase its own Ordinary Shares which would or might become effective wholly or partly after the expiry of such authority;

Notice of Meeting (continued)

(b) the maximum number of Ordinary Shares hereby authorised to be acquired is 594,146 Ordinary Shares; and

(c) the maximum price (exclusive of expenses) to be paid for each Ordinary Share of 20p each shall not be more than 5% above the average of the middle market quotation for an ordinary share as derived from the Alternative Investment Market (or such other official market as may become admitted) of the London Stock Exchange for the five business days immediately preceding the date of purchase and the minimum price is 20p.

St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 1SB

By Order of the Board
M. J. BAYNHAM
Secretary

18 December 2006

Notes

Copies of contracts of service between Directors and the Company will be available for inspection at the head office of the Company, 61 North Castle Street, Edinburgh, EH2 3LJ during business hours on any business day from the date of this notice until 18 January 2007 and also for fifteen minutes prior to and throughout the meeting.

The register of Directors' shareholdings and transactions will be available for reference at the commencement of, and during the continuance of, the Annual General Meeting.

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote in his place. A proxy need not be a member of the Company.

A form of proxy is enclosed for the use of Ordinary Shareholders. If you do not intend being present at the meeting, please complete the form of proxy, sign it and return it so as to reach the Company at least forty-eight hours before the time of the meeting.