

CHAIRMAN'S STATEMENT

Introduction

The Group made a pre-tax profit of £145,000 in the six months to 31 December 2009, compared with a loss of £1,028,000 for the same period last year. The earnings per share after tax were 1.22p and the NAV per share was 169.1p, compared with a loss of 8.65p and a NAV of 147.9p last year and a profit of £1,346,000 and a NAV of 167.8p at the 30 June 2009 year end. Investment property values were uplifted by £350,000. Land at Larennie Farm was sold for a trading profit of £26,000 and our investment properties at Young Street and 57 North Castle Street, Edinburgh were sold for a profit of £101,000. Revenue from properties fell by £34,000 due mainly to there being no dilapidations payments received in the period. Administrative expenses increased by £62,000 to £463,000, due to higher professional fees on ongoing projects. Net financing costs fell to £105,000 from £317,000, reflecting lower interest rates and lower borrowings during the period. No interim dividend will be paid.

Review of Activities

The Group's property activities have continued to be concentrated in enhancing the value of our development properties principally by working toward or gaining valuable planning consents. Each consent is only gained after a long, complex and painstaking process, usually involving a range of obstacles, often changing and unique to each application. In recent months good progress has been made reinforcing earlier achievements and further favourable outcomes seem likely over the next year. The value of a consent is usually considerable, albeit lower than during the 2007 house price peak.

Our design and planning continues to produce good results. At St Margaret's House, London Road, Edinburgh, which is wholly let on peppercorn rents, the Development Brief for the triangle enclosed by the A1, the mainline south and "Smokey Brae", which we have prepared over the last three years was adopted by the City of Edinburgh in August 2009. On the basis of this "Master Plan" we lodged an application for outline consent for a 225,000ft² mixed use development of residential and/or student accommodation, an hotel and commercial space. This outline proposal, after appropriate modifications following consultation with the Edinburgh Planning officials, is likely to be determined this financial year.

In East Edinburgh, at Brunstane, where we hold a consent to rebuild and extend a cottage, to convert a Georgian steading into nine houses and to convert another period building into a 3,500ft² detached house we have gained an enhanced consent for this house. A few miles further east at Wallyford, now described as "Musselburgh" by two national house builders, we expect to obtain consent for four terraced houses in place of two detached houses increasing the number to ten houses altogether.

Since June 2009 the planning position has improved in several of our 15 separate rural development opportunities. As previously reported, we have gained consent at Tomperran, a small-holding set in Comrie, for 12 houses over 19,047ft²; at Chance Inn for ten houses over 21,836ft² and at Balnaguard for nine houses over 15,719ft². We await the outcome of applications at Myreside in the Carse of Gowrie. At Ardpatrik, West Loch Tarbert, Argyll, consents have been granted to divide the house into four, to build two new houses, to convert the stone garden shed into a house, to make the existing coach house and flat into two dwellings and to undertake certain residential extensions. These are conditional on certain upgrading works to the UC33 Ardpatrik Ferry Road.

The main development opportunity at Ardpatrik is the development of "new" houses in areas designated as "Rural Development Opportunities" in the Local Plan. The Reporter at the Local Plan Inquiry recommended that these areas should be professionally reviewed to determine the landscape "capacity". The survey covering Ardpatrik has just been published and concludes that, although much of the Ardpatrik landscape is of exceptional quality, most of our proposals relate to areas where intrusion is minimal and landscape considerations should not materially affect the high quality developments which we propose.

Three sales were realised in the six months to 31 December 2009. Our investment properties at 17 Young Street and at 57 North Castle Street, excluding the basement, were sold for a profit over valuation of £101,000 and a small parcel of land at Larennie farm was traded for a £26,000 profit. We are marketing Carnbo farmhouse which, following remedial works, is now under offer at the fixed price. The basement at 57 North Castle Street is being converted to residential use and this property together with Chance Inn Farmhouse, following remedial works, will be marketed soon.

Economic Prospects

The UK economy grew by 0.3% in the fourth quarter of 2009 following six quarters of contraction totalling 6.25%. This prolonged contraction was the longest since quarterly figures were first recorded in 1955 and the

Caledonian Trust PLC

contraction exceeded those of 1973-76 (4%), 1979-83 (6%) and 1990-1993 (2.4%), but is less than in 1930-34 (7.75%) when the economy grew in the seventh and eighth quarters before dropping back again in the subsequent two quarters. The IMF has analysed 122 recessions in the OECD between 1960 and 2007 when a "typical" recession lasted for four quarters and had an output drop of 2%, but a recession associated with a credit crunch, one in six recessions, lasted five quarters, had an output drop of 4% to 6% and had a recovery period of ten quarters. Presumably for a fall of 6.25%, the recovery period is likely to be longer than 10 quarters, say 12 quarters, implying an average growth of 2.2% for three years. Current expectations for UK growth vary greatly. The IMF expects 1.3% and 2.7% in 2010 and 2011; the Bank of England (central projection) 1.3% and 3.0%; the EIU 1.3% and 2.1%; and the Economist poll of forecasters 1.3% and 2.1%. Unsurprisingly, the Treasury forecast is significantly higher, at 3.5% for 2011-2015.

The 1973-76 and 1930-34 recessions were characterised by "double dips" i.e. a growth in output followed by a fall back to the previous trough. Maintenance of the current recovery is dependent, inter alia, on an expansionary monetary policy, including the current unprecedentedly low interest rates which can only be maintained if inflation is under 3% in the medium term. Fortunately as the economy has contracted by over 6% recently, there is considerable unutilised capacity to meet increased demand without causing inflation. Notwithstanding such spare capacity, inflation rose to 3.5% in January 2010, but the Bank views this rise as transient being due to temporary factors: the VAT revision to 17.5%, a 70% increase in oil and a 23% fall in Sterling. Consumer surveys quoted by the Bank shows inflation expectations at 1½% to 3% in 2010; HM Treasury survey of forecasters indicates inflation at 2% to 2.25% for four years; and the Economist poll of forecasters indicates average inflation at 2.7% in 2010 and 1.9% in 2011. The Bank of England's central projection is for inflation to remain comfortably below 2%, for the whole of the forecast period, both on the basis of unchanged rates of 0.5% and of interest rates implied by the market. Even more conservatively, Capital Economics are forecasting a deflation of 0.1% in late 2011. In addition to setting the lowest rate ever the MPC has also eased policy by increasing the money supply by "quantitative easing" of £200bn. However, despite such purchases, the broad money supply has decreased in the last two quarters by an annualised 2.3% and 0.5% respectively of which the Bank reports "Although the Bank's asset purchases should support broad money holdings, they have been acting against a severe monetary squeeze, as banks have attempted to repair their balance sheets and activity has contracted. As banks have tightened the supply of credit, fewer loans have been advanced" The Bank concludes that it is difficult to know precisely how much worse the position would have been without the quantitative purchasing, but it notes that in the much shallower 1990-1993 recession bank credit growth fell by a bigger margin, but, unlike the current recession, was always positive.

Unfortunately the prospects for lending are unclear. UK banks' capital ratios have increased almost four percentage points to nearly 10% but regulators may require higher capital ratios. Fortunately defaults are at or below expected levels and profits have enhanced banks' capital positions but the banks' sizeable exposure to the commercial property sector includes many loans where the LTV covenant is at risk or lower rents result in uncovered interest payments or both. Fortunately commercial property has staged a remarkable recovery in investment values and as economic growth continues rents should recover. Thus, although LTV and rental cover may be well below covenant, defaults on commercial property will be below those previously envisaged. Banks have managed to secure record levels of unguaranteed debt recently but this represents only a small portion of the existing funding maturing over the next few years. In particular, under various schemes, over £300bn is currently provided by the state, mostly maturing over the next two years. The banks' major funding requirement is the replacement of the £185bn special liquidity scheme provided by a Treasury credit guarantee scheme. Without such appropriate refinancing the effect of subsequent bank credit contraction would be severe. Fortunately it is reported that several different proposals are being considered to provide replacement funding. Overall it seems likely that credit will not be unduly constrained and that interest rates will remain low, both necessary factors for economic recovery.

A supportive fiscal stance is a further precondition for economic recovery. The EIU estimates that the net government borrowing for 2009/10 will be £200bn, an alarming 14% of GDP, but probably the single most important determinant of the economy's return to growth in Q4, and a similar borrowing requirement is expected in 2010. Thus fiscal policy will be very supportive of economic growth over the next two years. The IMF condones such fiscal stimulus: "due to the still fragile nature of the recovery, fiscal policies need to remain supportive of economic activity in the near term. The fiscal stimulus planned for 2010 should be fully implemented". However, "countries facing growing concerns about fiscal sustainability should make progress in devising and communicating credible exit policies".

The "sick" UK economy is like an addict on continuing "life support" who, paraphrasing the Economist, says "if you take me off the drugs, I'll kill you". Unfortunately, this addict requires even higher doses to recover from his disease. The treatment dilemma is that the enhanced drug levels required to treat the disease do not cure the addiction and may reinforce it or, it may not be possible to get this patient off the habit without succumbing to

Caledonian Trust PLC

the disease. The budgetary dilemma is how to keep getting all the drugs on prescription via cheap AAA rated bonds, nominally treating the disease, while the proportion of the drugs fuelling the habit are only normally available from expensive, non prescription, sources via lower grade more expensive bonds.

In the UK the "habit", the structural primary budget deficit, the proportion of the government borrowing, excluding interest payments, that cannot be explained by the temporary weakness in the economy will equate to 8% of GDP in 2009/10, by far the highest in any G7 economy. The risk is that, if the fiscal stimulus is reduced too quickly or by too much, then the patient's illness will reassert itself and the economy contract again. However, if credible plans are not made to treat the habit, the structural weakness, then "drugs" costs will rise very steeply threatening the efficacy of the recovery, increasing its costs and risking a further deeper recession. The EIU describes the "habit" as having arisen "as a result of years of recklessness, fiscal indiscipline and reliance on unsustainable revenue streams from the credit bubble-based financial and housing sectors" Is this a new variant of "prudence", one must ask?

Happily economic prospects could be much worse: there has been no depression; the economy is now recovering; the economy benefits from both flexible employment and foreign exchange markets and the public sector debt, although likely to rise to 80% GDP, is lower than the 240% at the end of World War II and over 205% at the end of the Napoleonic War. As Wellington said at Waterloo "Hard pounding then, gentlemen". Like Waterloo it will be a close run thing and the necessary reduction of the National Debt will reduce future economic growth significantly: Deloitte estimate by one to two percentage points: a "pounding" of a different order! Last year I concluded "the policy of the Bank, 'whatever it takes', will be effective and UK growth should resume in early 2010". Spring appeared to come early - in late 2009 - but summer is probably still a long way off.

Property Prospects

Commercial property returned -22.5% in 2008, -25.6% in the twelve months to 30 June 2009 and 2.2% in 2009 when equities returned 30.1%, property equities 18.8% and bonds -0.3%. This time last year total commercial property returns for 2009 were forecast: Colliers -15.5%, IPF -11.3% and the derivatives market -18.75%. However, there has been a dramatic turnaround in returns in 2009 due to drops in yield: the CBRE All Property Yield fell from 7.2% to 6.1% and the JLL prime yield from 7.01% to 6.08%. The derivatives market in January 2009 implied total returns for 2009 and 2010 of -21% and -19% respectively but in March 2010 the 2009 derivatives market closed indicating a +2.40% return and the December 2010 contract indicated a 10.0% return. From January 2009 to February 2010 the return indicated by the December 2010 contract changed from -36% to +10%, a swing of 72%! Forecasts for 2010 returns have been rising: the IPF forecast survey now expects a return of 13.4% and Colliers CRE has improved its current forecast to 11.5% from 5.7%. Colliers comment "ultimately commercial property became too cheap to be ignored any longer". Gratifyingly, last year I said: "This time next year I expect the overall position will be significantly better" and now I expect the commercial property market to continue to improve.

The recovery in the residential property market has been almost as dramatic as that in the commercial property market. In 2008 price falls were: 16.2% (Halifax) 15.9% (Nationwide) and 10.8% (Academetrics, a more broadly based index). Early in 2009 prospects seemed poor and derivatives based on the HPI indicated a further 19.5% fall in 2009 with further falls totalling 31.0% by December 2011 or a peak to trough fall from August 2007 of £199,600 to £114,211 or 42.8% altogether! The HPI trough actually occurred in April 2009 at £154,490 a peak to trough fall of 22.6% say, 25% in real terms, a fall that compares with real falls in the previous three downturns of 37% (1989-1995), 30% (1973-1977) and 22% (1952-1954) a cycle where the recovery in real terms took ten years. In 2009 reported price rises were 5.6% HPI, 6.1% Nationwide and 4.2% Academetrics.

Forecasts for the market in 2010 are varied but much less extreme than they were last year for 2009. Interestingly, prices derived from derivatives based on the HPI indicate rises in 2010 of about 2% a contrast to the -19.5% forecast last year for 2010. Fourteen separate forecasts are summarised by Rettie of which eight were \pm 3%, one, Citigroup, was +5% to 10% and four were -5% or lower, Capital Economics being the most bearish at -10%.

Changes in house prices depend primarily on marginal changes in demand and supply. It is probable that the economy will expand in 2010, that more mortgage funds will become available and that more households will be formed, so demand should increase. Supply from new housing will be limited as housing starts, especially private starts, are very considerably reduced. Supply from repossession may grow but repossession numbers are much below expectation as unemployment has risen less than expected, interest rates are low and various measures are being operated to avoid such repossession. Thus I do not foresee an overall fall in prices, although differences in price changes between locations and between types will be significant. In particular houses will continue to perform better than flats and high quality areas and their fringes better than low quality areas.

Caledonian Trust PLC

Conclusion

The economy has suffered the worst economic downturn since the 1930s, precipitated by a financial crisis whose effects are particularly pernicious. However, in spite of this calamity economic growth has returned, unemployment and repossessions are below expectations, asset prices have risen, and interest rates and inflation are low and likely to remain so. Fortunately, because of a floating currency, there has been a very beneficial Sterling devaluation and liquidity is returning, albeit hesitantly, to a recovering banking sector. We have witnessed a remarkable achievement by the authorities but one which has been achieved at a great debt which remains to be redeemed. As Wellington said: "The next greatest misfortune to losing a battle is to gain such a victory as this".

The cost to the economy has been to replace the savings forced on the private sector by the credit contraction with an equivalent expansion of the public sector. This "non-structural" cost lies on top of the structural deficit built up over recent years on the basis of political expediency. Unfortunately the deficit must either be reduced voluntarily by appropriate fiscal policies or will be required involuntarily by a revision of the terms on which the nation's creditors are prepared to continue to lend.

We will not commence any development in the current economic climate until there is a clear upturn in the market. In the interim we will continue to add value to our development programme. Most development properties are valued at cost, usually based on an existing use, and these values substantially underestimate the realisable value, if and when planning consent is gained. When market conditions recover, the Group will realise its considerable latent potential, a prospect that is steadily becoming more likely.

I D Lowe
Chairman

23 March 2010

Caledonian Trust PLC

Consolidated income statement for the six months ended 31 December 2009

		6 months ended 31 Dec 2009 £000	6 months ended 31 Dec 2008 £000	Year ended 30 June 2009 £000
	Note			
Revenue from properties		360	344	731
Property charges		(179)	(129)	(265)
Net rental and related income		181	215	466
Proceeds from sale of trading properties		50	105	1,058
Carrying value of trading properties sold		(24)	(55)	(661)
Profit from disposal of trading properties		26	50	397
Other income		55	30	254
Other expenses		-	(5)	(14)
Net other income		55	25	240
Administrative expenses		(463)	(401)	(880)
Operating (loss)/ profit before investment property disposals and valuation movements		(201)	(111)	223
Profit on disposal of investment properties		101	-	163
Valuation gains on investment properties		350	800	1,932
Valuation losses on investment properties		-	(1,410)	(515)
Operating profit/(loss) before net financing costs		250	(721)	1,803
Finance income		1	6	7
Finance expenses		(106)	(313)	(464)
Profit/(loss) before taxation		145	(1,028)	1,346
Taxation	5	-	-	-
Profit/(loss) for the financial period attributable to equity holders of the company		145	(1,028)	1,346
Earnings/(loss) per share				
Basic earnings/(loss) per share (pence)	4	1.22p	(8.65p)	11.33p
Diluted earnings/(loss) per share (pence)	4	1.22p	(8.65p)	11.33p

Caledonian Trust PLC

Consolidated statement of recognised income and expenditure for the six months ended 31 December 2009

	6 months ended 31 Dec 2009 £000	6 months ended 31 Dec 2008 £000	Year ended 30 June 2009 £000
Change in the fair value of equity securities available for sale	-	-	(9)
Net profit/(loss) recognised directly in equity	-	-	(9)
Profit/(loss) for the period	145	(1,028)	1,346
Total recognised income and expense for the period attributable to equity holders of the parent	145	(1,028)	1,337

Caledonian Trust PLC

Consolidated balance sheet as at 31 December 2009

	Note	31 Dec 2009 £000	31 Dec 2008 £000	30 June 2009 £000
Non current assets				
Investment properties		16,495	16,305	17,045
Plant and equipment etc		27	30	25
Investments		2	11	2
Total non-current assets		16,524	16,346	17,072
Current assets				
Trading properties		11,119	11,454	11,032
Trade and other receivables		227	166	207
Cash and cash equivalents		355	263	906
Total current assets		11,701	11,883	12,145
Total assets		28,225	28,229	29,217
Current liabilities				
Trade and other payables		(562)	(561)	(612)
Interest bearing loans and borrowings		(3,598)	(1,988)	(1,985)
		(4,160)	(2,549)	(2,597)
Non current liabilities				
Interest bearing loans and borrowings		(3,975)	(8,100)	(6,675)
		(3,975)	(8,100)	(6,675)
Total liabilities		(8,135)	(10,649)	(9,272)
Net assets	6	20,090	17,580	19,945
Equity				
Issued share capital	7	2,377	2,377	2,377
Other reserves		2,920	2,920	2,920
Retained earnings	6	14,793	12,283	14,648
Total equity attributable to equity holders of the parent	6	20,090	17,580	19,945

Caledonian Trust PLC

Consolidated cash flow statement for the six months ended 31 December 2009

	6 months ended 31 Dec 2009 £000	6 months ended 31 Dec 2008 £000	Year ended 30 June 2009 £000
Profit/(loss) for the period	145	(1,028)	1,346
Adjustments			
Profit on sale of investment property	(101)	-	(163)
Investment property valuation movements	(350)	610	(1,417)
Depreciation	-	-	10
Net finance expense	105	307	457
	—	—	—
Operating cash flows before movements in working capital	(201)	(111)	233
(Increase)/decrease in trading properties	(87)	(71)	351
(Increase)/decrease in trade and other receivables	(44)	268	252
(Decrease)/increase in trade and other payables	(13)	86	129
	—	—	—
Cash generated from operating activities	(345)	172	965
Interest paid	(120)	(299)	(468)
Interest received	1	6	7
	—	—	—
Cash flows from operating activities	(464)	(121)	504
	—	—	—
Investing activities			
Proceeds from sale of investment property	1,001	-	1,450
Purchases of plant and equipment	(1)	(8)	(13)
	—	—	—
Cash flows from investing activities	1,000	(8)	1,437
	—	—	—
Financing activities			
(Repayments of)/proceeds from long term borrowings	(1,087)	350	(1,077)
	—	—	—
Cash flows from financing activities	(1,087)	350	(1,077)
	—	—	—
Net (decrease)/increase in cash and cash equivalents	(551)	221	864
Cash and cash equivalents at beginning of period	906	42	42
	—	—	—
Cash and cash equivalents at end of period	355	263	906

Caledonian Trust PLC

Notes to the accounts

1 This interim statement for the six month period to 31 December 2009 is unaudited and was approved by the directors on 23 March 2010. The information set out does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006.

2 Going concern basis

The directors have taken account of the unusual circumstances prevailing in the property market at the current time and recognise that the current economic climate creates uncertainty over the timing and amount of realisation of cashflows, in particular in respect of the sale of certain assets. However, after making enquiries, the Directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing this interim statement.

3 Accounting policies

Caledonian Trust PLC (the "company") is a company domiciled in the United Kingdom

Basis of preparation

The interim statement is prepared applying the recognition and measurement requirements of IFRSs as adopted by the EU. The company has elected not to prepare the interim statement in accordance with IAS 34 as adopted by the EU.

The interim statement does not include all the information required for full annual financial statements and should be read in conjunction with the financial statements of the company as at and for the year ended 30 June 2009 which were prepared in accordance with IFRSs as adopted by the EU.

The preparation of the interim statement requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results differ from these estimates. The accounting policies applied by the company in this interim statement are the same as those applied in its financial statements as at and for the year ended 30 June 2009. Copies of the Annual Report for 2009 are available from the Company's head office by applying to the Company Secretary.

These policies are expected to apply to the accounts for the year ending 30 June 2010.

The comparative figures for the financial year ended 30 June 2009 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Caledonian Trust PLC

Notes to the accounts (continued)

4 Earnings/(loss) per share

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

	6 months ended 31 Dec 2009 £000	6 months ended 31 Dec 2008 £000	Year ended 30 June 2009 £000
	No.	No.	No.
Profit/(loss) for financial period	145	(1,028)	1,346
Weighted average no. of shares: For basic earnings per share and for diluted earnings per share	11,882,923	11,882,923	11,882,923
Basic earnings/(loss) per share	1.22p	(8.65p)	11.33p
Diluted earnings/(loss) per share	1.22p	(8.65p)	11.33p

5 Taxation

Taxation for the 6 months ended 31 December 2009 is based on the effective rate of taxation which is estimated to apply to the year ending 30 June 2010. Due to the tax losses incurred there is no charge for the period.

In the case of deferred tax in relation to investment property revaluation surpluses, the base cost used is historical book cost and includes allowances or deductions which may be available to reduce the actual tax liability which would crystallise in the event of a disposal of the asset. At 31 December 2009 there is a deferred tax asset which is not recognised in these accounts.

6 Capital and reserves

	Share capital £000	Other reserves £000	Retained earnings £000	Total £000
At 1 July 2009	2,377	2,920	14,648	19,945
Total recognised income and expense	-	-	145	145
At 31 December 2009	2,377	2,920	14,793	20,090
At 1 July 2008	2,377	2,920	13,311	18,608
Total recognised income and expense	-	-	(1,028)	(1,028)
At 31 December 2008	2,377	2,920	12,283	17,580
At 1 July 2008	2,377	2,920	13,311	18,608
Total recognised income and expense	-	-	1,337	1,337
At 30 June 2009	2,377	2,920	14,648	19,945

The other reserves consist of the share premium account and the capital redemption reserve.

Caledonian Trust PLC

Notes to the accounts (continued)

7 Issued share capital

	31 December 2009		31 December 2008		30 June 2009	
	No	£000	No.	£000	No.	£000
	000		000		000	
Authorised						
Ordinary shares of 20p each	20,000	4,000	20,000	4,000	20,000	4,000
	=====	=====	=====	=====	=====	=====
Issued and fully paid						
Ordinary shares of 20p each	11,883	2,377	11,883	2,377	11,883	2,377
	=====	=====	=====	=====	=====	=====