F&C Commercial Property Trust Limited

Annual Report and Accounts

2008

Investments

Contents

aic
The Association of
Investment Companies

Company Summary

The Company

F&C Commercial Property Trust Limited ('the Company') is an authorised Guernsey incorporated investment company. Its shares are listed on the Official List of the UK Listing Authority and on the Channel Islands Stock Exchange, and traded on both the London Stock Exchange and the Channel Islands Stock Exchange.

The Company also consolidates F&C Commercial Property Holdings Limited and F&C Commercial Property Finance Limited, collectively known as 'the Group', details of which are contained in note 1(b) to the Accounts.

At 31 December 2008 Group total assets less current liabilities were £814 million and Group shareholders' funds were £584 million.

Objective

The investment objective of the Company is to provide ordinary shareholders with an attractive level of income together with the potential for capital and income growth from investing in a diversified UK commercial property portfolio.

Investment Policy

The Company's investment policy is contained within the Report of the Directors on pages 15 and 16.

Management

The Board has appointed F&C Investment Business Limited ('FCIB' or the 'Managers') as its investment manager. Further details of the management arrangements are provided on page 8 and in the Notes to the Accounts.

Capital Structure

The Company's equity capital structure consists of Ordinary Shares.

Ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. Borrowings consist of £230 million Secured Bonds due 2017. The bonds carry interest at a fixed rate of 5.23 per cent per annum and have an expected maturity date of 30 June 2015. If the bonds are not redeemed at this date they will carry interest at 0.6 per cent over LIBOR until the final maturity date of 30 June 2017.

Guernsey Regulatory Status

The Company is an Authorised Closed-Ended Investment Scheme domiciled in Guernsey. As an existing closed-ended fund the Company is deemed to be granted an authorisation declaration in accordance with section 8 of the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended and rule 6.02 of the Authorised Closed-Ended Investment Schemes Rules 2008 on the same date as the Company obtained consent under the Control of Borrowing (Bailiwick of Guernsey) Ordinance 1959 to 1989.

How to Invest

The Managers operate a number of investment plans which facilitate investment in the shares of the Company. Details are contained on page 46.

You may also invest through your usual stockbroker.

ISA Status

The Company's shares are eligible for ISAs.

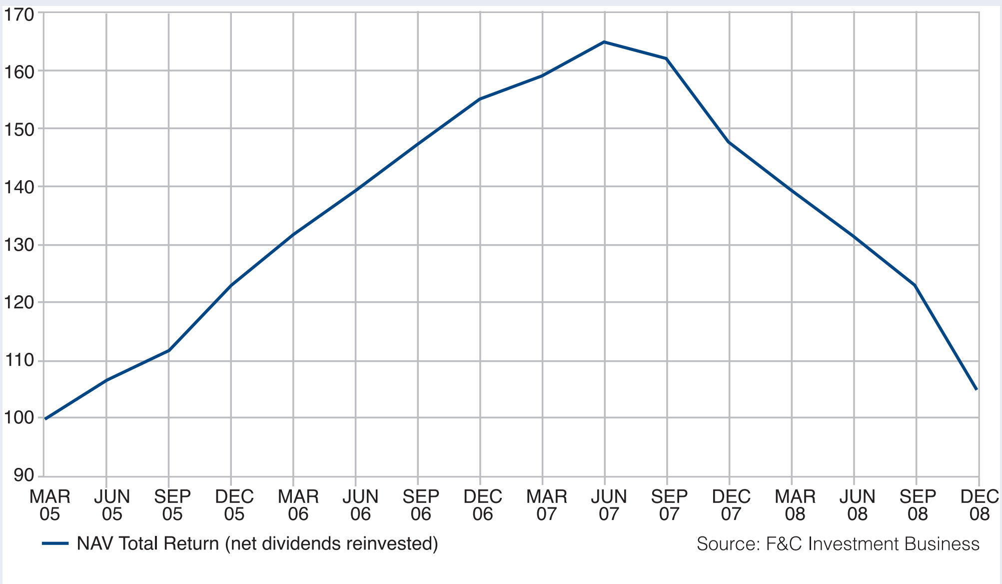
Website

The Company's internet address is: www.fccpt.co.uk

Highlights

- 6.0p per share dividend maintained and now paid monthly
- £69.0 million realised through the sale of Lion Walk Shopping Centre, Colchester at above valuation
- £43.8 million realised through the sale of units in the Indirect Holdings
- Cash balance of £162.3 million at the year end and net gearing of 10.3 per cent
- Positive amendment to the management fee arrangements during the year
- EGM to be held to consider the continuation of the Company, to be followed by proposals to provide additional flexibility, including a wider investment policy

F&C Commercial Property Trust Limited Published Net Asset Value Total Return from Launch



Performance Summary

	Year ended 31 December 2008	Year ended 31 December 2007
Total Return		
Published net asset value per share*	**(28.8)%**	(4.7)%
Ordinary Share price	**(26.5)%**	(27.4)%
Investment Property Databank UK Quarterly Index	**(22.3)%**	(3.8)%
FTSE All-Share Index	**(29.9)%**	5.3%

	31 December 2008	31 December 2007	% Change
Capital Values			
Total assets less current liabilities (£'000)*	**813,941**	1,175,822	–30.8
Published net asset value per share*	**85.8p**	129.2p	–33.6
Ordinary Share price	**62.0p**	90.5p	–31.5
Investment Property Databank UK Quarterly Index	**102.1**	138.8	–26.4
FTSE All-Share Index	**2,209.29**	3,286.67	–32.8
Discount to published net asset value per share*	**27.7%**	30.0%	–
Gearing*‡	**28.2%**	19.5%	–
Net Gearing*¶	**10.3%**	11.7%	–

	Year ended 31 December 2008	Year ended 31 December 2007
Earnings and Dividends		
Earnings per Ordinary Share*	**(39.8)p**	(7.7)p
Dividends per Ordinary Share	**6.0p**	6.0p
Dividend yield**	**9.7%**	6.6%
Total Expenses Ratio		
As a percentage of average total assets less current liabilities (excluding non-recoverable property expenses)*	**0.7%**	0.8%
As a percentage of average total assets less current liabilities*	**1.0%**	1.0%

	Highs 2008	Lows 2008
Year's Highs/Lows		
Published net asset value per share	**129.2p**	**85.8p**
Ordinary Share price	**103.3p**	**60.0p**
Discount	**16.4%**	**41.1%**

* Calculated under International Financial Reporting Standards apart from the valuation of the indirect property funds in the prior year to which a discount of 10 per cent was applied as highlighted in note 17 to the accounts. Net asset value total return is calculated assuming dividends are re-invested.

‡ Gearing: Secured Bonds ÷ total assets (less current liabilities).

¶ Net Gearing: (Secured Bonds – cash) ÷ total assets (less current liabilities and cash).

** Calculated on annualised dividends of 6.0p per share. An analysis of dividend payments is contained in note 7 to the accounts.

Sources: F&C Investment Business, Investment Property Databank and Datastream.

Chairman's Statement

Peter Niven Chairman

2008 was the most difficult year in memory for the UK commercial property market, as capital values continued to fall from the peak reached in June 2007. With increasing concerns over the health of the banking sector and the deterioration in economic conditions, investor sentiment was poor throughout the year. In addition, the continuing lack of bank financing led to a significant slowdown in transaction activity. Property values fell in each of the calendar quarters, with the fall in the last quarter being particularly severe.

Against this backdrop, your Company's net asset value ('NAV') total return was –28.8 per cent. This compares with a market total return of –22.3 per cent as measured by the Investment Property Databank ('IPD') UK Quarterly Index.

The poor sentiment towards property was also reflected in the performance of the share price, which recorded a total return of –26.5 per cent for the year. The share price at the end of the year was 62.0p per share, representing a discount of 27.7 per cent to the NAV per share of 85.8p per share, and provided a dividend yield of 9.7 per cent.

The following table provides an analysis of the movement in the NAV per share for the year (including the effect of gearing):

	Pence
Published NAV per share as at 31 December 2007	129.2
Unrealised decrease in valuation of direct property portfolio	(34.4)
Unrealised decrease in valuation of Indirect Holdings	(3.2)
Realised loss on sale of direct property	(0.6)
Realised loss on sale of Indirect Holdings	(4.7)
Share buy backs	0.6
Movement in revenue reserve	(1.1)
NAV per share as at 31 December 2008	85.8

Property Portfolio – Direct Properties

The valuation of the direct property portfolio fell from £978 million to £654 million during the year, representing an ungeared capital decrease of 27.4 per cent and a total return of –23.2 per cent. This compares with a total return from the IPD All Quarterly and Monthly funds (comprising directly held properties only, and is the Company's performance fee benchmark) of -22.3 per cent. The portfolio underperformed largely due to its overweight exposure to Central London offices.

The Company sold one property during the year: Lion Walk Shopping Centre, Colchester, its only directly held shopping centre. The sale price, gross of selling costs and rental guarantees, was £69.0 million and compared favourably with a valuation of £68.7 million as at 31 March 2008. The transaction was in accordance with the Board's strategy to reduce the Company's exposure to the retail sector. There were no property purchases during the year.

Property Portfolio – Indirect Holdings

The Company's investments in two indirectly held property funds, the Industrial Property Investment Fund ('IPIF') and The Mall Fund (the 'Indirect Holdings'), represented 0.8 per cent of the property portfolio as at 31 December 2008 compared with 9.8 per cent as at 31 December 2007. During the year, the Company realised £39.0 million through disposals of units in IPIF and £4.8 million through disposals of units in The Mall Fund.

The Board, in its announcement of the Company's results for the year ended 31 December 2007, signalled a departure from calculating the NAV in accordance with International Financial Reporting

Standards ('IFRS'), when it did not use the externally provided NAVs of the Indirect Holdings in arriving at the Company's published NAV per share. The Board did not consider these to be appropriate valuations in the prevailing market conditions at that time. Accordingly the Board discounted the NAVs of the Indirect Holdings by 10 per cent to reflect its view of their likely realisable value should the Company wish to dispose of them in an orderly fashion over time.

However, solely to meet the technical requirements of IFRS and following extensive consultation with the Company's auditor, the Balance Sheet as at 31 December 2007 included the values of the Indirect Holdings at their full, externally provided, NAVs. This resulted in a higher NAV per share in those accounts compared with the published NAV per share. To overcome this anomaly, during the year the Board appointed an independent valuer to place a market valuation on the units held in the Indirect Holdings for the Directors to consider on a quarterly basis. Accordingly, the Company's NAV as at 31 December 2008 of 85.8p per share incorporates the Indirect Holdings at the Directors' valuation, which reflects these independently produced values. The Company's auditor is satisfied that this treatment meets the requirements of IFRS. Accordingly, there is now no divergence between the Board's valuation of the Indirect Holdings and the valuations required by IFRS. The basis of valuation of the Indirect Holdings will, however, continue to be reviewed regularly by the Board, with independent advice as appropriate, and amended, as required, to reflect changes in market conditions and practice.

Dividends

First and second interim dividends each of 1.5p per share were paid on 25 July and 24 October 2008 respectively. In November the Board announced a move to monthly, rather than quarterly, dividends. This move significantly increases the headroom in respect of the bond covenants relating to dividends and improves the Company's ability to pay an attractive level of dividend whilst also giving it flexibility to use its cash reserves to take advantage of any emerging opportunities in current market conditions.

Accordingly, a third interim dividend of 1.0p per share was paid on 31 December 2008 and fourth and fifth interim dividends, each of 0.5p per share were paid on 30 January and 27 February 2009 respectively. A sixth interim dividend of 0.5p per share was paid on 27 March 2009 and a seventh, and last, interim dividend in respect of the year of 0.5p per share will be paid on 24 April 2009 to shareholders on the register on 3 April 2009.

This will bring the total dividend for the year to 6.0p per share, which level has been maintained since the Company's launch in 2005.

Although the Company's rental income flows remained healthy during the year, it should be noted that current economic conditions, and the Company's significant cash balances which are earning very little income, are likely to have an adverse impact on the income position for the current year. However, on the positive side, the rebasing of the investment management fee in 2008, as explained in more detail below, combined with the asset management initiatives taken since the Company's launch in 2005 have strengthened the income position. Furthermore, the quality of the Company's tenants remains high.

The Board is very conscious of the importance shareholders place on a sustainable and transparent dividend and that the monthly dividend is a valuable income stream. The Directors intend to keep the level of dividend under review in the light of economic conditions, the level of rental income received by the Company and progress in investing its cash reserves.

Discount and Share Buy Backs

Shareholders will be aware of the Board's stated policy to use the share buy back authority to purchase shares (subject to income and cash flow requirements) if the share price is more than five per cent below the published NAV per share for a continuous period of 20 dealing days or more.

In line with this statement, the Company bought back 52.0 million shares during the year, equivalent to 7.1 per cent of the issued share capital as at 31 December 2007. The shares were bought back at an average discount of 32.3 per cent to the published NAV per share (adjusted for any dividends for which the share price had gone ex-dividend) and provided an enhancement of 0.6p to the NAV per share. 41.5 million of these shares were bought back to be held in treasury, for subsequent re-issue at a premium to the published NAV per share, and the balance of 10.5 million shares were bought back for cancellation. Of the total shares bought back, 26.9 million were acquired in three on-market transactions from a life assurance subsidiary of the Company's majority shareholder, the Friends Provident plc group. In carrying out the share buy backs the Board gave careful consideration to income and cashflow requirements and bond covenant constraints, as well as amounts committed to future investment opportunities.

It is the Board's intention that it will continue to consider share buy backs while the discount to the published NAV per share is in excess of five per cent (adjusted for any dividends for which the share price has gone ex-dividend). In addition to taking into account income and cash flow requirements, the Directors will seek to ensure that any share buy backs are undertaken at prices which are in the best interests of all shareholders.

Continuation Vote

It was stated in the launch prospectus in 2005 that, in the event of the discount to the published NAV per share being more than five per cent for 90 dealing days or more, the Directors would convene an Extraordinary General Meeting ('EGM') to consider an ordinary resolution for the continuation of the Company. The first such EGM (the 'First Continuation EGM') was held on 28 September 2007 and it was stated in the circular that the Directors did not intend to convene another EGM to consider the Company's continuation unless the shares traded at a discount of over five per cent to the published NAV per share for 90 dealing days or more following the first anniversary of the First Continuation EGM.

On 5 February 2009 the Directors announced that the Company's shares had traded at a discount of more than five per cent to the published NAV for 90 dealing days following the first anniversary of the First Continuation EGM and accordingly that the Directors would convene an EGM (the 'Second Continuation EGM') to consider a further continuation resolution.

A circular for the Second Continuation EGM which will be held on 1 May 2009 is enclosed with the Annual Report. The purpose of the document is to convene the EGM to consider an ordinary resolution to approve the continuation of the Company. The document also explains why the Directors believe that the continuation of the Company is in the best interests of shareholders as a whole. In the event that the resolution is passed the Directors intend to bring forward Proposals (the 'Proposals') to provide additional flexibility to the Company, including a wider investment policy. Accordingly the document also sets out the details of these Proposals.

The Directors also believe that it is in the best interests of shareholders that, if the resolution to approve the continuation of the Company is passed, the Company should not be required to hold another continuation vote unless the discount to the published NAV per share is more than five per cent for a continuous period of 90 dealing days or more following the second anniversary of the Second Continuation EGM. This will extend by one year the period for considering a further continuation resolution should the shares continue to trade at a discount of more than five per cent.

Friends Provident plc's life insurance subsidiaries directly and indirectly hold 50.3 per cent of the Company's issued share capital and have indicated that they currently intend to vote in favour of the resolutions to be proposed at the Second Continuation EGM. They have also confirmed that it is their current intention to support the Proposals when they are published.

Borrowings

The Company has borrowings in the form of £230 million Secured Bonds due 2017 which have been assigned an 'Aaa' rating by Moody's Investor Services. The bonds carry interest at a fixed rate of 5.23 per cent per annum.

As at 31 December 2008, as a reflection of the Board's cautious view of markets, the Company held cash balances of £162.3 million. Consequently, the level of gearing, net of cash, at the year end was 10.3 per cent, compared with 11.7 per cent as at 31 December 2007. The Board considers this to be a prudent level of gearing in current market conditions, and it also provides a degree of flexibility to take advantage of any attractive investment opportunities.

The covenants relating to the bonds are described in note 13 to the accounts.

Investment Management Agreement

During the year the Board announced that it had agreed terms with the Managers for a reduction in the base management fee payable and the introduction of a performance fee. The Board believes that the amendments better align the interests of the Managers with the interests of shareholders through a challenging relative performance based fee. The Board has ensured that the total fees payable to the Managers will be capped at a reasonable level.

The previous management fees payable by the Company were 0.75 per cent per annum of its gross assets. Under the new arrangements, a base management fee is payable of 0.60 per cent per annum of the Company's invested assets (including indirect property holdings) and 0.25 per cent per annum of its net current assets. The revised base fee took retrospective effect from 19 March 2008.

The Company has also agreed to pay the Managers a performance fee equal to 20 per cent of the amount by which the total return (whether positive or negative) on the directly held properties exceeds 110 per cent of the total return (90 per cent if the total return is negative) on the benchmark and multiplied by the Company's average total assets (excluding any indirect property holdings). The benchmark for measuring the comparative performance of directly held properties is the total return from the IPD All Quarterly and Monthly funds, which identifies the total return on direct UK commercial property held by all quarterly and monthly measured funds in the IPD universe. The performance fee therefore excludes the performance of any indirect property holdings and the impact of gearing.

The performance fee payable in each financial year is capped at an amount which, when taken with the aggregate base management fee payable in each financial year, equals 1.0 per cent of the gross assets of the Company. Performance fees in excess of this capped return can be carried forward for up to two subsequent financial years subject to the annual 1.0 per cent cap.

The performance fee is measured over a rolling three year period and the performance fee payable in respect of any one financial year is equal to the total performance fee earned over that three year period less any performance fees already paid in the previous two years. In the event that the amount already paid in the previous two years is in excess of the amount earned over the rolling three year period, such excess shall be repaid to the Company by the Managers.

The first performance fee was calculated for the period from 31 March 2008 to 31 December 2008. However, for that period, although the total return from the directly held properties exceeded the total return from the benchmark index, it did not exceed the additional hurdle rate, such that no performance fee is payable in respect of the period.

The inflation linked administration fee payable to the Managers, which is currently £107,000 per annum, remains unchanged.

Since the year end the Board has agreed terms with the Managers such that the investment management agreement may now be terminated by either party by giving not less than 6 months' notice. Previously 12 months' notice had been required.

Management Arrangements

During the year F&C Asset Management plc ('F&C') announced changes to the structure of its property management team and the combination of that business with REIT Asset Management to form F&C REIT Asset Management LLP.

As previously announced, the Board will continue to monitor closely the impact of the new structure on the investment management of the Company's assets to ensure this remains in line with the Company's stated strategy and performance objectives.

Retail Savings Schemes

With the aim of attracting new shareholders, the Board decided during the year that the Company should join the investment trust retail savings schemes operated by F&C Asset Management plc. The schemes provide the ability to buy shares in the Company through a regular savings Investment Plan, an ISA, a Children's Investment Plan and a Child Trust Fund. Further details are set out on page 46.

Outlook

Economic conditions will remain challenging throughout 2009, with significant uncertainty as to what effect recent Government action will have and when conditions might improve. With bank financing continuing to be limited, this creates a challenging backdrop for the commercial property market and the expectation is for another year of negative returns.

Nonetheless, the Board believes that your Company, with a diversity of tenants, low void rate and average unexpired lease length of 7.9 years, is relatively well placed. The Board also believes that the Company's high level of cash and low levels of net borrowings are appropriate in the current environment. It is optimistic that these factors, along with continuing added value through asset management initiatives, will deliver positive total returns in the longer term.

Peter Niven
Chairman
31 March 2009

Investment Managers

Richard Kirby, BSc, MRICS
Investment Manager

Richard Kirby Investment Manager joined the F&C Asset Management plc group ('F&C group') in 1990. He has been a fund manager since 1995 and has experience of running a number of property portfolios. He is a Chartered Surveyor and a member of the British Council for Shopping Centres.

The F&C group provides investment management and other services to a range of investment companies. In addition, it is one of the largest property managers in the UK, with property funds under management of £7.9 billion (as at 31 December 2008), and manages property investments on behalf of a wide range of clients including the Company, ISIS Property Trust Limited and IRP Property Investments Limited.

Investment Managers

F&C Commercial Property Trust Limited (the 'Company') is managed by F&C Investment Business Limited ('FCIB' or the 'Managers'), a wholly owned subsidiary of F&C Asset Management plc ('F&C plc'). The F&C group is a leading asset manager in both the UK and Europe and has £98.6 billion of funds under management (as at 31 December 2008). The shares of F&C plc are traded on the London Stock Exchange. F&C plc's ultimate parent company is Friends Provident plc, which is also the Company's majority shareholder. Friends Provident plc has announced its intention to make a pro-rata distribution of its stake in F&C plc to its shareholders during 2009.

During the year, F&C plc announced changes to the structure of its property management business and the combination of that business with REIT Asset Management, a limited partnership, to form F&C REIT Asset Management LLP. The Group's property management arrangements were subsequently delegated by FCIB, with the approval of the Company, to F&C REIT Property Asset Management plc, a subsidiary of F&C REIT Asset Management LLP. Notwithstanding the delegation of some of the management functions, FCIB remains the Group's investment manager.

Managers' Review

Property Market Review

The worsening economic environment coupled with the deepening crisis in the financial and banking sectors hit capital values severely in 2008. Performance deteriorated across the board with steepening declines witnessed in the last quarter. Total returns were –22.3 per cent in 2008, as recorded by Investment Property Databank ('IPD') UK Quarterly Index, making it by far the worst annual IPD performance on record. Performance deteriorated markedly in the final quarter of the year, with total returns of –13.2 per cent. Capital values fell by 14.5 per cent in the quarter and by the year end were down approximately 35 per cent from the mid 2007 peak. The speed of this wholesale markdown is unprecedented.

London SW1, Charles House, 5-11 Regent Street

Due to the virtual shut-down of the debt markets, investment activity remained subdued with transactions totalling only £21 billion over the year, significantly down on the £55 billion recorded in 2007. The main sellers of stock were open ended funds hit by continued redemptions and property companies attempting to strengthen their balance sheets. Investors and real estate valuers completely moved away from equivalent yields to initial yields as risk perceptions changed. A general flight to quality was witnessed with property fundamentals coming back to the fore and the quality of tenant covenants and rental profile being heavily scrutinised. Prime property was by no means immune from this, especially large lot sizes, but many secondary properties proved to be effectively unsaleable.

The intensification of the credit crisis during the final quarter of 2008 saw IPD initial yields at 6.9 per cent at the year end, having moved out by 190 bps over the course of the year; more than half of which occurred during the final quarter.

The occupational markets also began to deteriorate over the course of the year. All sectors recorded a decline in rental values, with offices much weaker than retail and industrial. The quoted rents on accommodation available to let are declining at a significant pace. The weakness in the occupational markets has been witnessed in the retail market with a number of high profile retail failures. The number of defaults and the reduced propensity of tenants to renew at lease expiry were reflected in a rise in void rates. Voids as measured by the IPD UK Monthly Index now equate to more than 10 per cent of rental income at the all property level, up from 8.2 per cent at the peak of the market.

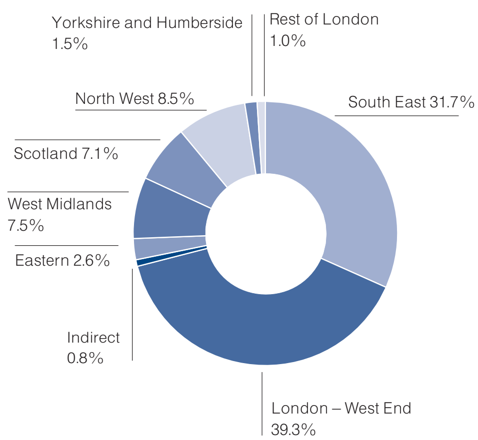
During 2008 the Company's portfolio fell in value from £1,085* million as at 31 December 2007 to £659 million. This represents an ungeared capital decrease of 28.9 per cent.

On a total return basis the Company's direct property portfolio returned –23.2 per cent, compared with the return from the IPD All Quarterly and Monthly funds (comprising directly held properties only and is the Company's performance fee benchmark) of –22.3 per cent.

Retail

Retail property experienced total returns of –13.8 per cent in the final quarter of 2008 recording –22.6 per cent for the year as a whole. This poor final quarter, much in anticipation of widely expected tenant failures after Christmas, made the sector the weakest performer over the quarter. Standard shop units were most resilient, recording –18.8 per cent, retail warehouses recorded –25.2 per cent and shopping centres recorded –23.8 per cent. Rental values are

Geographical Analysis
as at 31 December 2008
% of total property portfolio



* stated after application of 10 per cent discount to the valuation of the indirect property funds in the prior year as highlighted in note 17 to the accounts.

Managers’ Review (continued)

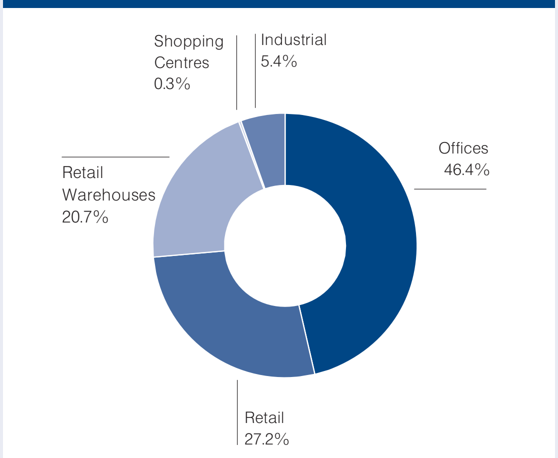
London W1, St. Christopher’s Place Estate

under serious pressure as voids increase and retailers look to take flexible leases with significant incentive packages and rent-free periods being negotiated.

The Company’s direct retail properties produced a total return of –19.8 per cent.

In accordance with the Company’s strategy to reduce its exposure to the retail sector and especially shopping centres, the Company completed the sale of Lion Walk Shopping Centre, Colchester in July 2008. This was the Company’s only directly held shopping centre and, at the time of the sale, the Company’s third largest asset. The sale price of £69.0 million was gross of twelve months’ rental guarantees on vacant units, a maximum exposure to the Company of £865,000. The sale was negotiated and concluded in an extremely challenging environment and further reduces the Company’s exposure to non-recoverable expenditure and the very real possibility of future voids at the property.

Sector Analysis
as at 31 December 2008
% of total property portfolio



The Company continued with its programme of upgrading accommodation at St. Christopher’s Place Estate, London W1 with several office lettings completed, but the headline rental levels achieved are now under pressure. There were no notable retail lettings at St. Christopher’s Place during 2008 as, until September, all retail units were let. The only tenant default at St Christopher’s Place was Joy, which entered into administration with a rental liability of £139,600 per annum. Elsewhere, at 124/125 Princes Street, Edinburgh, Zavvi vacated its unit prior to its lease expiry at the end of December 2008, and before entering into administration. While this unit is currently the Company’s largest void it is hoped that an agreement to take a new lease will be secured soon.

The Company’s retail warehousing experienced a significant capital decline over the year, of –27.4 per cent, producing total returns of –23.2 per cent. It is becoming increasingly difficult to settle rent reviews by negotiation in this sector and a number of reviews remain outstanding, having been referred to third party determination. More positively, the rent review of the JJB unit at Sears Retail Park, Solihull was settled reflecting an uplift of £27,000 per annum over the previous passing rent, and at Newbury Retail Park two rent reviews were concluded producing £245,315 per annum more than the previous passing rents. The Company suffered one tenant default at Newbury Retail Park when Roseby’s entered administration with a rental liability of £172,845 per annum. It is likely that this unit will be subdivided to achieve lettings.

Offices

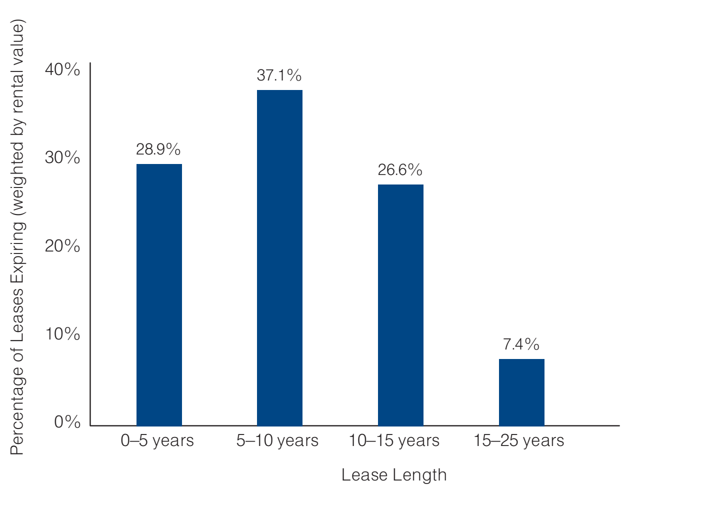
Offices delivered a total return of –23.1 per cent. The performance of Central London was markedly weaker than the regions with the City recording –26.3 per cent and the West End –23.6 per cent. The bulk of the capital value falls occurred in the final quarter. Occupationally, there is little demand and rents are falling and incentives increasing.

The Company’s offices produced a total return of –28.0 per cent with the negative impact coming through the overweight exposure to Central London offices (City total returns –33.8 per cent and West End –32.2 per cent).

Prior to the market turmoil of the last quarter, the Company had success in leasing its refurbishment projects. The refurbishment of four floors at Charles House, 5-11 Regent Street, London SW1 completed in December 2007. All four of the refurbished floors let well ahead of the pro-forma rental values, generating an income of £999,404 per annum. At 7 Birchin Lane, London EC3 two of the three refurbished floors were let, at a rent of £186,387 per annum, and the third

Lease Expiry Profile

At 31 December 2008 the weighted average lease length for the portfolio, assuming all break options are exercised, was 7.9 years (2007: 8.8 years).



floor remains available. At 17A Curzon Street, London W1 the Company agreed a renewal of Bank of Beirut's leases of 4,900 sq ft on the ground, first and second floors. These floors are undergoing a

Uxbridge, 3 The Square, Stockley Park

phased refurbishment and the bank has entered into a new 10 year lease at a rent of £380,000 per annum compared with the previous rent passing of £157,340 per annum.

Against a background of global economic and financial uncertainty and the need to preserve capital, the Company has delayed its commitment to redevelop 24-27 Great Pulteney Street, London W1, although the Board and the Managers remain confident in the scheme and its longer term contribution to the Company's future performance. The project will be regularly reviewed and progressed when fundamentals improve and there is greater certainty in the market.

Industrials

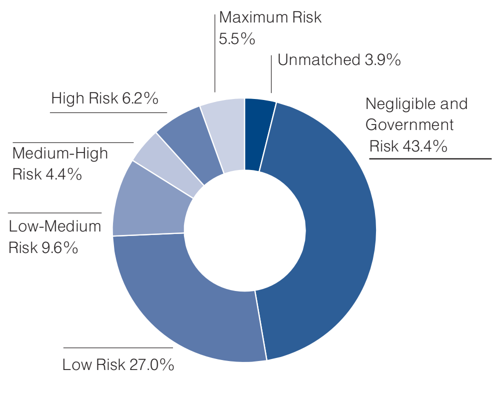
Industrial property performance saw total returns of –21.0 per cent in 2008, making it the best performing sector during the year. Occupier demand for smaller units is coming under severe pressure and voids are increasing on multi-let estates, while yields have moved out on well-let distribution units to levels where transactions are occurring at net initial yields of around 7.75%-8.0%.

The Company's industrial properties produced a total return of -11.2 per cent. The Company reduced its holding in the Industrial Property Investment Fund ('IPIF') in December 2008 realising £39.0 million. This

Covenant Strength

as at 31 December 2008

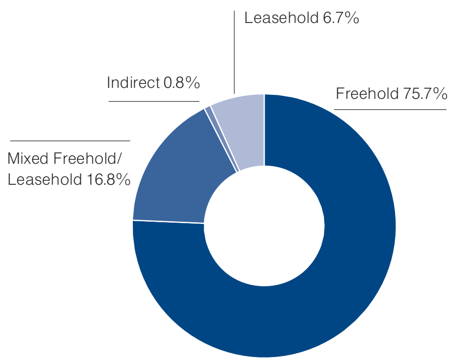
% of total property portfolio



As measured by Investment Property Databank ('IPD').

Managers' Review (continued)

Tenure Analysis
as at 31 December 2008
% of total property portfolio



sale was driven by concern over the resilience of income from multi-let estates especially those of a more secondary nature.

The Company is now underweight to the industrial sector and this will be addressed by opportunistic purchases.

The Company has settled the insurance claim following the severe fire at The Cowdray Centre, Colchester. The damaged properties have now been demolished and the site cleared. The master plan for the area continues to evolve and proposals include a mix of residential, retail, offices, industrial and hotel use. Progress is being made but the environment has moved against the Company. The focus of activity is to maintain the income wherever possible and to hold the land until the market improves.

Purchases and Disposals

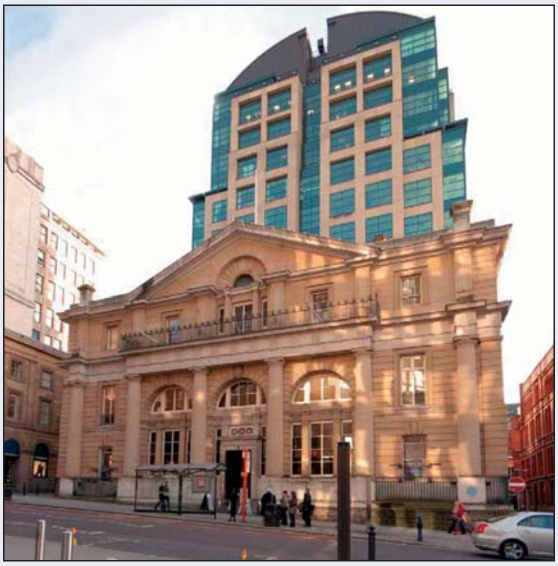
The Company did not acquire any properties during 2008.

As reported above, the Company completed the sale of Lion Walk Shopping Centre, Colchester for £69.0 million. The Company continued to reduce its exposure to its indirect holdings in what were very illiquid secondary markets for unlisted securities. It sold £4.8 million of units in The Mall Fund and £39.0 million of IPIF units realising a total of £43.8 million through a number of separate transactions. At the end of the year the indirect holdings represented 0.8 per cent of the property portfolio, compared with 9.8 per cent as at 31 December 2007.

As a result of these sales and the postponement of major capital expenditure projects, the Company has built up a significant cash balance. At a time when the extent of leverage is under the spotlight, the level of gearing, net of cash, at the year end was 10.3 per cent. This provides a significant degree of flexibility and opportunities to take advantage of properties being offered by distressed sellers at what are now becoming attractive yields.

Property Management

The Company completed 53 lease events during the year, increasing the passing rent by £2,059,206 per annum. The Company experienced a deterioration in vacancy levels which now stand at 4.3 per cent, excluding developments, compared with 1.2 per cent at the beginning of the year. Reassuringly, rent arrears and overdue debt remain, at 0.9 per cent, extremely low for a portfolio of this size.



Manchester, 82 King Street

Property Market Outlook

The market continues to be challenging in the short-term and concern is growing about the prospects for rental and income growth over the coming year. As the industry restructures, there will be opportunities for those with cash to acquire quality stock at attractive prices. Over the medium-term, property is expected to recover and return to the traditional model of income-driven total returns supplemented by modest growth in capital values.

Richard Kirby
Investment Manager
F&C Investment Business Limited
31 March 2009

Property Portfolio

	Sector	Book Cost £'000	Initial Yield	Market Value £'000	% of Total Assets (less current liabilities)
London W1, St. Christopher's Place Estate†	Retail	90,104	6.0%	102,500	12.6
Newbury, Newbury Retail Park	Retail Warehouses	55,009	6.2%	57,450	7.1
Solihull, Sears Retail Park	Retail Warehouses	70,720	7.5%	49,525	6.1
London SW1, Cassini House, St James's Street	Offices	47,400	5.7%	48,100	5.9
London SW19, Wimbledon Broadway	Retail	47,054	7.5%	42,860	5.3
London SW1, 84 Eccleston Square	Offices	42,165	7.4%	40,000	4.9
Uxbridge, 3 The Square, Stockley Park	Offices	42,550	7.8%	32,950	4.1
Rochdale, Dane Street	Retail Warehouses	28,800	6.3%	29,425	3.6
London SW1, Charles House, 5-11 Regent Street*	Offices	26,345	4.8%	27,875	3.4
Manchester, 82 King Street	Offices	32,485	6.4%	26,375	3.2
Ten largest property holdings		**482,632**		**457,060**	**56.2**
Glasgow, Alhambra House, Wellington Street	Offices	26,950	7.5%	25,225	3.1
Camberley, Watchmoor Park	Offices	36,950	10.3%	24,850	3.0
Reading, Thames Valley One, Thames Valley Park	Offices	25,075	9.0%	21,600	2.7
Reading, Thames Valley Two, Thames Valley Park	Offices	17,950	9.3%	14,525	1.8
London W1, 385/389 Oxford Street*	Retail	13,450	5.6%	13,350	1.6
Colchester, The Cowdray Centre, Cowdray Avenue	Industrial	15,440	8.7%	12,960	1.6
Edinburgh, 124/125 Princes Street	Retail	17,675	7.8%	11,125	1.4
Edinburgh, Nevis/Ness Houses, 11/12 Lochside Place	Offices	13,600	8.3%	10,450	1.3
London SW1, 2/4 King Street	Offices	6,333	5.2%	10,125	1.2
Southampton, Upper Northam Road, Hedge End	Industrial	10,300	8.5%	9,150	1.1
Twenty largest property holdings		**666,355**		**610,420**	**75.0**
London W1, 17A Curzon Street	Offices	7,536	4.4%	8,580	1.1
Leeds, 27/28 Commercial Street†	Retail	10,650	6.0%	8,425	1.0
London EC3, 7 Birchin Lane	Offices	5,061	6.1%	6,800	0.8
Camberley, Affinity Point, Glebeland Road	Industrial	6,650	8.0%	5,580	0.7
London W1, 24/27 Great Pulteney Street	Offices	12,769	–	5,530	0.7
Colchester, Ozalid Works, Cowdray Avenue	Industrial	1,804	9.0%	4,400	0.5
Industrial Property Investment Fund	Industrial	6,398	n/a	3,529	0.4
London W1, 16 Conduit Street*	Offices	3,150	5.5%	3,175	0.4
The Mall LP	Shopping Centres	27,938	n/a	1,587	0.2
Leeds, 40/42 Albion Street	Retail	1,650	7.0%	1,245	0.2
Total property portfolio		**749,961**		**659,271**	**81.0**
Net current assets				**154,670**	**19.0**
Total assets (less current liabilities)				**813,941**	**100.0**

*Leasehold property

†Mixed freehold/leasehold property

Board of Directors

Peter Niven*†
Chairman
(age 54) is a resident of Guernsey. He has worked in the financial services industry in the UK and offshore for 33 years, most recently as Chief Executive of Lloyds TSB Group's offshore banking operations, until his retirement from the bank in June 2004. A Fellow of the Institute of Bankers and a Chartered Director, he has served as a director of many Lloyds TSB group companies. He is currently a director of a number of Guernsey-based investment companies including Resolution Limited and Dexion Trading Limited. He is also Chief Executive of Guernsey Finance LBG.

Donald Adamson*†
(age 49) is a resident of Jersey. He has 28 years of experience of fund management, stock broking and private equity. From 1990–1999 he was a director and subsequently co-owner of Graham Investment Managers Limited, a Jersey-based fund management company. He currently serves as a director or chairman of a number of listed or private investment companies including Cambium Global Timberland Limited, JP Morgan Progressive Multi-Strategy Fund Limited, Lindsell Train Investment Trust plc and Invesco Leveraged High Yield Fund Limited. He is Chairman of the AIC Offshore Committee.

John Stephen*†
(age 59) is a UK resident. He is Chairman for England of Jones Lang LaSalle, real estate advisers. He is a Fellow of the Royal Institution of Chartered Surveyors and has over 35 years of property experience with Jones Lang LaSalle. He is also a strategic adviser to Evans Property Group and a trustee of the Portman Estate.

Brian Sweetland
(age 63) is a UK resident. He was, until May 2005, an executive director of Friends Provident plc and a member of its investment committee. As a solicitor, he was the company secretary of Friends Provident plc for over 20 years to the end of 2004 and was formerly a non-executive director of Benchmark Group plc and F&C Asset Management plc ('F&C'). He sits on committees which provide non-investment related advice to F&C's range of socially responsible investment products.

Nicholas Tostevin*†
Chairman of the Audit Committee
(age 56) is a resident of Guernsey. He is an Advocate of the Royal Court of Guernsey and is the senior partner of Babbé. He has given legal advice on commercial property transactions in Guernsey for over 25 years. He was a member of the Guernsey legislature, the States of Deliberation, from 1991 to 1997 and was a member of the Guernsey Income Tax Authority for six years. He is a non-executive director of a number of captive insurance companies and Guernsey-based investment companies, including Gottex Market Neutral Trust Limited, a London-listed fund of hedge funds.

*Member of the Audit Committee
†Member of the Management Engagement Committee

Report of the Directors

The Directors present their report and accounts of the Group for the year ended 31 December 2008.

Results and Dividends

The results for the year are set out in the attached accounts.

The Company has paid interim dividends during the year ended 31 December 2008 as follows:

	Payment date	Rate per share
Third interim for prior year	25 January 2008	1.5p
Fourth interim for prior year	25 April 2008	1.5p
First interim	25 July 2008	1.5p
Second interim	24 October 2008	1.5p
Third interim	31 December 2008	1.0p

It is the policy of the Directors to declare and pay dividends as interim dividends. The Directors do not therefore recommend a final dividend. Three further interim dividends, each of 0.5p per share, were paid on 30 January, 27 February, and 27 March 2009. The seventh, and last, interim dividend in respect of the year, of 0.5p per share, will be paid on 24 April 2009 to shareholders on the register on 3 April 2009. It is the intention of the Directors that the Company will continue to pay dividends monthly.

Principal Activity and Status

The Company is a Guernsey-registered company and, during the year, carried on business as a property investment company. The Company's shares are traded on the London Stock Exchange and the Channel Islands Stock Exchange.

The Company is a member of the Association of Investment Companies ('AIC').

Changes to Guernsey Company Law

On 1 July 2008, The Companies (Guernsey) Law, 1994 was superceded by The Companies (Guernsey) Law, 2008. The Directors have adopted the provisions of The Companies (Guernsey) Law, 2008 in preparing the financial statements.

Business Review

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, gearing, corporate governance and risk management. As set out in the Directors' Responsibility Statement on page 23 the Board is also responsible for the preparation of the Annual Report and financial statements for each financial period. Biographical details of the Directors, all of whom are non executive, can be found on page 14.

Objective

The Company's investment objective is to provide ordinary shareholders with an attractive level of income together with the potential for capital and income growth from investing in a diversified UK commercial property portfolio.

Investment Policy

The Company holds a diversified portfolio of freehold and predominantly long leasehold (over 60 years remaining at the time of acquisition) UK commercial properties. It invests principally in three commercial property sectors: office, retail and industrial.

The Company invests in properties which the Board, on the advice of F&C Investment Business Limited ('FCIB' or the 'Managers'), believes will generate a combination of long-term growth in capital and income for shareholders. Investment decisions are based on analysis of, amongst other things, prospects for future capital and income growth, sector and geographic prospects, tenant covenant strength, lease length, and initial and equivalent yields.

Investment risks are spread through investing in a range of geographical areas and sectors, and through letting properties to low risk tenants. The Company has not set any maximum geographic exposures, but the maximum weightings in the principal property sectors (stated as a percentage of total assets) are: office: 50 per cent; retail: 65 per cent; and industrial: 40 per cent. No single property may exceed 15 per cent of total assets and the five largest properties (excluding indirect property funds) may not exceed 40 per cent of total assets. Short leasehold properties (with less than 60 years remaining) may not exceed 10 per cent of total assets.

The Company is permitted to invest up to 15 per cent of its total assets in indirect property funds at the time of acquisition, but these investments may not exceed 20 per cent of total assets at any subsequent date. The Company may not invest in other listed investment companies. The Company is permitted to invest cash, held by it for working capital purposes and awaiting investment, in cash deposits, gilts and money market funds.

The Company uses gearing to enhance returns over the long term. Gearing, represented by borrowings as a percentage of total assets, may not exceed 50 per cent. However, the Board's present intention continues to be that borrowings will be limited to a maximum of 35 per cent of total assets at the time of borrowing.

Investment of Assets

At each Board meeting, the Board receives a detailed presentation from the Managers which includes a review of investment performance, recent portfolio activity and a market outlook. It also considers compliance with the investment policy and other investment restrictions during the reporting period. An analysis of how the portfolio was invested as at 31 December 2008 is contained within the Managers' Review on pages 9 to 12 and a full portfolio listing is provided on page 13.

The Group's borrowings are represented by £230 million Secured Bonds due 2017, which are described in more detail in note 13 to the accounts. The gearing level as at 31 December 2008 was 28.2 per cent of total assets, including cash (2007: 19.5 per cent).

Strategy

As part of its strategy, the Board has contractually delegated the management of the property portfolio, and other services, to the Managers.

The Company's performance in meeting its objectives is measured against key performance indicators as set out below. A review of the Company's returns during the financial year, the position of the Company at the year-end, and the outlook for the coming year are contained in the Chairman's Statement and the Managers' Review.

Principal Risks and Uncertainties

The Company's assets comprise direct and indirect investments in UK commercial property, although recent market uncertainty has resulted in more cash being held. Its principal risks are therefore related to the commercial property market in general, but also the particular circumstances of the properties in which it is invested and their tenants. More detailed explanations of these risks and the way in which they are managed are contained in note 17 to the accounts. The Managers also seek to mitigate these risks through active asset management initiatives and carrying out due diligence work on potential tenants before entering into any new lease agreements. All of the properties in the portfolio are insured.

Other risks faced by the Company include the following:

- Economic – inflation or deflation, economic recessions and movements in interest rates could affect property valuations.
- Investment and strategic – incorrect strategy, including sector and geographic allocations and use of gearing, could lead to poor returns for shareholders.
- Regulatory – breach of regulatory rules could lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.
- Management and control – changes that cause the management and control of the Company to be exercised in the United Kingdom could lead to the Company becoming liable to United Kingdom taxation on income and capital gains.
- Operational – failure of the Managers' accounting systems or disruption to the Managers' business, or that of third party service providers, could lead to an inability to provide accurate reporting and monitoring, leading to a loss of shareholders' confidence.
- Financial – inadequate controls by the Managers or third party service providers could lead to misappropriation of assets. Inappropriate accounting policies or failure to comply with accounting standards could lead to a qualified audit report, misreporting or breaches of regulations. Breaching bond covenants could lead to a downgrading of the Secured Bonds, a loss of shareholders' confidence and financial

loss for shareholders (see note 13 for details of the principal bond covenants).

The Board seeks to mitigate and manage these risks through continual review, policy setting and enforcement of contractual obligations. It also regularly monitors the investment environment and the management of the Company's property portfolio, and applies the principles detailed in the internal control guidance issued by the Financial Reporting Council. Details of the Company's internal controls are described in more detail on pages 20 and 21.

Shareholder Value

The Board and Managers recognise the importance of both marketing and share buy-backs in enhancing shareholder value. In terms of marketing, the Managers offer a range of private investor savings schemes, details of which can be found on page 46. In addition, meetings are held regularly with current and prospective shareholders and stockbroking analysts covering the investment company sector. Share buy-backs help reduce the volatility of the discount and enhance the net asset value per share for continuing shareholders. Communication of quarterly portfolio information is made through the Company's website.

Key Performance Indicators

The Board uses a number of performance measures to assess the Company's success in meeting its objectives. The key performance indicators are as follows:

- Net asset value total return and total return of the property portfolio compared to relevant Investment Property Databank indices;
- Premium/discount of share price to net asset value;
- Dividend per share and dividend yield; and
- Total expenses as a ratio of total assets less current liabilities.

A historic record of these indicators is contained in the Highlights and the Performance Summary on pages 2 and 3, the Chairman's Statement on pages 4 to 7, and in the Historic Record on page 45.

Directors

The Directors who held office during the year and their interests in the shares of the Company as at 31 December 2008 (all of which were beneficially held by the Directors and/or their spouses) were:

	2008 Ordinary Shares	2007 Ordinary Shares
P Niven	**42,491**	20,514
D L Adamson	**52,905**	50,000
J H Stephen	**42,051**	20,514
B W Sweetland	**87,620**	44,398
N J M Tostevin	**21,502**	20,000

Since 31 December 2008 Messrs Niven, Adamson, Stephen, Sweetland and Tostevin have acquired additional shares through the Company's dividend reinvestment plan. Their holdings have increased by 651, 810, 338, 1,341 and 330 shares respectively. There have been no other changes in the above interests between 31 December 2008 and 31 March 2009.

The Directors are also directors of F&C Commercial Property Holdings Limited, the Company's wholly owned subsidiary undertaking and of F&C Commercial Property Finance Limited, a special purpose vehicle incorporated to issue the Secured Bonds.

Mr J H Stephen and Mr N J M Tostevin retire from the Board by rotation and, being eligible, offer themselves for re-election. Mr B W Sweetland, who is not considered to be an independent Director, retires annually from the Board and, being eligible, offers himself for re-election.

The Board confirms that, following formal performance evaluations, the performance of each of the Directors seeking re-election continues to be effective and demonstrates commitment to the role. The Board therefore believes that it is in the interests of shareholders that these Directors are re-elected.

During the year the Directors received the following emoluments in the form of fees:

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
P Niven	**37,500**	30,000
D L Adamson	**25,000**	21,500
J H Stephen	**25,000**	21,500
B W Sweetland	**25,000**	21,500
N J M Tostevin	**30,000**	24,000
Total	**142,500**	118,500

Report of the Directors (continued)

There are no service contracts in existence between the Company and any Directors but each of the Directors was appointed by a letter of appointment which sets out the main terms of his appointment.

Management

The Managers provide investment management services to the Company. A summary of the agreement between the Company and the Managers in respect of management services provided is given in note 2 to the accounts.

The Board keeps under review the appropriateness of the Managers' appointment. In doing so the Board considers the past investment performance of the Company and the capability and resources of the Managers to deliver satisfactory investment performance. It also considers the length of the notice period of the investment management agreement and the fees payable to the Managers, together with the standard of the other services provided.

The Directors are satisfied with the Managers' ability to deliver satisfactory investment performance, and the quality of other services provided. It is therefore their opinion that the continuing appointment of the Managers on the terms agreed is in the interests of shareholders as a whole.

Substantial Interests in Share Capital

As at 31 March 2009 the following holdings representing 3 per cent or more of the Company's issued share capital had been reported.

	Number of Ordinary Shares Held	Percentage Held
Friends Provident plc*	347,796,294	51.1
Lloyds Banking Group plc	36,512,892	5.3

*Includes 342,300,000 shares held by life insurance subsidiaries of Friends Provident plc (see Chairman's Statement) with the balance held by other clients of F&C Asset Management plc.

Corporate Governance

Guernsey does not have its own corporate governance code and, as a Guernsey incorporated company, the Company is not required to comply with the Combined Code on Corporate Governance issued by the Financial Reporting Council (the 'Combined Code'). However, it is the Company's policy to comply with best practice on good corporate governance that is applicable to investment companies.

The Board has therefore considered the principles and recommendations of the AIC's Code of Corporate Governance (the 'AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies (the 'AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues specific to investment companies.

The Board considers that it is appropriate to report against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code).

Except as disclosed below, the Company complied throughout the year with the recommendations of the AIC Code and the relevant provisions of the Combined Code. Since all the Directors are non-executive, in accordance with the AIC Code and the preamble to the Combined Code, the provisions of the Combined Code on the role of the chief executive and, except in so far as they apply to non-executive Directors, on Directors' remuneration, are not relevant to the Company, and are not reported on further.

In view of its non-executive nature and the requirement of the Articles of Association that all Directors retire by rotation at least every three years, the Board considers that it is not appropriate for the Directors to be appointed for a specified term as recommended by provision A.7.2 of the Combined Code and principle 3 of the AIC Code, nor for a Senior Independent Director to be appointed as recommended by provision A.3.3 of the Combined Code and principle 1 of the AIC Code, nor for there to be a Nomination Committee as recommended by provision A.4.1 of the Combined Code and principle 9 of the AIC Code. Furthermore, in light of his considerable financial experience, the Board considers it appropriate that the Chairman of the Board, Mr P Niven, remains a member of the Audit

Committee, contrary to the recommendation of provision C.3.1 of the Combined Code, applicable to accounting periods beginning on or after 29 June 2008, which recommends that a company chairman should not be a member of the audit committee.

The Board consists solely of non-executive Directors of which Mr P Niven is Chairman. Mr B W Sweetland was, until May 2005, an executive director of Friends Provident plc, which is the ultimate parent company of the Managers and the company's majority shareholder. He currently sits on committees which provide non-investment related advice to F&C Asset Management plc's range of socially responsible investment products. Until those advisory roles cease, he may not be regarded as an independent Director and will be subject to annual re-election by shareholders. All other Directors are considered by the Board to be independent of the Managers. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed. New Directors will receive an induction from the Managers and Secretary on joining the Board, and all Directors receive other relevant training as necessary.

The Company has no executive directors or employees. A management agreement between the Company and the Managers sets out the matters over which the Managers have authority and the limits beyond which Board approval must be sought. All other matters, including investment and dividend policies, corporate strategy, gearing, corporate governance and risk management, are reserved for the approval of the Board of Directors. The Board meets at least quarterly and receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings.

Throughout the year the Audit Committee and the Management Engagement Committee have been in operation. The terms of reference of these committees are available for inspection on request.

The members of the Audit Committee are shown on page 14. Mr N J M Tostevin is the chairman. The committee operates within clearly defined terms of reference. Its duties in discharging its responsibilities include reviewing the Annual and Interim Accounts; the system of internal controls; and the terms of appointment of the auditor together with its remuneration. It is also the forum through which the auditor reports to the Board of Directors and it meets at least twice yearly. The objectivity of the auditor is reviewed by the Audit Committee which also reviews the terms under which the external auditor is appointed to perform non-audit services. The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor, with particular regard to non-audit fees. Such fees amounted to £14,000 for the year ended 31 December 2008 (year ended 31 December 2007 – £7,000) and related principally to a review of the interim financial information, work relating to the new investment management fee agreement and certification of bond compliance certificates. Notwithstanding such services the Audit Committee considers KPMG Channel Islands Limited to be independent of the Company and that the provision of such non-audit services is not a threat to the objectivity and independence of the conduct of the audit.

The members of the Management Engagement Committee are shown on page 14. Mr P Niven is the chairman. The committee reviews the appropriateness of the Managers' continuing appointment together with the terms and conditions thereof on a regular basis.

During the year the performance of the Board, committees and individual Directors was evaluated through an assessment process, led by the Chairman. This process involved the completion of questionnaires tailored to suit the nature of the Company, and follow up discussions between the Chairman and each of the Directors. The performance of the Chairman was evaluated by the other Directors.

The table on the following page sets out the number of scheduled Board and Committee meetings held during the year and the number of meetings attended by each Director.

Report of the Directors (continued)

	Board of Directors Held	Board of Directors Attended	Audit Committee Held	Audit Committee Attended	Management Engagement Committee Held	Management Engagement Committee Attended
D L Adamson	5	4	2	2	1	1
P Niven	5	4	2	–	1	–
J H Stephen	5	5	2	1	1	1
B W Sweetland	5	5	–	–	–	–
N J M Tostevin	5	5	2	2	1	1

In addition to the scheduled meetings detailed above, there were a further 12 Board meetings and Board committee meetings held in Guernsey during the year.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Company maintains appropriate Directors' and Officers' liability insurance.

Going Concern

After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal Controls

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the internal control guidance issued by the Financial Reporting Council. The process is based principally on the Managers' existing risk-based approach to internal control whereby a test matrix is created that identifies the key functions carried out by the Managers and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The test matrix is regularly updated and the Board is provided with regular reports highlighting all material changes to the risk ratings and confirming the action which has been, or is being, taken. A formal annual review of these procedures is carried out by the Audit Committee and includes consideration of internal control reports issued by the Managers and other service providers.

Such review procedures have been in place throughout the year and up to the date of approval of the Annual Report, and the Board is satisfied with their effectiveness. These procedures are designed to manage rather than eliminate risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement or loss. At each Board meeting the Board monitors the investment performance of the Company in comparison to its stated objective and against comparable companies. The Board also reviews the Company's activities since the last Board meeting to ensure that the Managers adhere to the agreed investment policy and approved investment guidelines and, if necessary, approves changes to the guidelines. In addition, at each Board meeting, the Board receives reports from the Secretary in respect of compliance matters and duties performed on behalf of the Company.

The Board has reviewed the need for an internal audit function. The Board has decided that the systems and procedures employed by the Managers and the Secretary, including their internal audit functions and the work carried out by the Company's external auditor, provide sufficient assurance that a sound system of internal control, which safeguards the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

Environmental Policy

The Managers acquire, develop and manage properties on behalf of the Company. It is recognised that these activities have both direct and indirect environmental impacts. The Board has endorsed the Managers' own environmental policy which is to work in partnership with contractors, tenants and consultants to minimise those impacts, seeking continuous improvements in environmental performance and conducting regular reviews.

Relations with Shareholders

The Company proactively seeks the views of its shareholders and places great importance on communication with them. The Board receives regular reports on the views of shareholders and the Chairman and other Directors are available to meet shareholders if required. The Notice of Annual General Meeting to be held on 1 May 2009 is set out on page 44. It is hoped that will provide a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Managers of the Company.

Reduction of Share Capital

At an Extraordinary General Meeting on 22 February 2008, shareholders approved proposals to reduce the nominal value of the Ordinary Shares from 90p to 1p and to cancel the share premium account. Full details are set out in note 14 to the accounts.

Directors' Authority to Buy Back Shares

During the year the Company purchased 51,997,000 Ordinary Shares for a total consideration of £39.9 million representing 7.1 per cent of the Ordinary Shares in issue at the previous year end. Of the Ordinary Shares purchased, 41,497,000 were purchased to be held in treasury and 10,500,000 were purchased for cancellation.

The current authority of the Company to make market purchases of up to 14.99 per cent of the issued Ordinary Share Capital expires at the end of the Annual General Meeting and Resolution 7, as set out in the notice of the Annual General Meeting, seeks renewal of such authority until the earlier of the Annual General Meeting in 2010 and 31 October 2010. Any buy back of Ordinary Shares will be made subject to Guernsey law and within any guidelines established from time to time by the Board and the making and timing of any buy backs will be at the absolute discretion of the Board. Purchases of Ordinary Shares will only be made through the market for cash at prices below the prevailing net asset value of the Ordinary Shares (as last calculated) where the Directors believe such purchases will enhance shareholder value. The price paid will not be less than the nominal value of 1p per share. Such purchases will also only be made in accordance with the rules of the UK Listing Authority which provide that the price to be paid must not be more than 5 per cent above the average of the middle market quotations for the Ordinary Shares for the five business days before the shares are purchased. Any shares purchased under this authority will be cancelled or held in treasury within the following limits:

- No more than 10 per cent of the Company's issued shares will be held in treasury at any time; and
- Shares will only be re-issued out of treasury at a premium to the net asset value.

Discount Policy

The Company's prospectus, published in 2005, contained a statement that the Directors intended to use the share buy back authority to purchase Ordinary Shares (subject to the income and cash flow requirements of the Company) if the share price of an Ordinary Share was more than five per cent below the published net asset value for a continuous period of 20 dealing days or more. To ensure a fair comparison, the Directors believe that such discount should be calculated by adjusting the published net asset value for any dividends for which the share price has gone ex-dividend.

It is the Board's intention that it will continue to consider share buy backs while the discount is in excess of five per cent (adjusted for any dividends for which the share price has gone ex-dividend). In

Report of the Directors (continued)

addition to taking into account the income and cash flow requirements of the Company, the Directors will seek to ensure that any share buy backs are undertaken at prices which are in the best interests of all shareholders.

The prospectus also contained a statement that, in the event that such discount was more than five per cent for 90 consecutive dealing days or more, the Directors would convene an extraordinary general meeting to consider an ordinary resolution for the continuation of the Company. Such an extraordinary general meeting (the 'First Continuation EGM') was held on 28 September 2007 at which a resolution was passed to continue the Company.

The circular published by the Company to convene the First Continuation EGM stated that, in the event that the resolution was passed, the Directors would convene another extraordinary general meeting to consider the continuation of the Company if the Ordinary Shares traded at a discount of over five per cent, calculated as described above, for 90 consecutive dealing days or more following the first anniversary of the First Continuation EGM. This condition was met at close of business on 4 February 2009 and the Directors therefore announced their intention to convene another extraordinary general meeting (the 'Second Continuation EGM') to consider a resolution to approve the continuation of the Company. A circular convening the Second Continuation EGM, to be held on 1 May 2009, has been posted to shareholders along with this Annual Report, and is referred to in more detail in the Chairman's Statement.

Disclosure of Information to the Auditor

The Directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are each aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

KPMG Channel Islands Limited has expressed its willingness to continue in office as auditor and a resolution proposing its re-appointment will be submitted at the Annual General Meeting.

On behalf of the Board

P Niven
Director

N J M Tostevin
Director

31 March 2009

Directors' Responsibilities

Directors' Responsibilities for the Financial Statements

The Directors are responsible for preparing the Report of the Directors 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 financial statements in accordance with International Financial Reporting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 Company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report (including a Business Review) and Corporate Governance Statement that comply with that law and those regulations.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group included in the consolidation taken as a whole; and
- the Chairman's Statement and Report of the Directors include a fair review of the development and performance of the business and the position of the Group included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

P Niven
Director

N J M Tostevin
Director

31 March 2009

Independent Auditor's Report

Independent Auditor's Report to the Members of F&C Commercial Property Trust Limited

We have audited the Group financial statements (the 'financial statements') of F&C Commercial Property Trust Limited (the 'Company') for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement 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 262 of The Companies (Guernsey) Law, 2008. 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 financial statements which give a true and fair view, are in accordance with International Financial Reporting Standards and in compliance with applicable Guernsey law are set out in the Directors' Responsibilities for the Financial Statements on page 23.

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, are in accordance with International Financial Reporting Standards and comply with The Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- are in accordance with International Financial Reporting Standards; and
- comply with The Companies (Guernsey) Law, 2008.

KPMG Channel Islands Limited

Guernsey

Channel Islands

31 March 2009

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. The work carried out by the auditor does not include consideration of these matters and, accordingly the auditor accepts no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website. Legislation governing the preparation and dissemination of financial statements may differ from jurisdiction to jurisdiction.

Consolidated Income Statement

for the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Revenue			
Rental Income		51,629	55,182
Income from indirect property funds		5,533	6,917
Total revenue		57,162	62,099
(Losses)/gains on investments			
Unrealised losses on revaluation of investment properties	9	(251,874)	(71,955)
Unrealised losses on revaluation of indirect property funds	9	(35,553)	(14,626)
(Losses)/gains on sale of investment properties realised	9	(4,137)	31
(Losses)/gains on sale of indirect property funds realised	9	(34,192)	1,588
Total income/(expense)		(268,594)	(22,863)
Expenditure			
Investment management fee	2a	(5,862)	(9,430)
Other expenses	3	(4,097)	(3,600)
Total expenditure		(9,959)	(13,030)
Operating loss before finance costs		(278,553)	(35,893)
Net finance costs			
Interest receivable	4	5,717	4,376
Finance costs	5	(12,133)	(12,128)
		(6,416)	(7,752)
Loss before taxation		(284,969)	(43,645)
Taxation	6	850	(687)
Loss for the year attributable to equity shareholders		(284,119)	(44,332)
Basic and diluted losses per share	8	(39.8)p	(6.0)p

The accompanying notes are an integral part of the above statement.

Consolidated Balance Sheet

as at 31 December 2008

	Notes	2008 £'000	2007 £'000
Non-current assets			
Investment properties	9	**654,155**	978,425
Investments in indirect property funds held at fair value	9	**5,116**	118,651
		659,271	1,097,076
Current assets			
Trade and other receivables	10	**6,193**	5,676
Cash and cash equivalents	11	**162,336**	103,891
		168,529	109,567
Total assets		**827,800**	1,206,643
Current liabilities			
Trade and other payables	12	**(13,859)**	(18,956)
Non-current liabilities			
Interest-bearing bonds	13	**(229,197)**	(229,093)
Deferred taxation		**(561)**	(507)
		(229,758)	(229,600)
Total liabilities		**(243,617)**	(248,556)
Net assets		**584,183**	958,087
Represented by:			
Share capital	14	**7,531**	687,224
Capital redemption reserve	14	**105**	–
Share premium account	14	**–**	14,390
Special reserve	14	**673,010**	34,043
Capital reserve – investments sold	14	**(21,293)**	325
Capital reserve – investments held	14	**(90,690)**	213,448
Revenue reserve	14	**15,520**	8,657
Equity shareholders' funds		**584,183**	958,087
Net asset value per share	15	**85.8p**	130.8p

The accounts on pages 25 to 43 were approved by the Board of Directors on 31 March 2009 and signed on its behalf by:

P Niven, Director

N J M Tostevin, Director

The accompanying notes are an integral part of the above statement.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

	Notes	Share Capital £'000	Capital Redemption Reserve £'000	Share Premium Account £'000	Special Reserve £'000	Capital Reserve – Investments Sold £'000	Capital Reserve – Investments Held £'000	Revenue Reserve £'000	Total £'000
At 1 January 2008		**687,224**	**–**	**14,390**	**34,043**	**325**	**213,448**	**8,657**	**958,087**
Court reduction of share capital	14	(679,588)	–	(14,390)	693,978	–	–	–	–
Loss for the year		–	–	–	–	–	–	(284,119)	(284,119)
Dividends paid	7	–	–	–	–	–	–	(49,922)	(49,922)
Transfer from special reserve	14	–	–	–	(15,148)	–	–	15,148	–
Transfer in respect of unrealised losses on investment properties		–	–	–	–	–	(251,874)	251,874	–
Transfer in respect of unrealised losses on indirect property funds		–	–	–	–	–	(35,553)	35,553	–
Losses on sale of investment properties realised		–	–	–	–	(4,137)	–	4,137	–
Losses on sale of indirect property funds realised		–	–	–	–	(34,192)	–	34,192	–
Transfer of prior years' revaluation to realised reserve		–	–	–	–	16,711	(16,711)	–	–
Shares bought back	14	(105)	105	–	(39,863)	–	–	–	(39,863)
At 31 December 2008		**7,531**	**105**	**–**	**673,010**	**(21,293)**	**(90,690)**	**15,520**	**584,183**

for the year ended 31 December 2007

	Notes	Share Capital £'000	Capital Redemption Reserve £'000	Share Premium Account £'000	Special Reserve £'000	Capital Reserve – Investments Sold £'000	Capital Reserve – Investments Held £'000	Revenue Reserve £'000	Total £'000
At 1 January 2007		661,500	–	–	58,434	4,202	312,412	3,221	1,039,769
Issue of ordinary share capital		25,724	–	14,390	–	–	–	–	40,114
Loss for the year		–	–	–	–	–	–	(44,332)	(44,332)
Dividends paid	7	–	–	–	–	–	–	(43,845)	(43,845)
Transfer from special reserve	14	–	–	–	(8,651)	–	–	8,651	–
Transfer in respect of unrealised losses on investment properties		–	–	–	–	–	(71,955)	71,955	–
Transfer in respect of unrealised losses on indirect property funds		–	–	–	–	–	(14,626)	14,626	–
Gains on sale of investment properties realised		–	–	–	–	31	–	(31)	–
Gains on sale of indirect property funds realised		–	–	–	–	1,588	–	(1,588)	–
Transfer of prior years' revaluation to realised reserve		–	–	–	–	12,383	(12,383)	–	–
Shares bought back		–	–	–	(15,740)	(17,879)	–	–	(33,619)
At 31 December 2007		687,224	–	14,390	34,043	325	213,448	8,657	958,087

The accompanying notes are an integral part of the above statement.

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Cash flows from operating activities			
Operating loss for the year before finance costs		**(278,553)**	(35,893)
Adjustments for:			
Unrealised losses on revaluation of investment properties		**251,874**	71,955
Unrealised losses on revaluation of indirect property funds		**35,553**	14,626
Losses/(gains) on sale of investment properties realised		**4,137**	(31)
Losses/(gains) on sale of indirect property funds realised		**34,192**	(1,588)
Decrease in operating trade and other receivables		**472**	541
Decrease in operating trade and other payables		**(4,631)**	(382)
		43,044	49,228
Interest received		**5,717**	4,376
Interest paid		**(12,029)**	(12,028)
Taxation paid		**(551)**	(445)
		(6,863)	(8,097)
Net cash inflow from operating activities		**36,181**	41,131
Cash flows from investing activities			
Sale of indirect property funds	9	**43,790**	50,188
Sale of investment properties	9	**71,302**	31
Capital expenditure	9	**(3,043)**	(3,400)
Net cash inflow from investing activities		**112,049**	46,819
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	14	**–**	40,114
Share buy backs		**(39,863)**	(33,619)
Dividends paid	7	**(49,922)**	(43,845)
Net cash outflow from financing activities		**(89,785)**	(37,350)
Net increase in cash and cash equivalents		**58,445**	50,600
Opening cash and cash equivalents		**103,891**	53,291
Closing cash and cash equivalents		**162,336**	103,891

The accompanying notes are an integral part of the above statement.

Notes to the Accounts

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

(a) Basis of accounting

The consolidated accounts have been prepared and approved in accordance with International Financial Reporting Standards ('IFRS') issued by, or adopted by, the International Accounting Standards Board (the 'IASB'), interpretations issued by the International Financial Reporting Standards Committee, applicable legal and regulatory requirements of The Companies (Guernsey) Law, 2008 and the Listing Rules of the UK Listing Authority. The consolidated accounts give a true and fair view and are also in compliance with The Companies (Guernsey) Law, 2008.

Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment trust companies issued by the Association of Investment Companies ('AIC') in January 2009 (which has been adopted early) is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

The notes and financial statements are presented in pounds sterling (functional and presentational currency) and are rounded to the nearest thousand except where otherwise indicated.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the period. The nature of the estimation means that actual outcomes could differ from those estimates.

The following new standards have been issued but are not effective for 2008 and have not been early adopted:

In November 2006, the IASB issued IFRS 8 *Operating Segments* which becomes effective for periods commencing on or after 1 January 2009. This standard requires disclosure on the financial performance of the Group's operating segments.

In March 2007, the IASB issued IAS 23 *Borrowing Costs (amendment)*, which becomes effective for accounting periods commencing on or after 1 January 2009. This standard requires that all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of the asset.

In September 2007, the IASB issued IAS 1 *Presentation of Financial Statements (amendment)*, which becomes effective for accounting periods commencing on or after 1 January 2009. This standard prescribes the basis of presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

In January 2008, the IASB issued IAS 27 *Consolidated Separate Financial Statements (amendment)* which becomes effective for accounting periods commencing on or after 1 January 2009. The objective of this standard is to enhance the relevance, reliability and comparability of the information that a parent entity provides in its separate financial statements and in its consolidated financial statements for a group of entities under its control.

The Group does not consider that the future adoption of the above new standards, in the form currently available, will have any material impact on the financial statements as presented.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 31 December each year. Subsidiaries are those entities, including special purpose entities, controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Company owns 100 per cent of the issued ordinary share capital of F&C Commercial Property Holdings Limited, a company incorporated in Guernsey whose principal business is that of an investment and property company.

The Group also consolidates the results of F&C Commercial Property Finance Limited, a special purpose vehicle incorporated in Guernsey to issue the interest-bearing bonds.

(c) Revenue recognition

Rental income, excluding VAT, arising on investment properties is accounted for in the Income Statement on a straight-line basis over the lease term of ongoing leases. Lease incentives granted are recognised as an integral part of the total rental income.

Distribution income received from the indirect property funds is recognised in the period to which the payment relates.

Interest income is accounted for on an accruals basis.

Notes to the Accounts (continued)

1. Accounting policies (continued)

(d) Expenses

Expenses are accounted for on an accruals basis. The Group's investment management and administration fees, finance costs and all other expenses are charged through the Income Statement.

(e) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/(loss) before taxation reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. As the Directors consider the value of the property portfolio is likely to be realised by sale rather than use over time, no provision has been made for deferred tax on valuation uplifts.

(f) Investment properties

Investment properties consist of land and buildings held to earn rental income together with the potential for capital and income growth.

Investment properties are initially recognised at cost, being the fair value of consideration given, including associated transaction costs. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period during which the expenditure is incurred and included within the book cost of the properties.

After initial recognition, investment properties are measured at fair value, with unrealised gains and losses recognised in the Income Statement and transferred to the Capital Reserve – Investments Held. Fair value is based on the open market valuation provided by DTZ Debenham Tie Leung Limited, chartered surveyors, at the balance sheet date.

Investment properties held under finance leases and leased out under operating leases are classified as investment properties and stated at fair value.

On derecognition, realised gains and losses on disposals of investment properties are recognised in the Income Statement and transferred to the Capital Reserve – Investments Sold.

Recognition and derecognition occurs on the exchange of signed contracts between a willing buyer and a willing seller.

(g) Investments

Investments in unquoted indirect property funds are recognised and derecognised on the trade date, and are initially measured at fair value.

Investments in unquoted indirect property funds are classified as fair value through profit or loss. Financial assets designated as fair value through profit or loss are measured at subsequent reporting dates at fair value.

(h) Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being property investment, and in one geographical area, the United Kingdom.

(i) Cash and cash equivalents

Cash in banks and short term deposits are carried at cost. Cash and cash equivalents consist of cash in hand and short term deposits in banks with an original maturity of three months or less.

1. Accounting policies (continued)

(j) Trade and other receivables

Trade receivables, which are generally due for settlement at the relevant quarter end, are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(k) Interest-bearing borrowings

All non-current borrowings are initially recognised at cost, being fair value of the consideration received, net of arrangement costs associated with the borrowings. After initial recognition, all interest-bearing borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any loan arrangement costs and any discount or premium on settlement.

2. Fees

	2008 £'000	2007 £'000
(a) Investment management fee	**5,862**	9,430

Throughout the year the Group's investment manager was F&C Investment Business Limited ('FCIB'), a wholly-owned subsidiary of F&C Asset Management plc. During the year, following the establishment of F&C REIT Asset Management LLP through the combination of the property management business of FCIB with REIT Asset Management, the property management arrangements of the Group were delegated by FCIB, with the approval of the Company, to F&C REIT Property Asset Management plc, a subsidiary of F&C REIT Asset Management LLP. Notwithstanding the delegation of some of the management functions, FCIB remains the Group's investment manager.

At the beginning of the year, FCIB was entitled to an investment management fee from the Group at an annual rate of 0.75 per cent of the total assets less current liabilities, payable quarterly in arrears. During the year, the Board agreed terms with FCIB for a reduction in the base management fee payable and the introduction of a performance fee.

Under the new arrangements, FCIB is entitled to a base management fee of 0.60 per cent per annum of the Group's invested assets (including indirect property holdings) and 0.25 per cent per annum of the net current assets, payable quarterly in arrears. The revised base fee took retrospective effect from 19 March 2008. The fees of any managing agents appointed by the investment manager are payable out of the management fee.

Under the new arrangements, FCIB is also entitled to a performance fee equal to 20 per cent of the amount by which the total return (whether positive or negative) on the directly held properties exceeds 110 per cent of the total return (90 per cent if the total return is negative) on the benchmark and multiplied by the Group's average total assets (excluding any indirect property holdings). The benchmark for measuring the comparative performance of directly held properties is the total return from the IPD All Quarterly and Monthly funds. The performance fee payable in each financial year is capped at an amount which, when taken with the aggregate base management fee payable in each financial year, equals 1.0 per cent of the gross assets of the Group. Performance fees in excess of this capped return can be carried forward for up to two subsequent financial years subject to the annual 1.0 per cent cap. The performance fee is measured over a rolling three year period and the performance fee payable in respect of any one financial year is equal to the total performance fee earned over that three year period less any performance fees already paid in the previous two years. In the event that the amount already paid in the previous two years is in excess of the amount earned over the rolling three year period, such excess shall be repaid to the Group by FCIB.

The first performance fee was calculated for the period from 31 March 2008 to 31 December 2008. However, for that period, the total return from the directly held properties did not exceed the adjusted total return on the benchmark index. Therefore, no performance fee is payable in respect of that period.

Notes to the Accounts (continued)

2. Fees (continued)

FCIB is also entitled to an administration fee of £100,000 per annum (which increases annually in line with inflation), payable quarterly in arrears. The investment manager received £107,000 for administration services provided in respect of the year ended 31 December 2008 (2007: £103,000).

At 31 December 2008 the investment management agreement may have been terminated by either party by giving not less than 12 months' notice. The agreement may be terminated earlier provided that a payment in lieu of notice, equivalent to the amount the investment manager would otherwise have received during the notice period, is made. Since the year end the Board has agreed terms with the Managers such that the investment management agreement may now be terminated by either party by giving not less than 6 months' notice.

(b) Valuers' fees

The valuers of the investment properties, DTZ Debenham Tie Leung Limited, have agreed to provide valuation services in respect of the property portfolio. The valuation agreement is for a fixed term up to 31 December 2010 and an annual fee is payable equal to 0.0165 per cent of the aggregate value of the direct property portfolio.

3. Other expenses

	2008 £'000	2007 £'000
Direct operating expenses of let rental property	**2,669**	2,488
Provision for bad debts	**225**	(17)
Valuation and other professional fees	**617**	567
Directors' fees	**143**	119
Administration fee	**107**	103
Auditor's remuneration for:		
– audit (current year)	**50**	34
– audit (prior year underprovision)	**20**	–
– other services	**14**	7
Other	**252**	299
	4,097	3,600

An analysis of the Directors' fees is provided in the Report of the Directors on page 17.

4. Interest revenue receivable

	2008 £'000	2007 £'000
Deposit interest	**5,717**	4,376

5. Finance costs

	2008 £'000	2007 £'000
Interest on the 5.23 per cent Secured Bonds due 2017	**12,133**	12,128

6. Taxation

	2008 £'000	2007 £'000
Current income tax charge	**77**	541
Reversal of over provision in prior years	**(981)**	–
Deferred income tax relating to origination and reversal of temporary differences	**54**	146
Total tax (credit)/charge	**(850)**	687

A reconciliation of the income tax (credit)/charge applicable to the results at the statutory income tax rate to the charge for the year is as follows:

	2008 £'000	2007 £'000
Profit/(loss) before taxation	**(284,969)**	(43,645)
UK income tax at a rate of 20 per cent (2007: 22 per cent)	**(56,994)**	(9,602)
Effects of:		
Capital losses on investment properties and indirect property funds not taxable	**65,151**	18,692
Income not taxable, including interest receivable	**(1,143)**	(963)
Expenditure not allowed for income tax purposes	**2,631**	2,875
Intercompany loan interest	**(8,827)**	(10,315)
Losses brought forward from prior years	**(642)**	–
Reversal of over provision in prior years	**(981)**	–
Change in deferred income tax accrual arising on reduction in income tax rate	**(45)**	–
Total tax (credit)/charge	**(850)**	687

Under IAS 12, the Group is required to provide at the balance sheet date for deferred income tax on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, regardless of whether or not those temporary differences are expected to reverse.

The Company is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. A fixed annual fee of £600 is payable to the States of Guernsey in respect of this exemption. No charge to Guernsey taxation will arise on capital gains.

The Directors intend to conduct the Group's affairs such that the management and control is not exercised in the United Kingdom and so that neither the Company nor any of its subsidiaries carries on any trade in the United Kingdom. Accordingly, the Company and its subsidiaries will not be liable for United Kingdom taxation on their income or gains other than certain income deriving from a United Kingdom source.

The Company and its subsidiaries are subject to United Kingdom income tax on income arising on the property portfolio after deduction of its allowable debt financing costs and other allowable expenses.

Notes to the Accounts (continued)

7. Dividends

	2008 £'000	2007 £'000
In respect of the previous period:		
Third interim dividend	**10,875**	11,025
Fourth interim dividend	**10,687**	11,025
In respect of the year under review:		
First interim dividend	**10,650**	10,920
Second interim dividend	**10,650**	10,875
Third interim dividend	**7,060**	–
	49,922	43,845

A fourth interim dividend of 0.5 pence per share totalling £3,403,000 was paid on 30 January 2009, a fifth interim dividend of 0.5 pence per share totalling £3,403,000 was paid on 27 February 2009 and a sixth interim dividend of 0.5 pence per share totalling £3,403,000 was paid on 27 March 2009 to shareholders on the register on 6 March 2009. A seventh, and last, interim dividend for the year of 0.5 pence per share, expected to total £3,403,000, will be paid on 24 April 2009 to shareholders on the register on 3 April 2009. Although these payments relate to the year ended 31 December 2008, under International Financial Reporting Standards they will be accounted for in the year ending 31 December 2009, being the year during which they are paid.

It is the Directors' intention that the Company will continue to pay dividends monthly.

8. Losses per share

The Group's basic and diluted losses per Ordinary Share are based on the loss for the year of £284,119,000 (2007: £44,332,000) and on 713,355,033 (2007: 732,816,052) Ordinary Shares, being the weighted average number of shares in issue during the year.

9. Investments

	2008 £'000	2007 £'000
Freehold and leasehold properties		
Opening book cost	**785,898**	782,498
Opening unrealised appreciation	**192,527**	264,482
Opening valuation	**978,425**	1,046,980
Sales – proceeds	**(67,513)**	(31)
– (loss)/gain on sale	**(2,015)**	31
Capital expenditure	**3,043**	3,400
Insurance proceeds received	**(3,789)**	–
Unrealised gains realised during the year	**(2,122)**	–
Decrease in unrealised appreciation	**(251,874)**	(71,955)
	654,155	978,425
Closing book cost	**715,624**	785,898
Closing unrealised (depreciation)/appreciation	**(61,469)**	192,527
Closing valuation	**654,155**	978,425

9. Investments (continued)	2008 £'000	2007 £'000
Indirect property funds		
Opening book cost	97,730	133,947
Opening unrealised appreciation	20,921	47,930
Opening valuation	118,651	181,877
Sales – proceeds	(43,790)	(50,188)
– (loss)/gain on sale	(19,603)	13,971
Unrealised gains realised during the year	(14,589)	(12,383)
Decrease in unrealised appreciation	(35,553)	(14,626)
	5,116	118,651
Closing book cost	34,337	97,730
Closing unrealised (depreciation)/appreciation	(29,221)	20,921
Closing valuation	5,116	118,651

All the Group's investment properties were valued as at 31 December 2008 by qualified professional valuers working for the company of DTZ Debenham Tie Leung Limited ('DTZ'), Chartered Surveyors, acting in the capacity of external valuers. All such valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors ('RICS').

DTZ completed the valuation of the Group's investment properties at 31 December 2008 on a market value basis and in accordance with the requirements of the RICS Valuation Standards under which market value is deemed to equate to fair value. Fair value is the amount for which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction as at the valuation date. The value of these investment properties amounted to £654,155,000 (2007: £978,425,000). The DTZ valuation report is dated 15 January 2009 (the 'Valuation Report').

Gillian Rushmore BSc, FRICS has been the signatory of valuation reports provided to the Group for the same purpose as the Valuation Report for a continuous period since March 2005. DTZ has been carrying out valuations for the Group for the same purpose as the Valuation Report for the same period.

DTZ also values properties held by other companies for which the F&C Asset Management plc group is also the investment manager. DTZ provides and has provided in the past ad hoc investment and occupational agency advice, landlord and tenant and building consultancy advice to members of the F&C Asset Management plc group. DTZ Debenham Tie Leung Limited is a wholly-owned subsidiary of DTZ Holdings plc. In DTZ Holdings plc's financial year to 30 April 2008, the proportion of total fees payable by the F&C Asset Management plc group to the total fee income of DTZ Holdings plc was less than five per cent.

Financial markets have seen significant turbulence over the last year or so resulting in severe liquidity shortages. This turmoil has had an immediate effect on the real estate investment market resulting in some transactions failing and/or prices being renegotiated downwards. This has caused a marked reduction in the volume of transactions with activity below the levels of recent years. Generally, there is greater volatility in the evidence generated by comparable transactions and in these circumstances there is a greater degree of uncertainty than that which exists in a more active and stronger market in forming an opinion of the realisation prices of property assets. Therefore, DTZ has indicated that, in the market conditions which currently prevail, there is likely to be a greater than usual degree of uncertainty in respect of valuations. Until the number and consistency of comparable transactions increases, this situation is likely to remain.

The Group has adopted IAS 40 (revised 2003), allowing leasehold properties to be carried at fair value rather than amortised over the term of the lease. The same valuation criteria are therefore applied to leasehold as freehold properties.

All leasehold properties have more than 60 years remaining on the lease term.

Notes to the Accounts (continued)

9. Investments (continued)

The property valuer is independent and external to the Group. The property valuer takes account of deleterious materials included in the construction of the investment properties in arriving at its estimate of open market valuation, when the Managers advise the presence of such materials.

The Group has entered into leases on its property portfolio as lessor (See note 19 for further information). No one property accounts for more than 15 per cent of the gross assets of the Group. All of the properties per open market value are shown on page 13.

There are no restrictions on the realisability of the Group's investment properties or on the remittance of income or proceeds of disposal. However, the Group's investments comprise UK commercial property, which may be difficult to realise as described in Liquidity risk in note 17.

The Board has appointed an independent valuer to place a market valuation on the units held in the indirect property funds for the Directors to consider. Market value, which is deemed to equate to fair value, means the estimated amount for which units could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Therefore, similar to the direct property portfolio, there is likely to be a greater than usual degree of uncertainty in respect of the valuation of the indirect property funds in the market conditions which currently prevail.

The Group is under no contractual obligations to purchase, construct or develop any investment property. The majority of leases are on a full repairing basis and as such the Group is not liable for costs in respect of repairs, maintenance or enhancements to its investment properties.

10. Trade and other receivables	2008 £'000	2007 £'000
Accrued income	**3,282**	2,934
Rents receivable (net of provision for bad debts)	**1,481**	1,274
Other debtors and prepayments	**1,430**	1,468
	6,193	5,676

Rents receivable, which are generally due for settlement at the relevant quarter end, are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

11. Cash and cash equivalents

All cash balances at the year end were held in cash, current accounts or in banks on short term deposits with an original maturity of three months or less.

The cash balance at 31 December 2008 includes £2,344,000 (2007: £3,263,000) of rent deposits and therefore a corresponding creditor is included within trade and other payables.

12. Trade and other payables	2008 £'000	2007 £'000
Rental income received in advance	**9,763**	11,960
VAT payable	**839**	1,198
Managers' fees payable	**1,271**	2,210
Tax payable	**–**	466
Other payables	**1,986**	3,122
	13,859	18,956

The Group's payment policy is to ensure settlement of supplier invoices in accordance with stated terms.

13. Interest-bearing bonds

	2008 £'000	2007 £'000
Principal amount outstanding	**230,000**	230,000
Issue costs	**(1,196)**	(1,196)
Amortisation of issue costs	**393**	289
Total due	**229,197**	229,093

The Group, through F&C Commercial Property Finance Limited, has issued £230,000,000 of Secured Bonds due 2017. The bonds carry interest at a fixed rate of 5.23 per cent per annum and have an expected maturity date of 30 June 2015. If the bonds are not redeemed at this date they will carry interest at 0.60 per cent over six-month LIBOR until the final maturity date of 30 June 2017. These bonds are secured by means of a fixed and floating charge over the whole of the assets of the Group. Under the covenant relating to the bonds the Company is to ensure that:

- the loan to value percentage remains less than, or equal to, 50 per cent (defined as financial indebtedness expressed as a percentage of gross secured asset value);
- the secured loan to value percentage remains less than, or equal to, 40 per cent (defined as the principal amount outstanding on the bonds expressed as a percentage of gross secured asset value);
- the interest cover ratio is greater than 1.5 times on any calculation date;
- payments are not made in respect of shares unless the ratio of free cash flow to interest is greater than 2.0 times and, after deduction of an amount equal to the proposed payment, greater than 1.75 times;
- no single property (measured by market value) accounts for more than 15 per cent of the gross asset value;
- the sector weightings (measured by market value) do not exceed the following percentages of the gross asset value: All industrial: 40 per cent; All office: 50 per cent: All retail: 65 per cent;
- the five largest properties (measured by market value) do not exceed 40 per cent of the gross asset value;
- no single tenant exceeds 15 per cent of the total annual net rental income from the properties;
- the five largest tenants do not exceed 40 per cent of the total annual net rental income from the properties; and
- short leasehold properties (measured by market value) do not exceed 10 per cent of the gross asset value.

The fair value of the interest-bearing bonds at 31 December 2008 was £228,796,000 (2007: £225,799,000).

Notes to the Accounts (continued)

14. Share capital and share premium account and reserves

	£'000
Authorised share capital	
1,000,000,000 Ordinary Shares of 90p each as at 31 December 2007	900,000
1,000,000,000 Ordinary Shares of 1p each as at 31 December 2008	**10,000**
Allotted, called-up and fully paid	
763,582,016 Ordinary Shares listed at 31 December 2007	687,224
31,048,013 Ordinary Shares held in treasury at 31 December 2007	(27,943)
732,534,003 Ordinary Shares in issue at 31 December 2007	659,281
763,582,016 Ordinary Shares listed at 31 December 2007	**687,224**
10,500,000 Ordinary Shares repurchased during the year for cancellation	**(105)**
Court reduction of share capital	**(679,588)**
753,082,016 Ordinary Shares listed at 31 December 2008	**7,531**
31,048,013 Ordinary Shares repurchased in prior years to be held in treasury	**(310)**
41,497,000 Ordinary Shares repurchased during the year ended 31 December 2008 to be held in treasury	**(415)**
680,537,003 Ordinary Shares in issue at 31 December 2008	**6,806**

Share capital

At an Extraordinary General Meeting on 22 February 2008, shareholders approved proposals to reduce the nominal value of the Ordinary Shares from 90p to 1p and to cancel the share premium account. In both cases it was intended that the amount so arising would be transferred to the special reserve to be available for all purposes permitted under Guernsey law including the buying back of shares and the payment of dividends. Approval of the Court in Guernsey was received on 14 March 2008 resulting in an amount of £679.6 million being transferred from share capital to the special reserve, in respect of the reduction of the nominal value of the ordinary share capital currently listed, and £14.4 million being transferred from share premium to the special reserve, in respect of the cancellation of the share premium account.

Ordinary Shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. Ordinary Shareholders have the right to vote at meetings of the Company. All Ordinary Shares carry equal voting rights.

At 31 December 2008, the Company held 72,545,013 Ordinary Shares in treasury (2007: 31,048,013).

14. Share capital and share premium account and reserves (continued)

	2008 £'000	2007 £'000
Share premium account		
Received on the placing of Ordinary Shares	**14,390**	14,390
Court reduction of share capital	**(14,390)**	–
Closing balance	**–**	14,390
Listed share capital and share premium account	**7,531**	701,614

Capital redemption reserve

The nominal value of any shares repurchased for cancellation is taken to this reserve. The reserve is non-distributable.

Special reserve

The special reserve was originally created by the cancellation of the Company's Share Premium Account by the Royal Court of Guernsey in July 2005. It is a distributable reserve to be used for all purposes permitted under Guernsey law, including the buy back of shares and the payment of dividends.

Capital reserve – investments sold (previously capital reserve – realised)

The following are accounted for in this reserve:

- gains and losses on the disposal of investments and investment properties, including the transfer of any unrealised gains now realised which were previously recognised through 'Capital Reserve – Investments Held'; and
- the buy back of shares up to the balance on this reserve, thereafter any buy back of shares are charged to the Special Reserve.

The name of this reserve has been changed to reflect the requirements of the AIC SORP issued in January 2009, which has been adopted early.

Capital reserve – investments held (previously capital reserve – unrealised)

The following are accounted for in this reserve:

- increases and decreases in the fair value of investment properties held at the year end; and
- increases and decreases in the fair value of investments in indirect property funds held at the year end.

The name of this reserve has been changed to reflect the requirements of the AIC SORP issued in January 2009, which has been adopted early.

Revenue reserve

Any surplus arising from the profit after taxation after payment of dividends is taken to this reserve, with any deficit up to the level of the special reserve being transferred from that reserve.

Capital management

The Group's capital is represented by the Ordinary Shares, Capital Redemption Reserve, Share Premium Account, Special Reserve, Capital Reserve – Investments Sold, Capital Reserve – Investments Held and Revenue Reserve. The Group is not subject to any externally imposed capital requirements.

The capital of the Group is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Report of the Directors on pages 15 and 16.

15. Net asset value per share

The Group's net asset value per Ordinary Share of 85.8p (2007: 130.8p) is based on equity shareholders' funds of £584,183,000 (2007: £958,087,000) and on 680,537,003 (2007: 732,534,003) Ordinary Shares, being the number of shares in issue at the year-end.

Notes to the Accounts (continued)

16. Related party transactions

The Directors are considered to be the Group's key management personnel. No Director has an interest in any transactions which are, or were, unusual in their nature or significant to the nature of the Group.

The Company's ultimate parent company is Friends Provident plc which, through a number of subsidiaries, held a majority shareholding in the Company as at 31 December 2008. Friends Provident plc is also the ultimate parent company of the Company's investment manager, F&C Investment Business Limited.

F&C Investment Business Limited received fees for its services as investment manager. Further details are provided in note 2. The total charge to the Income Statement during the year was £5,862,000 (2007: £9,430,000) of which £1,271,000 (2007: £2,210,000) remained payable at the year end. F&C Investment Business Limited received a further £107,000 for administration services provided in respect of the year ended 31 December 2008 (2007: £103,000).

The Directors of the Company received fees for their services. Further details are provided in the Report of the Directors on page 17. Total fees for the year were £143,000 (2007: £119,000). No fees remained payable at the year-end.

During the year the Company purchased from FP Life Assurance Limited, a wholly owned indirect subsidiary of Friends Provident plc, a total of 26,897,000 of its own Ordinary Shares through three separate on-market transactions for a total consideration of £20,746,000.

17. Financial instruments

The Company's investment objective is to provide ordinary shareholders with an attractive level of income together with the potential for capital and income growth from investing in a diversified UK commercial property portfolio.

Consistent with that objective, the Group holds UK commercial property investments. In addition, the Group's financial instruments comprise interest-bearing bonds, cash and receivables and payables that arise directly from its operations. The Group does not have exposure to any derivative instruments.

The Group is exposed to various types of risk that are associated with financial instruments. The most important types are credit risk, liquidity risk, interest rate risk and market price risk. There is no foreign currency risk as assets and liabilities of the Group are maintained in pounds sterling.

The Board reviews and agrees policies for managing the Group's risk exposure. These policies are summarised below and have remained unchanged for the year under review.

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group.

At the reporting date, the Group's financial assets and financial liabilities exposed to credit risk amounted to the following (on a contractual maturity basis):

Financial assets	Within one year £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000	Total £'000
As at 31 December 2008					
Investments in indirect property funds	–	–	–	5,116	5,116
Cash and cash equivalents	162,336	–	–	–	162,336
Rents receivable	1,481	–	–	–	1,481
As at 31 December 2007					
Investments in indirect property funds	–	–	–	118,651	118,651
Cash and cash equivalents	103,891	–	–	–	103,891
Rents receivable	1,274	–	–	–	1,274
Financial liabilities					
As at 31 December 2008					
Trade and other payables	13,859	–	–	–	13,859
Interest bearing bonds	12,029	12,029	36,087	248,044	308,189
As at 31 December 2007					
Trade and other payables	18,956	–	–	–	18,956
Interest bearing bonds	12,029	12,029	36,087	260,073	320,218

17. Financial instruments (continued)

In the event of default by an occupational tenant, the Group will suffer a rental shortfall and incur additional costs, including legal expenses, in maintaining, insuring and re-letting the property. The Board receives regular reports on concentrations of risk and any tenants in arrears. The Managers monitor such reports in order to anticipate, and minimise the impact of, defaults by occupational tenants.

The Group has a diversified tenant portfolio. The maximum credit risk from the rent receivables of the Group at 31 December 2008 was £1,481,000 (2007: £1,274,000).

As at 31 December 2008, rent receivable of £360,000 that was greater than three months overdue was fully provided for. As at 31 December 2007 the provision was £135,000. Of this amount £15,000 was subsequently written off, £30,000 is still outstanding and £90,000 was recovered.

Apart from the rent receivable disclosed above there were not any financial assets which were either past due or considered impaired at 31 December 2008 (2007: nil).

All of the Group's cash is placed with financial institutions with a long term credit rating of AA or better. Bankruptcy or insolvency of such financial institutions may cause the Group's ability to access cash placed on deposit to be delayed or limited. Should the credit quality or the financial position of the banks currently employed significantly deteriorate, cash holdings would be moved to another bank.

During the year, due to the quantum of cash balances held, counterparty risk was spread by placing cash across a number of different financial institutions.

Liquidity risk

Liquidity risk is the risk that the Group will encounter in realising assets or otherwise raising funds to meet financial commitments. The Group's investments comprise UK commercial property. Property and property-related assets in which the Group invests are not traded in an organised public market and may be illiquid. As a result, the Group may not be able to liquidate quickly its investments in these properties at an amount close to their fair value in order to meet its liquidity requirements. Given the current turmoil in financial markets, as described in note 9, there has been significantly less liquidity in property markets in recent months.

The Group's liquidity risk is managed on an ongoing basis by the Managers and monitored on a quarterly basis by the Board. In order to mitigate liquidity risk the Group aims to have sufficient cash balances (including the expected proceeds of any property sales) to meet its obligations for a period of at least twelve months.

In certain circumstances, the terms of the Group's listed bonds entitle the bondholders to require early repayment and, in such circumstances, the Group's ability to maintain dividend levels and the net asset value attributable to the ordinary shares could be adversely affected. As at 31 December 2008 the Group's cash balance was £162,336,000 (2007: £103,891,000).

The Group's investments include investments in indirect property funds which are not traded in an organised public market and which generally may be illiquid. As a result, similar to the directly-held properties, the Group may not be able to liquidate quickly some of its investments in those instruments in order to meet its liquidity requirements. As at 31 December 2008 the Group's investment in indirect property funds was £5,116,000 (2007: £118,651,000).

Interest rate risk

Some of the Group's financial instruments are interest-bearing. They are a mix of both fixed and variable rate instruments with differing maturities. As a consequence, the Group is exposed to interest rate risk due to fluctuations in the prevailing market rate.

The Group's exposure to interest rate risk relates primarily to the Group's long-term debt obligations. Interest rate risk on long-term debt obligations is managed by fixing the interest rate on such borrowings. Long-term debt obligations and the interest rate risk they confer to the Group is considered by the Board on a quarterly basis. Long-term debt obligations consist of £230 million Secured Bonds due 2017 on which the rate has been fixed at 5.23 per cent until the expected maturity date of 30 June 2015. If the bonds are not redeemed at this date they will carry interest at 0.6 per cent over LIBOR until the final maturity date of 30 June 2017.

Notes to the Accounts (continued)

17. Financial instruments (continued)

The following table sets out the carrying amount of the Group's financial instruments that are exposed to interest rate risk:

Type	Total £'000	Fixed rate £'000	Variable rate £'000	Assets/ liabilities where no interest is received £'000	Weighted average interest rate %	Weighted average period for which rate is fixed (years)
As at 31 December 2008						
Financial assets						
Cash and cash equivalents	162,336	130,922	31,414	–	2.41	0.1
Rents receivable	1,481	–	–	1,481	–	–
Financial liabilities						
5.23 per cent Secured Bonds due 2017	229,197	229,197	–	–	5.29	6.5
As at 31 December 2007						
Financial assets						
Cash and cash equivalents	103,891	–	103,891	–	5.68	–
Rents receivable	1,274	–	–	1,274	–	–
Financial liabilities						
5.23 per cent Secured Bonds due 2017	229,093	229,093	–	–	5.29	7.5

Apart from the 5.23 per cent Secured Bonds as disclosed in note 13, the fair value of financial assets and liabilities is not materially different from their carrying value in the financial statements.

Considering the effect on the Secured Bonds, it is estimated that an increase of 150 basis points in interest rates as at the balance sheet date would have decreased their fair value by approximately £17,314,000 (2007: £19,060,000), a decrease of 150 basis points would have increased their fair value by approximately £19,166,000 (2007: £21,359,000). The carrying value of the Secured Bonds in the financial statements would have remained unchanged.

When the Group retains cash balances, they are ordinarily held on interest-bearing deposit accounts. The benchmark which determines the interest income received on interest-bearing cash balances is the bank base rate which was 2.0 per cent as at 31 December 2008 (2007: 5.5 per cent). The Company's policy is to hold cash in variable rate or short-term fixed rate bank accounts and not usually in fixed rate securities with a term greater than three months.

Considering the effect on cash balances, an increase of 150 basis points in interest rates would have increased net assets and income for the year by £2,435,000 (2007: £1,558,000). A decrease of 150 basis points would have had an equal but opposite effect. The calculations are based on the cash balances at the respective balance sheet dates.

Market price risk

The Group's strategy for the management of market price risk is driven by the investment policy as outlined within the Report of the Directors on pages 15 and 16. The management of market price risk is part of the investment management process and is typical of commercial property investment. The portfolio is managed with an awareness of the effects of adverse valuation movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in property and property-related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Such risk is minimised through the appointment of external property valuers. The basis of valuation of the property portfolio is set out in detail in note 9, which also highlights the greater than usual degree of uncertainty in respect of valuations in current market conditions.

17. Financial instruments (continued)

Market price risk (continued)

The Group also holds investments in indirect property funds which in turn invest directly in commercial property. The underlying assets in such funds are valued by external property valuers appointed by the investment managers of the indirect property funds. In addition to the price risk attaching to the underlying assets, such funds also carry the risk that the investment cannot be disposed of at its net asset value due to a lack of liquidity. As at 31 December 2007, due to the technical requirements of IFRS and following extensive consultations with the Company's auditor, these investments were included in the financial statements at their underlying net asset value, although the Board indicated that they considered a discount of 10 per cent should be applied to such investments to reflect the likely realisable value of the holdings at that date. In order to address the fact that the likely realisable value of the indirect property holdings at the balance sheet date may not be equal to each fund's underlying net asset value, during the year the Board appointed an indirect valuer to obtain estimated market values for these holdings. As at 31 December 2008, the fair value of these investments is deemed to be the Directors' valuation, which reflects these independently produced market values.

Any changes in market conditions will directly affect the profit or loss reported through the Income Statement. Details of the Group's investment property portfolio and indirect property funds held at the balance sheet date are disclosed on page 13. A 15 per cent increase in the value of the direct properties at 31 December 2008 would have increased net assets and income for the year by £98,123,000 (2007: £146,764,000). A decrease of 15 per cent would have had an equal but opposite effect.

A 25 per cent increase in the values of the indirect property funds at 31 December 2008 would have increased net assets and income for the year by £1,279,000 (2007: £29,663,000). A decrease of 25 per cent would have had an equal but opposite effect.

The calculations above are based on the investment property and indirect property fund valuations at the respective balance sheet dates and are not representative of the year as a whole.

18. Capital commitments

The Group had capital commitments totalling £2,190,000 as at 31 December 2008 (2007: £1,984,000).

19. Lease length

The Group leases out its investment properties under operating leases.

The future income based on the unexpired lessor lease length at the year end was as follows (based on annual rentals):

	2008	2007
	£'000	£'000
Less than one year	**1,000**	1,961
Between two and five years	**34,838**	45,889
Over five years	**384,798**	413,764
Total	**420,636**	461,614

The largest single tenant at the year end accounted for 5.7 per cent (2007: 5.2 per cent) of the current annual rental income.

The unoccupied property expressed as a percentage of estimated total rental value (excluding indirect property funds and properties under development) was 4.3 per cent (2007: 1.2 per cent) at the year end.

The Group has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. The majority of these non-cancellable leases have remaining non-cancellable lease terms of between 5 and 15 years.

Analyses of the nature of investment properties and leases are provided in the Managers' Review on pages 9 to 12.

Notice of Annual General Meeting

Notice is hereby given that the Fourth Annual General Meeting of F&C Commercial Property Trust Limited will be held at Trafalgar Court, Les Banques, St. Peter Port, Guernsey, Channel Islands on Friday, 1 May 2009 at 12.30 pm for the following purposes.

To consider and, if thought fit, pass the following as Ordinary Resolutions:

1. That the Annual Report and Accounts for the year ended 31 December 2008 be received and approved.
2. That Mr J H Stephen, who retires by rotation, be re-elected as a Director.
3. That Mr N J M Tostevin, who retires by rotation, be re-elected as a Director.
4. That Mr B W Sweetland, who retires annually, be re-elected as a Director.
5. That KPMG Channel Islands Limited be re-appointed as auditor.
6. That the Directors be authorised to determine the auditor's remuneration.

To consider and, if thought fit, pass the following as a Special Resolution:

7. That the Company be authorised, in accordance with section 315 of the Companies (Guernsey) Law, 2008, to make market acquisitions (within the meaning of section 316(1) of the Companies (Guernsey) Law, 2008) of ordinary shares of 1p each (''Ordinary Shares'') (either for retention as treasury shares for future resale or transfer, or cancellation), provided that:
   (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 14.99 per cent of the issued Ordinary Shares on the date on which this resolution is passed;
   (b) the minimum price which may be paid for an Ordinary Share shall be 1p;
   (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall be 105 per cent of the average of the middle market quotations (as derived from the Daily Official List) for the Ordinary Shares for the five business days immediately preceding the date of purchase; and
   (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2010, or on 31 October 2010, whichever is the earlier, save that the Company may, prior to such expiry, enter into a contract to purchase Ordinary Shares under such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

By order of the Board
Northern Trust International Fund Administration Services (Guernsey) Limited
Secretary
Trafalgar Court
Les Banques
St. Peter Port
Guernsey, Channel Islands
31 March 2009

Notes:

1. A member who is entitled to attend, speak and vote at the Meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him or her. More than one proxy may be appointed provided each proxy is appointed to exercise the rights attached to different shares. A proxy need not be a member of the Company.
2. More than one proxy may be appointed provided each proxy is appointed to exercise the rights attached to different shares.
3. A white form of proxy is enclosed for use at the Meeting. The form of proxy should be completed and sent, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, so as to reach the Company's registrars Computershare Investor Services (Channel Islands) Limited, PO Box 83, Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW not later than 12.30 pm on 29 April 2009.
4. Completing and returning a form of proxy will not prevent a member from attending in person at the Meeting and voting should he or she so wish.
5. To have the right to attend and vote at the Meeting (and also for the purposes of calculating how many votes a member may cast on a poll) a member must first have his or her name entered on the register of members not later than close of business on 29 April 2009. Changes to entries in the register after that time shall be disregarded in determining the rights of any member to attend and vote at such Meeting.
6. As at 27 March 2009, the latest practicable date prior to publication of this document, the Company had 753,082,016 Ordinary Shares in issue, including 72,545,013 in treasury. The number of shares with voting rights was 680,537,003, each carrying one voting right.
7. Any person holding 3 per cent or more of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.
8. The Articles of Association and the Directors' letters of appointment will be available for inspection from 15 minutes prior to, and at, the Annual General Meeting.

Shareholder Information

Dividends

Ordinary dividends are paid monthly. Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for the purpose. Mandates may be obtained from Computershare Investor Services (Channel Islands) Limited, PO Box 83, Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW on request. Where dividends are paid directly to shareholders' bank accounts, dividend tax vouchers are sent directly to shareholders' registered addresses.

Share Price

The Company's Ordinary Shares are listed on the London Stock Exchange. Prices are given daily in the *Financial Times* under ''Investment Companies'' and in other newspapers.

Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to Computershare Investor Services (Channel Islands) Limited, PO Box 83, Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW under the signature of the registered holder.

Shareholder Enquiries

Contact Northern Trust International Fund Administration Services (Guernsey) Limited, Trafalgar Court, Les Banques, St. Peter Port, Guernsey, Channel Islands. Additional information regarding the Company may also be found at its website address which is: www.fccpt.co.uk.

Financial Calendar 2009/10

April 2009	Publication of Interim Management Statement
1 May 2009	Annual General Meeting
August 2009	Announcement of interim results
	Posting of Interim Report
October 2009	Publication of Interim Management Statement
March 2010	Announcement of annual results
April 2010	Posting of Annual Report

Historic Record

	Total assets less current liabilities £'000	Shareholders' funds £'000	Net asset value per Ordinary Share p	Ordinary Share price p	Premium/ (discount) %	Earnings per Ordinary Share p	Dividends per Ordinary share p	Total expenses ratio %
18 March 2005 (launch)	943,288	713,288	97.0	100.0	3.1	–	–	–
31 December 2005	1,092,522	863,458	117.5	118.5	0.9	20.7	1.75	1.1*
31 December 2006	1,269,122	1,039,769	141.5	131.0	(7.4)	30.0	6.00	1.1
31 December 2007	1,175,822‡	946,222‡	129.2‡	90.5	(30.0)‡	(7.7)‡	6.00	1.0
31 December 2008	**813,941**	**584,183**	**85.8**	**62.0**	**(27.7)**	**(39.8)**	**6.00**	**1.0**

*Excluding set-up costs.

‡Stated after application of a 10 per cent discount to the value of the Company's investments in the indirect property funds.

How to Invest

As well as investing in F&C Commercial Property Trust Limited directly through a stockbroker, you can enjoy some additional benefits by investing through one of the savings plans run by F&C.

You can enjoy the convenience of making regular savings by Direct Debit, take advantage of our tax-efficient ISA wrapper, receive a simple statement every six months and let us automatically reinvest your dividends for you.

- **F&C Private Investor Plan**
  A flexible, low cost way to invest with a lump sum from £500 or regular savings from £50 a month.

- **F&C Investment Trust ISA**
  Invest up to £7,200 tax efficiently each year with a lump sum from £500 or regular savings from £50 a month. You can also transfer any existing ISAs (including former PEPs).

- **F&C Child Trust Fund ('CTF')**
  F&C is a leading provider of children's investment plans. Suitable for children born after 1 September 2002.

- **F&C Children's Investment Plan**
  Suitable for older children ineligible for a CTF, or if you need access to the funds before the child is 18. This flexible plan can easily be written under trust to help reduce inheritance tax liability. Investments can be made from a £250 lump sum or £25 a month.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and you may not receive back the full amount originally invested. Tax rates and reliefs depend on the circumstances of the original investor.

Low Charges

All the plans are low cost and flexible. When you buy or sell shares in these plans the dealing fee is only 0.2%. Government stamp duty of 0.5% also applies on purchases. There are no initial or exit charges. The only annual management fee is on the ISA, which is £60+VAT (no matter how many ISAs you take out annually with F&C, or how many ISAs you transfer).

The F&C Child Trust Fund has no initial charges, dealing charges or annual management fee.

How to Invest

For more information on any of these products, please contact F&C's Investor Services Team:

Call us on **0800 136 420**

email at **info@fandc.com**

invest online at **www.fandc.com**

Existing plan holders' enquiry line
0845 600 3030

Or write to:

F&C
Freepost RLRY-LYSR-KYBU
Clandeboye Business Park
West Circular Road
Bangor BT19 1AR

Calls may be recorded.

The above has been approved by F&C Management Limited which is authorised and regulated by the Financial Services Authority ('FSA'). Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount originally invested.

Corporate Information

Directors
Peter Niven (Chairman) *
Donald L Adamson
John H Stephen
Brian W Sweetland
Nicholas J M Tostevin †

Secretary and Registrars
Northern Trust International Fund Administration
Services (Guernsey) Limited
Trafalgar Court
Les Banques
St. Peter Port
Guernsey, Channel Islands

Registered Office
Trafalgar Court
Les Banques
St. Peter Port
Guernsey, Channel Islands

Investment Managers
F&C Investment Business Limited
80 George Street
Edinburgh EH2 3BU

F&C REIT Asset Management LLP
5 Wigmore Street
London W1U 1PB

Property Valuers of Direct Properties
DTZ Debenham Tie Leung Limited
One Curzon Street
London W1A 5PZ

Auditor
KPMG Channel Islands Limited
20 New Street
St. Peter Port
Guernsey GY1 4AN

Guernsey Legal Advisers
Ozannes
1 Le Marchant Street
St. Peter Port
Guernsey GY1 4HP

UK Legal Advisers
Dickson Minto WS
16 Charlotte Square
Edinburgh EH2 4DF

Bond Trustee
The Bank of New York
One Canada Square
London E14 5AL

Marketing Advisers
G&N Collective Funds Services Ltd
14 Alva Street
Edinburgh EH2 4QG

* Chairman of the Management Engagement Committee
† Chairman of the Audit Committee

Website
www.fccpt.co.uk

MLG Edinburgh 50896

Registered Office

Trafalgar Court
Les Banques
St. Peter Port
Guernsey, Channel Islands

Registrars

Northern Trust International Fund Administration Services (Guernsey) Limited
Trafalgar Court
Les Banques
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Guernsey, Channel Islands
Telephone: 01481 745 001