F&C Commercial Property Trust Limited

Annual Report and Accounts

2007

F&C Investments

Company Summary

The Company

The Company is a closed-ended Guernsey registered 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 the London Stock Exchange and the Channel Islands Stock Exchange. It was launched on 18 March 2005.

At 31 December 2007 Group total assets less current liabilities, net of a 10 per cent discount applied to the Group's holdings in two indirect property funds, were £1,176 million and Group shareholders' funds were £946 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 13 and 14.

Management

The Board has appointed as its investment managers F&C Investment Business Limited (the **'Managers'**), a wholly owned subsidiary of F&C Asset Management plc. The investment management agreement is for a fixed initial four year period ending on 18 March 2009 and, with effect from 18 March 2008, may be terminated by either party by giving not less than 12 months' notice. Further details of the management contract are provided in the Notes to the Accounts.

Any reference anywhere in this document to the 'Managers' means F&C Investment Business Limited, unless a contrary intention is indicated.

Capital Structure

The Company's capital structure consists of Ordinary Shares.

Ordinary shareholders are entitled to all dividends declared by the Company and to all 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 0.60 per cent over LIBOR until the final maturity date of 30 June 2017.

Isa Status

The Company's shares are eligible for Isas and can continue to be held in former PEPs.

Website

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

Contents

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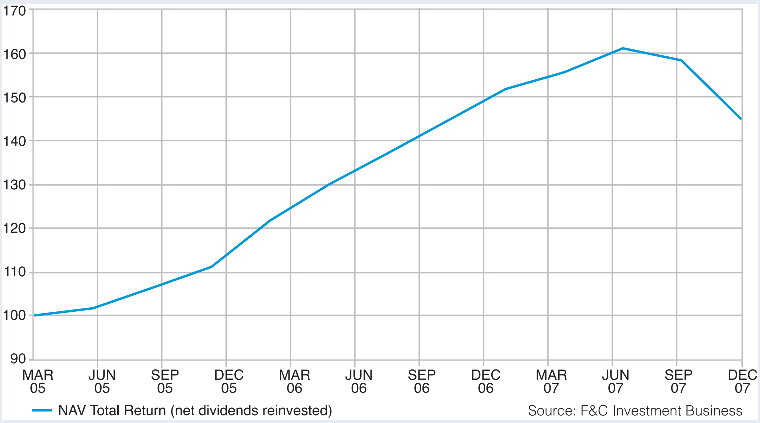
The Association of Investment Companies

Financial Highlights for the Year

- Net asset value total return of –4.7 per cent (2006: +26.0 per cent).
- Unchanged dividend of 6.0p per share.

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



Performance Summary

	Year ended 31 December 2007	Year ended 31 December 2006	
Total Return			
Published net asset value per share*	**(4.7)%**	26.0%	
Ordinary Share price	**(27.4)%**	15.8%	
Investment Property Databank UK Monthly Index	**(5.5)%**	18.1%	
FTSE All-Share Index	**5.3%**	16.8%	
	31 December 2007	31 December 2006	% Change
Capital Values			
Total assets less current liabilities (£'000)*	**1,175,822**	1,269,122	–7.4
Published net asset value per share*	**129.2p**	141.5p	–8.7
Ordinary Share price	**90.5p**	131.0p	–30.9
Investment Property Databank UK Monthly Index	**200.09**	222.22	–10.0
FTSE All-Share Index	**3,286.67**	3,221.42	+2.0
Discount to published net asset value per share*	**(30.0)%**	(7.4)%	–
Gearing*‡	**19.5%**	18.0%	–
Net Gearing*¶	**11.7%**	14.5%	–
	Year ended 31 December 2007	Year ended 31 December 2006	
Earnings and Dividends			
Earnings per Ordinary Share*	**(7.7)p**	30.0p	
Dividends paid per Ordinary Share	**6.0p**	6.0p	
Dividend yield**	**6.6%**	4.6%	
Total Expenses Ratio			
As a percentage of average total assets less current liabilities (excluding non-recoverable property expenses)*	**0.8%**	0.8%	
As a percentage of average total assets less current liabilities*	**1.0%**	1.1%	
Year's Highs/Lows	**Highs 2007**	**Lows 2007**	
Published net asset value per share	**147.4p**	**129.2p**	
Ordinary Share price	**137.8p**	**89.3p**	
Discount	**2.6%**	**37.7%**	

* Calculated under International Financial Reporting Standards apart from the valuation of the indirect property funds to which a discount of 10 per cent has been applied as highlighted in the Chairman's Statement and in note 9 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

In my interim statement I highlighted that returns from UK commercial property were starting to slow. The weight of money that had come into the property sector in previous years had driven yields to unsustainably low levels and, in an environment of higher interest rates, it was inevitable that a correction would be required. In the latter part of the year, the market was also affected by the credit crisis which, as well as affecting economic growth prospects, has had a direct impact on the commercial property market as many property investors rely on borrowings to fund investments. It is likely that the credit crisis will continue to cause uncertainty in financial markets until its implications, in particular for the banking sector, become clearer.

And so, following three years of strong returns, 2007 proved to be a much harder year for the UK commercial property market. The modest gains recorded in the first half of the year were more than offset by quite severe losses in the last two quarters. The total market return for the year of –5.5 per cent, as measured by the Investment Property Databank (**'IPD'**) UK Monthly Index, was the worst on record since 1991.

Against this backdrop, I can report that your Company's net asset value (**'NAV'**) total return for the year was –4.7 per cent. Although it is disappointing to report a negative return, it is reassuring that the direct property portfolio, as explained in more detail below, performed well relative to the market.

The Board, in its announcement in January 2008 of the Company's NAV per share as at 31 December 2007 (the **'Published NAV per share'**), signalled a departure from calculating the NAV in accordance with International Financial Reporting Standards ('**IFRS**'), when it did not use the externally provided net asset values of its unitised investments in two indirectly held property funds (the '**Indirect Holdings**') in arriving at the Published NAV per share. The stated reason was that the Board did not consider this to be an appropriate method of valuation in 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. The effect of applying the discount was to reduce the Published NAV per share by 1.6p, or £11,865,000.

However, solely to meet the technical requirements of IFRS and following extensive consultation with the Company's auditors, the Balance Sheet (page 24) includes the value of the Indirect Holdings at their full, externally provided NAVs. This presentation results in a higher NAV per share (the **'IFRS NAV per share'**) compared to the Published NAV per share. Notwithstanding such full, albeit technical, compliance with IFRS, the Directors' opinion continues to be that the appropriate value of the Indirect Holdings is as incorporated within the Published NAV per share, which they believe fairly represents your Company's NAV per share as at 31 December 2007. This matter is disclosed in more detail in Note 9 to the accounts, and further information regarding the Indirect Holdings is provided below under the heading 'Property Portfolio – Indirect Holdings'. References have been made throughout the Annual Report, as appropriate, to the Published NAV per share and the IFRS NAV per share.

Accordingly, the Published NAV per share at the end of the year was 129.2p. The Published NAV per share (adjusted for any quarterly dividends for which the share price had gone ex-dividend) was 127.7p and the share price was 90.5p, representing a discount of 29.1 per cent to this NAV. The emergence of a discount, not only for your Company, but for the peer group and wider quoted property sector, was a key feature of the year as the environment for property became more challenging. The deteriorating outlook for commercial property led to a shift in investor sentiment and, in the case of open-ended funds, an increase in redemptions, resulting in forced selling in some cases and changes to pricing and lengthening of redemption periods. This had a direct impact on the rating of the whole of the quoted sector.

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

	Pence Per Share
IFRS NAV per share as at 31 December 2006	141.5
Unrealised decrease in valuation of direct property portfolio	(9.9)
Unrealised decrease in valuation of Indirect Holdings (prior to application of discount)	(2.0)
Realised gain on sale of Indirect Holdings	0.2
Share buy backs	1.5
Movement in revenue reserve	(0.5)
IFRS NAV per share as at 31 December 2007	130.8
Application of discount to NAV of Indirect Holdings	(1.6)
Published NAV per share as at 31 December 2007	129.2
Published NAV per share as at 31 December 2007 (adjusted for dividends for which the share price had gone ex-dividend*)	127.7

*third interim dividend of 1.5p per share, paid on 25 January 2008 with an ex-dividend date of 10 October 2007.

While, overall, 2007 was a disappointing year for the market, it is important to recognise the progress your Company has made since its launch in March 2005, with a NAV total return of 47.5 per cent for the period from launch to 31 December 2007.

In these difficult times, the Board has been pro-actively pursuing a range of strategies summarised in the paragraphs below, to seek to enhance shareholder value.

Property Portfolio – Direct Properties

The valuation of the direct property portfolio fell from £1,047 million to £978 million during the year, representing an ungeared capital decrease of 6.8 per cent and a total return of –2.4 per cent. This compares favourably, however, with the respective equivalent returns from the IPD UK Monthly Index of –10.0 per cent and –5.5 per cent.

The best performing property in the portfolio was the largest holding, St Christopher's Place Estate, London W1, which recorded a net capital increase of 1.5 per cent. This Central London property has a diversified rental profile and both the retail and office elements have continued to let successfully. It also benefited from a number of rent renewals which took place during the year.

The portfolio also benefited from good rent reviews and lettings at Dane Street, Rochdale, Wimbledon Broadway, London SW19, and Cassini House, St James's Street, London SW1. At the same time, your Company has made progress with the detailed design of the proposed redevelopment of 24/27 Great Pulteney Street, London W1 and will take advantage of this significant opportunity directly to deliver approximately 34,000 square feet of modern West End offices.

The portfolio continues to benefit from the quality of tenants and long lease lengths. Throughout the year there were no significant tenant defaults and the level of voids remained very low. Net rental income has increased by 5.0 per cent per annum since launch whilst the estimated rental value has increased by 6.7 per cent per annum over the same period. This has significantly improved dividend cover. The Board believes your Company is well placed against the financial assumptions set out in the Prospectus and that to be able to demonstrate a track record is important when entering a period when total returns are likely to be dominated by income.

There were no purchases or sales of properties during the year.

Property Portfolio – Indirect Holdings

The Indirect Holdings (in the Industrial Property Investment Fund and The Mall LP) represented 9.8 per cent of the property portfolio as at 31 December 2007. The Industrial Property Investment Fund invests in over 100 industrial properties and The Mall LP invests in 24 shopping centres. During the first half of the year the exposure to the Indirect Holdings was reduced realising, in aggregate, £50.2 million through four separate transactions which all took place at premiums to the underlying NAVs of the holdings at the time of the transactions. The Board has subsequently given approval for the Managers to make further disposals of the Indirect Holdings at a small discount to their underlying NAVs. However, as of the date of this statement it has not been possible to do so at these levels.

Since the end of the year, and as explained in detail at the beginning of my statement, the Board has therefore considered carefully the values attributed to the Indirect Holdings, with the result that a discount of 10 per cent has, for the first time, been applied to the underlying NAVs of the Indirect Holdings as at 31 December 2007. The quantum of future discounts, if any, will be reviewed regularly by the Board with independent advice as appropriate, and amended, as required, to reflect changes in market conditions and practice.

Dividends

Three interim dividends, each of 1.5p per share, were paid on 27 July and 26 October 2007 and 25 January 2008. The Board has declared a fourth interim dividend of 1.5p per share which will be paid on 25 April 2008 to shareholders on the register on 28 March 2008.

This will bring the total dividend for the year to 6.0p per share, representing a yield of 6.6 per cent on the share price at the end of the year.

Issue of Shares

In my interim statement, I explained that the Board was proposing to issue shares in connection with the proposed liquidation and reconstruction (the **'Scheme'**) of The UK Balanced Property Trust Limited (**'UKBPT'**). Under the Scheme, shareholders in UKBPT had the opportunity to roll-over their investment into your Company.

On 18 October 2007, 28.6 million new shares were issued pursuant to the Scheme, raising £40.1 million. The issue price of 140.33p per share was equal to the NAV per share as at 30 September 2007, adjusted by deducting the two quarterly dividends which had already been declared (and subsequently paid on 26 October 2007 and 25 January 2008) in which the new shares issued pursuant to the Scheme were not entitled to participate.

The Managers agreed to make a contribution to the costs of your Company's participation in the Scheme, thus ensuring that it was not dilutive to the NAV per share.

Discount and Share Buy Backs

Shareholders will be aware of the statement in the Prospectus that the Directors intend 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, your Company bought back 31.0 million shares during the year, equivalent to 4.2 per cent of the issued share capital as at 31 December 2006. The shares were bought back at an average discount of 23.5 per cent to the published NAV per share (adjusted for any quarterly dividends for which the share price had gone ex-dividend) and provided a cumulative enhancement of 1.5p per share to the NAV per share. The shares were bought back to be held in treasury, for subsequent re-issue at a premium to the published NAV per share. In carrying out these share buy backs the Board gave careful consideration to income and cashflow requirements and bond covenant constraints, as well as amounts committed to future development opportunities.

Since the end of the year, your Company has bought back a further 20.1 million shares to be held in treasury, at an average discount of 26.1 per cent to the published NAV per share (adjusted for any quarterly dividends for which the share price had gone ex-dividend), providing an enhancement of 1.0p per share to the NAV per share. 10.0 million of these shares were acquired in an on-market transaction from the Company's majority shareholder, Friends Provident Group, at a price of 95.0p per share, representing a discount of 4.9 per cent to the bid price at the time of the transaction.

Following the recent renewal of the Company's buy back authority at the Second EGM (referred to below), the Board will seek to renew the share buy back authority at the forthcoming Annual General Meeting. 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 quarterly 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 also stated in the Prospectus 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 to consider an ordinary resolution for the continuation of your Company. The first such Extraordinary General Meeting (**'First EGM'**) was held on 28 September 2007.

The Directors were pleased with the strong support given by shareholders at the First EGM, where 95.0 per cent of votes cast were in favour of your Company's continuation. As stated in the First EGM's circular, the Directors do not intend to convene another Extraordinary General Meeting to consider your Company's continuation unless the shares trade 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 EGM.

Borrowings

The level of gearing, net of cash, as at 31 December 2007 was 11.7 per cent, which the Board considers to be prudent in current market conditions. This compares to 14.5 per cent as at 31 December 2006.

Borrowings are represented by £230 million Secured Bonds due 2017 which have been assigned an 'Aaa' rating by Moody's Investors Services. The bonds carry interest at a fixed rate of 5.23 per cent per annum.

Recent Changes to the Articles of Association and Share Capital

As a listed company, your Company is subject to the Listing Rules of the UK Listing Authority. In September 2007, those Listing Rules were amended to provide more flexibility to listed investment companies, including in relation to making distributions. Your Company's Articles of Association contained provisions on distributions in accordance with the previous Listing Rules and, as a consequence, were more restrictive than required by the provisions of the amended Listing Rules.

To take advantage of this flexibility, an Extraordinary General Meeting (**'Second EGM'**), convened by a circular posted to shareholders on 4 February 2008, was held on 22 February 2008. At that meeting, 99.97 per cent of votes cast approved a proposal to amend the Articles of Association to allow more flexibility in funding the payment of dividends and share buy backs.

Shareholders similarly approved proposals to reduce the nominal value of the Ordinary Shares from 90p to 1p, to cancel the share premium arising on the recent issue of shares to shareholders in UKBPT in order to create a special reserve to be available for distributions, and to renew the existing share buy back authority. The overall effect of these changes is to give the Company more flexibility for share buy backs and dividend payments. The changes have no effect on the objective of your Company or the way it will be managed in the future.

Shareholder Communication

In addition to Annual and Interim Reports, your Company is now required to produce two Interim Management Statements each year, which will be in respect of the quarters when accounts are not produced. The first such statement will be issued in April 2008 and, along with other up to date information about your Company, will be available at the website address www.fccpt.co.uk.

Outlook

The property market is continuing to see falling capital values and, although there is some sign that the speed of decline may be moderating, sentiment remains cautious and there is still considerable uncertainty about the depth and duration of the downturn. The steep correction and re-pricing of property may entice back buyers, especially if interest rates are reduced further later in the year, but there are downside risks if the credit crisis is prolonged or if occupier markets deteriorate.

The Managers expect property performance to be subdued this year with recovery supported by income returns, to deliver total returns in the mid single digits over the medium-term. To this end your Company is well placed given the quality and diversity of its tenants, an average unexpired lease length of 8.8 years, and a low void rate.

Given the indiscriminate mark-down in values across the sector, prime, well-let cyclically robust properties, to which the Company has a significant exposure, are expected to out-perform.

Peter Niven
Chairman
27 March 2008

Investment Managers

Richard Kirby, BSc, MRICS
Investment Manager

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

Investment Managers

F&C Commercial Property Trust Limited is managed by F&C Investment Business Limited, a wholly owned subsidiary of F&C. F&C is a leading asset manager in both the UK and Europe and has £103.6 billion of funds under management (as at 31 December 2007). The shares of F&C are traded on the London Stock Exchange. F&C's ultimate parent company is currently Friends Provident plc, which is also the Company's majority shareholder. However, on 31 January 2008 Friends Provident plc announced that it intended to explore options to dispose of its majority holding in F&C.

The F&C group provides investment management and other services to a range of investment companies. In addition, it is one of the top ten property managers in the UK, with property funds under management of £5.3 billion (as at 31 December 2007), and manages property investments on behalf of a wide range of clients including F&C Commercial Property Trust Limited, ISIS Property Trust Limited and ISIS Property Trust 2 Limited.

The F&C property team has a strong investment track record of achieving out-performance of relevant benchmarks over short, medium and long term periods.

Manager's Review

Property Market Review

After three years of high teen returns, the property market experienced a dramatic reversal of fortune in 2007, delivering a total return of –5.5 per cent as recorded by Investment Property Databank ('**IPD**') UK Monthly Index. This is the worst recorded performance since 1991. Total returns slowed over the first half of the year but the correction accelerated in the second half with the last quarter witnessing the steepest and fastest downward correction ever recorded by IPD. All sectors of the market, and both prime and secondary properties alike, have been affected. The IPD Monthly Index recorded a capital decline of –11.7 per cent over the second half of 2007 with the last quarter recording –9.7 per cent.


London SW1, Charles House, 5-11 Regent Street

This correction is a reaction to the unwinding of past out-performance where yield compression took initial yields down to unsustainable levels. The all-property initial yield, at 4.57 per cent at 30 June 2007 was below both the risk-free gilt rate and five year swap rate. The IPD initial yield had moved out to 5.19 per cent by year end. The correction was further exacerbated by the 'credit crunch' and the severe lack of liquidity in the financial markets.

Against a background of such uncertainty, investment activity plummeted. Transaction levels in the final quarter of 2007 were less than £5.5 billion, compared with more than £20 billion in the same period of 2006. Such deals as did occur were subject to price reductions, while some sellers withdrew stock rather than accept significantly lower prices. The lack of transactions made it difficult to determine values accurately; with valuers instructed to 'mark to market' and to take account of sentiment as well as transactions.

The problems in the market are more concentrated on the investment capital side. The occupier market has been more resilient with rental growth across all market sectors and rents up by 3.5 per cent in 2007 at the all property level.

The property market underwent a major re-rating during 2007, especially over the most recent quarter. The adjustment has continued into 2008, which is expected to be challenging. There is a huge degree of uncertainty in the market as to the depth and duration of this process with widely differing opinions over both all property and specific sector performance.

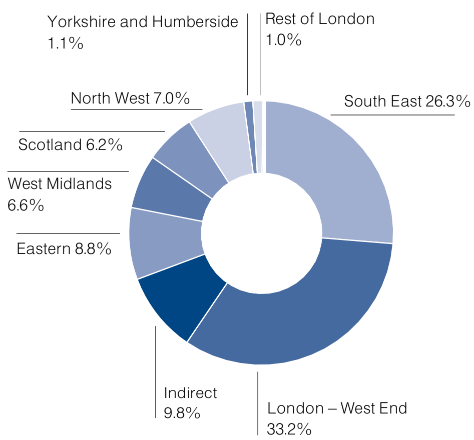
During 2007 the Company's portfolio fell in value from £1.229 billion as at 31 December 2006 to £1.085 billion net of transactions. This represents an ungeared capital decrease of –8.2 per cent, compared with a capital return of –10.0 per cent as measured by the IPD UK Monthly Index.

On a total return basis the Company's property portfolio returned –3.8 per cent, compared with the IPD UK Monthly Index return of –5.5 per cent.

Retail

Retail properties saw total returns of –7.6 per cent (IPD UK Monthly Index) in 2007. Retail property remained the weakest of the three major property sectors over the year. It slightly under-performed during the last quarter with returns of –8.7 per cent compared with the –8.5 per cent property average. Of note, retail warehousing, traditionally an outperformer, produced the worst total return of any sub-sector in 2007 at –10.4 per cent. Capital values, as recorded by IPD, were down –14.1 per cent with rental growth of only 0.2 per cent, again the weakest performance within property.

Geographical Analysis
as at 31 December 2007

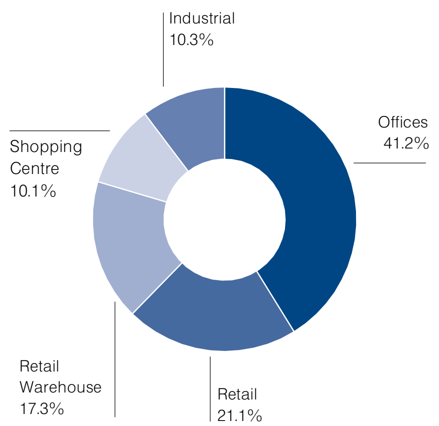


Manager's Review (continued)

London W1, St Christopher's Place Estate

The Company's retail properties produced a total return of –4.2 per cent as measured by IPD. Of note, St Christopher's Place Estate produced positive capital growth of 1.5 per cent over the year. This reflects a pro-forma rental income increase of 3.0 per cent over the year attributable to lettings of shop units to Noli (fashion) and Sniff (footwear) and a number of good rent review settlements. The Company continues to upgrade and refurbish the office accommodation and continues to achieve lettings in excess of £50 psf, with £65 psf the highest rent achieved during 2007. The refurbished third floor at 6-8 James Street, London W1 is under offer at £61 psf. The Company has recently commenced the refurbishment of 1,930 sq ft at 69 Wigmore Street, London W1 and 1,645 sq ft at 11-12 Gees Court, London W1; of which 69 Wigmore Street is pre-let at rents ranging from £47.50 to £55.00 psf.

Sector Analysis
as at 31 December 2007



The Company's retail warehouses, in common with the market, experienced a significant capital decline of –9.6 per cent. There was success at Newbury Retail Park where three rent reviews have been settled, reflecting an uplift of £191,808 pa (47.8 per cent) over the previous rent passing. A number of other outstanding rent reviews have been referred to third-party determination. The Company received a disappointing determination at Sears Retail Park, Solihull where a rent of £1,040,000 pa was awarded compared with pro-forma ERV of £1,060,000 pa, which reflected an increase of £274,920 pa over the previous rent passing.

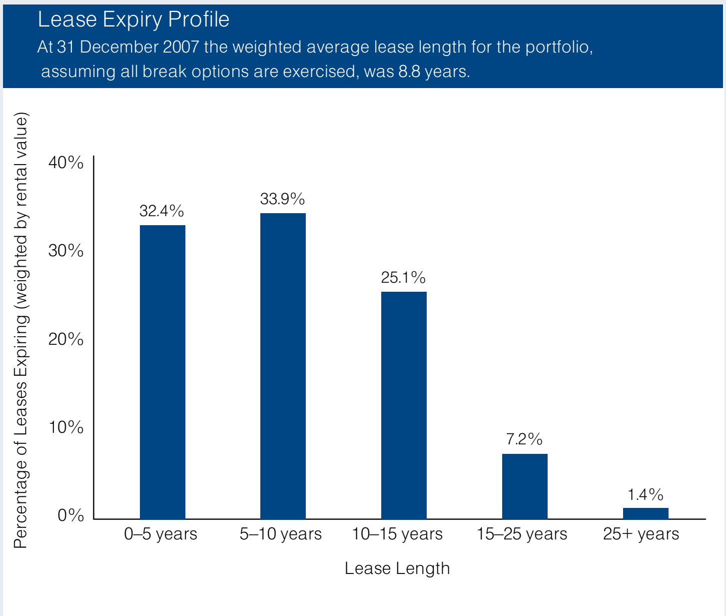
Offices

The office market was the best performing sector in 2007 but even here total returns were –3.0 per cent (IPD UK Monthly Index), a far cry from the 18.2 per cent 12-month total return registered as recently as June 2007. Values were marked down sharply in the final quarter of 2007 and offices were the weakest performer in that three month period. Central London Offices, having been the driver of performance, experienced a brutal final quarter with capital values down by 10.0 per cent in the West End and 13.7 per cent in the City as investors found their ability to finance larger lot sizes constrained due to the 'credit crunch', negative sentiment and the impact of the credit crisis on occupational demand within the financial and business sectors.

The Company's offices produced a total return of –2.4 per cent with the Central London Offices performing strongly (West End 0.2 per cent and City 14.8 per cent).

In December the Company completed the total refurbishment of the lower ground, ground, first and sixth floors at Charles House, 5–11 Regent Street,

Manchester, 82 King Street



London SW1. This refurbishment committed capital expenditure of approximately £2.8 million. The sixth floor has let at a rental reflecting £85 psf, significantly ahead of the pro-forma ERV. The other floors are being marketed with reasonable levels of interest being shown. Elsewhere the Company completed the

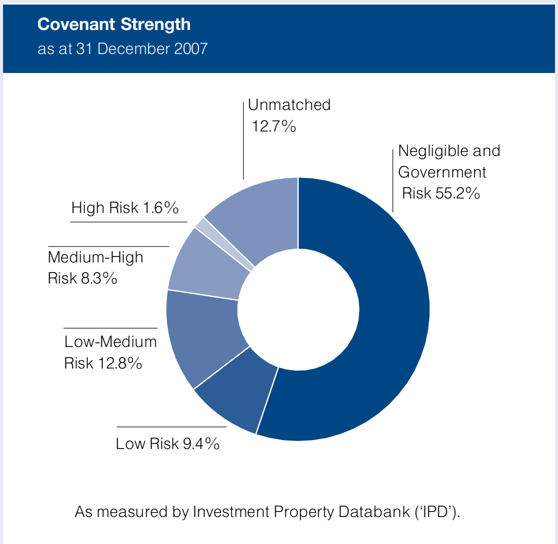
Uxbridge, 3 The Square, Stockley Park

refurbishment of three floors at its only City of London property, 7 Birchin Lane, London EC3. The works were completed in November and two floors are currently under-offer at rents equating to £45.00–£47.50 psf; the scheme was appraised with proforma rents of £40.00 psf. The Company continues to upgrade space as and when it becomes available.

The Company has committed to the detailed design of 24/27 Great Pulteney Street, London W1 where resolution to grant consent was given last July. The Section 106 Agreement with Westminster City Council has been completed and the negotiation of neighbourly matters is progressing well. The development is expected to commence shortly.

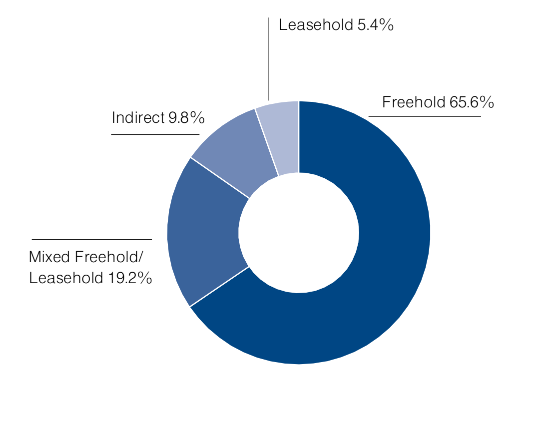
Industrials

Industrial property performance saw total returns of –4.4 per cent (IPD UK Monthly Index) in 2007, slightly better than the all property average. Having under-performed earlier in the year it was the most resilient sector in Q4. While standard industrials have performed well, we are concerned about the outlook for large distribution sheds.



Manager's Review (continued)

Tenure Analysis
as at 31 December 2007



The Company's industrial properties produced a total return of –7.3 per cent. The Company's main exposure to the sector is achieved through its indirect holding in the Industrial Property Investment Fund (**'IPIF'**) which focuses on higher-yielding industrial estates with a strong bias towards the South East.

The Company continues its dialogue with the local planning authority at The Cowdray Centre, Colchester. This property was severely damaged by fire in July 2006. The master plan for the area continues to be worked on and includes a mix of residential, retail, offices, industrial and hotel use. It is hoped that significant progress will be made on this important project in 2008.

Purchases and Disposals

The Company did not acquire any properties during 2007 as it was more beneficial to the Company to buy back its own shares.

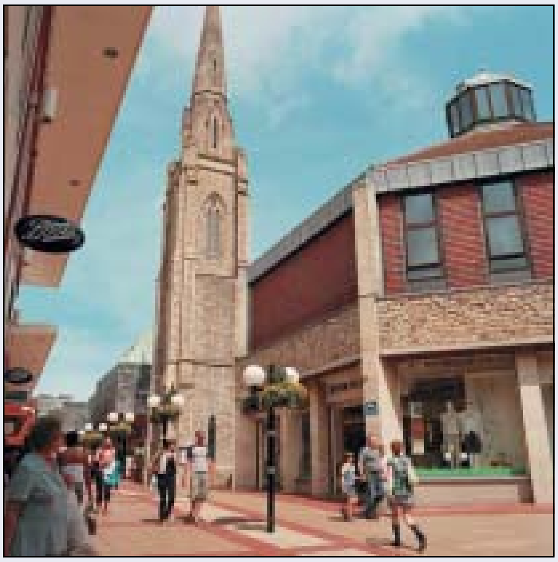
The Company took the strategic decision to reduce its exposure to its indirect holdings and put in place a disposal programme. The Company sold £4.9 million of units in The Mall Fund and £45.3 million of IPIF units, realising in aggregate £50.2 million through four separate transactions.

Property Management

The Company completed 36 lease events increasing the passing rent by £1,450,000 pa (17.7 per cent). It is also important to note the Company has not seen any deterioration in tenant defaults or vacancy levels. Rent arrears and overdue debt remain extremely low for a portfolio of this size whilst the void rate, excluding developments, stands at 1.2 per cent.

Outlook

Market forecasts for 2008 all-property total returns show an unprecedented polarisation, highlighting the huge degree of uncertainty which pervades the market. The market corrected very quickly and, whilst there is evidence of forced selling from some of the open-ended funds hit by high levels of redemptions



Colchester, Lion Walk Shopping Centre

and switching, a number of funds have been positioned to take advantage of market weakness. There is now evidence of transactional activity, albeit at subdued levels. The F&C house view is to take a cautious interpretation of the outlook. Another weak year is in prospect for 2008 and, on balance, we expect the market to bottom out during the course of the year, but there are downside risks if there is a major economic slowdown or a worsening of the credit markets. Thereafter, we see a return to positive real rates of total return with performance being largely income driven.

Richard Kirby

Investment Manager
F&C Investment Business Limited
27 March 2008

Property Portfolio

	Sector	Book Cost £'000	Initial Yield	Market Value £'000	% of Property portfolio
London W1, St Christopher's Place Estate†	Retail	88,971	4.64%	126,300	11.6
Newbury, Newbury Retail Park	Retail Warehouse	54,835	4.70%	78,480	7.2
London SW1, Cassini House, St James's Street	Offices	47,400	3.58%	77,700	7.2
Colchester, Lion Walk Shopping Centre†	Shopping Centre	69,528	5.75%	71,650	6.6
Solihull, Sears Retail Park	Retail Warehouse	70,720	5.20%	71,160	6.6
Industrial Property Investment Fund	Industrial	61,281	4.53%	68,321‡	6.3
London SW19, Wimbledon Broadway	Retail	47,054	5.69%	56,950	5.2
London SW1, 84 Eccleston Square	Offices	42,165	5.29%	56,200	5.2
Uxbridge, 3 The Square, Stockley Park	Offices	42,550	5.75%	44,400	4.1
The Mall LP	Shopping Centre	36,449	3.99%	38,465‡	3.5
Ten largest property holdings		**£560,953**		**£689,626**	**63.5**
London SW1, Charles House, 5-11 Regent Street*	Offices	26,004	3.01%	38,250	3.5
Manchester, 82 King Street	Offices	32,493	4.83%	38,075	3.5
Camberley, Watchmoor Park	Offices	36,950	7.17%	38,050	3.5
Rochdale, Dane Street	Retail Warehouse	28,800	4.85%	38,050	3.5
Glasgow, Alhambra House, Wellington Street	Offices	26,950	5.25%	35,850	3.3
Reading,Thames Valley One, Thames Valley Park	Offices	25,075	6.75%	28,775	2.7
Reading,Thames Valley Two, Thames Valley Park	Offices	17,950	6.75%	19,600	1.8
Colchester, The Cowdray Centre, Cowdray Avenue	Industrial	15,440	6.90%	17,500	1.6
Edinburgh, 124/125 Princes Street	Retail	17,670	6.31%	16,800	1.6
London W1, 385/389 Oxford Street*	Retail	13,450	4.66%	16,200	1.5
Twenty largest property holdings		**£801,735**		**£976,776**	**90.0**
London SW1, 2/4 King Street	Offices	6,333	3.90%	16,050	1.5
London W1, 24/27 Great Pulteney Street	Offices	11,756	0.00%	15,050	1.4
Edinburgh, Nevis/Ness Houses, 11/12 Lochside Place	Offices	13,600	6.10%	14,150	1.3
Southampton, Upper Northam Road, Hedge End	Industrial	10,300	6.58%	11,800	1.1
London W1, 17A Curzon Street	Offices	7,200	3.40%	10,825	1.0
Leeds, 27/28 Commercial Street†	Retail	10,650	4.75%	10,625	1.0
London EC3, 7 Birchin Lane	Offices	5,117	3.10%	10,525	1.0
Camberley, Affinity Point, Glebeland Road	Industrial	6,650	5.52%	7,850	0.7
Colchester, Ozalid Works, Cowdray Avenue	Industrial	5,487	5.98%	5,900	0.5
London W1, 16 Conduit Street*	Offices	3,150	4.29%	4,075	0.4
Thirty largest property holdings		**£881,978**		**£1,083,626**	**99.9**
Leeds, 40/42 Albion Street	Retail	1,650	5.50%	1,585	0.1
Total property portfolio		**£883,628**		**£1,085,211**	**100.0**

*Leasehold property

†Mixed freehold/leasehold property

‡The valuations of the Industrial Property Investment Fund and The Mall LP (together the **'Indirect Holdings'**) have both been stated net of a discount of 10 per cent to their externally provided net asset values (**'NAVs'**) in order to reflect the Board's view of their likely realisable value as at 31 December 2007 should the Company wish to dispose of them in an orderly fashion over time.

This discount equates to a reduction in the value of the Industrial Property Investment Fund of £7,591,000 and a reduction in the value of The Mall LP of £4,274,000. Solely to meet the technical requirements of IFRS and following extensive consultation with the Company's auditor, the accounts on pages 23 to 40 include the value of the Indirect Holdings at their full externally provided NAVs. Further details are provided in the Chairman's Statement on pages 2 to 5 and note 9 to the accounts.

Board of Directors

Peter Niven*†
Chairman
(age 53) is a resident of Guernsey. He has worked in the financial services industry in the UK and offshore for 32 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 captive insurance companies and Guernsey based investment funds including Dexion Trading Limited, a London listed fund of hedge funds. He is also Director, Finance Sector Development for the States of Guernsey and Chief Executive of Guernsey Finance LBG.

Donald Adamson*†
(age 48) is a resident of Jersey. He has 27 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 58) 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 30 years of property experience with Jones Lang LaSalle. He is also a strategic adviser to Evans Property Group.

Brian Sweetland
(age 62) 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 up to the end of 2004 and was formerly a non-executive director of F&C Asset Management plc and Benchmark Group plc.

Nicholas Tostevin*†
Chairman of the Audit Committee
(age 55) 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 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 2007.

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 2007 as follows:

	Payment date	Rate per share
Third interim for prior year	26 January 2007	1.5p
Fourth interim for prior year	27 April 2007	1.5p
First interim	27 July 2007	1.5p
Second interim	26 October 2007	1.5p

It is the policy of the Directors to declare and pay dividends as interim dividends. The Directors do not therefore recommend a final dividend. A third interim dividend of 1.5p per share was paid on 25 January 2008 and a fourth interim dividend of 1.5p per share will be paid on 25 April 2008 to shareholders on the register on 28 March 2008.

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.

Throughout the year, until 27 September 2007, the Company complied with the conditions applicable to property investment companies set out in paragraph 15.5.15R of the Listing Rules. These conditions were removed from the Listing Rules on 28 September 2007.

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

Business Review

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, corporate governance, and risk management. As set out in the Directors' Responsibility Statement on page 21 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 12.

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 Managers believe 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

Report of the Directors (continued)

subsequent date. The Company will 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, it is the Board's present intention 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 together with a comprehensive analysis of the performance of the Company, and compliance with investment restrictions during the reporting period. An analysis of how the portfolio was invested as at 31 December 2007 is contained within the Manager's Review on pages 7 to 10 and a full portfolio listing is provided on page 11.

The Group's borrowings are represented by £230 million Secured Bonds due 2017, which are described in more detail in note 14 to the accounts. The gearing level as at 31 December 2007 was 19.5 per cent of total assets, including cash (2006: 18.0 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 is contained in the Chairman's Statement and the Manager's Review.

Principal Risks and Uncertainties

The Company's assets consist of direct and indirect investments in UK commercial property. 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 19 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 all 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 14 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 18 and 19.

Shareholder Value

The Board and Managers recognise the importance of both marketing and share buy-backs in enhancing shareholder value. In addition, meetings are held regularly with current and prospective shareholders and stockbroking analysts covering the investment company sector.

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 the Investment Property Databank UK Monthly Index.
- Premium/discount of share price to net asset value.
- Dividend per share and dividend yield.
- Total expenses as a ratio of shareholders' funds.

A historical record of these indicators is contained in the Financial Highlights and the Performance Summary on page 1, the Chairman's Statement on pages 2 to 5, and in the Historical Record on page 42.

Directors

The Directors who held office during the year and their interests in the shares of the Company as at 31 December 2007 (all of which were beneficially held by the Directors or their spouses) were:

	2007 Ordinary Shares	2006 Ordinary Shares
P Niven	**20,514**	20,000
D L Adamson	**50,000**	50,000
J H Stephen	**20,514**	20,000
B W Sweetland	**44,398**	–
N J M Tostevin	**20,000**	20,000

Since 31 December 2007 Messrs Niven, Stephen and Tostevin have acquired additional shares through the Company's dividend reinvestment plan. Their holdings have increased by 326, 326, and 321 shares respectively.

There have been no other changes in the above interests between 31 December 2007 and 27 March 2008 and no shareholdings, including those of the Directors, will be varied in number by the reduction in the nominal value of the Company's Ordinary Shares from 90p to 1p, approved by shareholders on 22 February 2008.

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 D L Adamson retires from the Board by rotation and, being eligible, offers himself 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 2007	Year ended 31 December 2006
P Niven	**30,000**	25,000
D L Adamson	**21,500**	18,000
J H Stephen	**21,500**	18,000
B W Sweetland	**21,500**	18,000
N J M Tostevin	**24,000**	18,000
Total	**118,500**	97,000

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.

Since the year end, the Board has reviewed the appropriateness of the Managers' appointment. In carrying out its review the Board considered the past investment performance of the Company and the capability and resources of the Managers to deliver satisfactory investment performance. It also considered 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.

Following this review, 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 is in the interests of shareholders as a whole.

Substantial Interests in Share Capital

As at 27 March 2008 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 Group	382,952,938	53.8
Lloyds TSB Group	23,189,819	3.3

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 in June 2006 (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 considered the principles and recommendations of the AIC's Code of Corporate Governance issued in May 2007 (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 which are of specific relevance 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, and 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.

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. He is not therefore considered to be 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 Company's 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 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 strategy, investment and dividend policies, gearing, and corporate governance procedures, 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 Audit Committee, chaired by Mr N J M Tostevin, operates within clearly defined terms of reference and comprises all the Directors except for Mr B W Sweetland. The duties of the Audit Committee in discharging its responsibilities include reviewing the Annual and Interim Accounts; the system of internal controls; and the terms of appointment of the auditors together with their remuneration. It is also the forum through which the auditors report to the Board of Directors and it meets at least twice yearly. The objectivity of the auditors is reviewed by the Audit Committee which also reviews the terms under which the external auditors are 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 auditors, with particular regard to non-audit fees. Such fees amounted to £7,000 for the year ended 31 December 2007 (year ended 31 December 2006 – £4,000) and related principally to a review of the interim financial information 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 Management Engagement Committee, chaired by Mr P Niven, comprises the full Board, except for Mr B W Sweetland, and 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 below 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
P Niven	5	5	2	1	1	1
D L Adamson	5	5	2	2	1	1
J H Stephen	5	5	2	2	1	1
B W Sweetland	5	5	–	–	–	–
N J M Tostevin	5	4	2	2	1	1

In addition to the scheduled meetings detailed above, there were a further 9 Board meetings and 20 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 in October 2005. 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 auditors, 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 welcomes the views of shareholders and places great importance on communication with its shareholders. The Board receives regular reports on the views of shareholders and the Chairman and other Directors are available to meet shareholders if required. The Annual General Meeting of the Company provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Managers of the Company.

Issue of New Shares

During the year the Company issued 28,582,016 new Ordinary Shares with an aggregate nominal value of £25.7 million for a total consideration of £40.1 million. The shares were issued at net asset value to shareholders in The UK Balanced Property Trust Limited (**'UKBPT'**) who elected to roll-over their investment into the Company as part of the winding up and scheme of reconstruction of UKBPT.

Directors' Authority to Buy Back Shares

During the year the Company purchased 31,048,013 Ordinary Shares, to be held in treasury, with an aggregate nominal value of £27.9 million for a total consideration of £33.6 million representing 4.2 per cent of the Ordinary Shares in issue at the previous year end.

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 6, 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 2009 and 20 November 2009. 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.

Since the year end the Company has purchased 20,100,000 Ordinary Shares to be held in treasury, and there were 712,434,003 Ordinary Shares in issue as at 27 March 2008.

Discount Policy

The Company's original 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

Report of the Directors (continued)

published net asset value for any quarterly 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 quarterly dividends for which the share price has gone ex-dividend). In 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 dealing days or more, the Directors would convene an extraordinary general meeting to be held within three months to consider an ordinary resolution for the continuation of the Company. Such an extraordinary general meeting was held on 28 September 2007 and a resolution proposing the continuation of the Company was approved by shareholders.

The Directors do not intend to convene another extraordinary general meeting to consider the continuation of the Company unless the Ordinary Shares trade at a discount of over five per cent, calculated as described above, for 90 dealing days or more following the first anniversary of the extraordinary general meeting held on 28 September 2007. If the continuation resolution proposed at the meeting is not passed, the Directors will convene a further extraordinary general meeting to be held within six months of the first extraordinary general meeting to consider the winding up of the Company or a reconstruction of the Company which offers all Shareholders the opportunity to realise their investment. If any such continuation resolution is passed, this discount policy, save in respect of share buy backs, would not apply for a period of one year thereafter.

Recent Changes to the Articles of Association and Share Capital

As a company listed on the Official List of the UK Listing Authority, the Company is subject to the Listing Rules. In September 2007, those Listing Rules were amended to provide more flexibility to listed investment companies including in relation to making distributions. The Company's Articles of Association contained provisions on distributions in accordance with the previous Listing Rules and, as a consequence, were more restrictive than required by the provisions of the amended Listing Rules.

The Company therefore held an Extraordinary General Meeting on 22 February 2008 at which shareholders approved a proposal to amend the Articles of Association to allow the Company more flexibility in funding the payment of dividends and share buy backs. At that meeting shareholders also approved proposals to reduce the nominal value of the Ordinary Shares from 90p to 1p, to cancel the share premium arising on the recent issue of shares to shareholders in UKBPT in order to create a special reserve to be available for distributions, including share buy backs and the payment of dividends, and to renew its existing share buy back authority.

Full details of the resolutions were set out in a circular which was posted to shareholders on 4 February 2008.

Auditors

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

On behalf of the Board

P Niven	N J M Tostevin
Director	Director

27 March 2008

Directors' Responsibility Statement and Independent Auditor's Report

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and Financial Statements for each financial period which give a true and fair view of the state of affairs of the Company and Group as at the end of the financial period and of the profit or loss of the Company and Group for that period in accordance with International Financial Reporting Standards and with applicable laws and regulations. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company and Group will not 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 Group and which enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 1994. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for:

- ensuring that the Report of the Directors and other information included in the Annual Report is prepared in accordance with applicable company law;
- ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority; and
- the Group's system of internal controls, which is designed to meet the Company's and Group's particular needs and the risks to which it is exposed.

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

We have audited the Group and parent company financial statements (the 'financial statements') of F&C Commercial Property Trust Limited for the year ended 31 December 2007 which comprise the Company and Group Income Statements, the Company and Group Balance Sheets, the Company and Group Statements of Changes in Equity, the Company and Group Cash Flow Statements 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 64 of The Companies (Guernsey) Law, 1994. 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 are responsible for preparing the Annual Report and the financial statements in accordance with applicable Guernsey law and International Financial Reporting Standards ('IFRS') as set out in the Directors' Responsibility Statement above.

Directors' Responsibility Statement and Independent Auditor's Report (continued)

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with The Companies (Guernsey) Law, 1994. 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 Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

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, in accordance with International Financial Reporting Standards, of the state of the Group's and the parent company's affairs as at 31 December 2007 and of the Group's and Company's result for the year then ended; and
- have been properly prepared in accordance with The Companies (Guernsey) Law, 1994.

KPMG Channel Islands Limited
Guernsey
Channel Islands
27 March 2008

Income Statements

for the year ended 31 December 2007

	Notes	Company Year ended 31 December 2007 £'000	Company Year ended 31 December 2006 £'000	Group Year ended 31 December 2007 £'000	Group Year ended 31 December 2006 £'000
Revenue					
Rental Income		–	–	55,182	53,427
Income from indirect property funds		–	–	6,917	7,747
Dividends received from group companies		17,879	–	–	–
Total revenue		17,879	–	62,099	61,174
Gains/(losses) on investments					
Unrealised (losses)/gains on revaluation of investment properties	9	–	–	(71,955)	152,099
Unrealised (losses)/gains on revaluation of indirect property funds	9	–	–	(14,626)	27,653
Gains on sale of investment properties realised	9	–	–	31	3,412
Gains on sale of indirect property funds realised	9	–	–	1,588	–
Total income		17,879	–	(22,863)	244,338
Expenditure					
Investment management fee	2a	–	–	(9,430)	(9,050)
Other expenses	3	(710)	(389)	(3,600)	(3,870)
Total expenditure		(710)	(389)	(13,030)	(12,920)
Operating profit/(loss) before finance costs		17,169	(389)	(35,893)	231,418
Net finance costs					
Interest receivable	4	48,032	48,018	4,376	1,573
Finance costs	5	(12,128)	(12,123)	(12,128)	(12,123)
		35,904	35,895	(7,752)	(10,550)
Profit/(loss) before taxation		53,073	35,506	(43,645)	220,868
Taxation on profit/(loss)	6	–	–	(687)	(457)
Profit/(loss) for the year attributable to equity shareholders		53,073	35,506	(44,332)	220,411
Basic and diluted earnings/(loss) per share	8	7.2p	4.8p	(6.0)p	30.0p

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

Balance Sheets

as at 31 December 2007

	Notes	Company 2007 £'000	Company 2006 £'000	Group 2007 £'000	Group 2006 £'000
Non-current assets					
Investment properties	9	**–**	–	**978,425**	1,046,980
Investments in indirect property funds held at fair value	9	**–**	–	**118,651**	181,877
Investment in subsidiary undertaking	10	**934,986**	934,611	**–**	–
		934,986	934,611	**1,097,076**	1,228,857
Current assets					
Trade and other receivables	11	**9,096**	6,365	**5,676**	6,217
Cash and cash equivalents	12	**31,922**	19,866	**103,891**	53,291
		41,018	26,231	**109,567**	59,508
Total assets		**976,004**	960,842	**1,206,643**	1,288,365
Current liabilities					
Trade and other payables	13	**(139)**	(800)	**(18,956)**	(19,243)
Non-current liabilities					
Interest-bearing bonds	14	**–**	–	**(229,093)**	(228,993)
Deferred taxation		**–**	–	**(507)**	(360)
Loan from group company	15	**(229,093)**	(228,993)	**–**	–
		(229,093)	(228,993)	**(229,600)**	(229,353)
Total liabilities		**(229,232)**	(229,793)	**(248,556)**	(248,596)
Net assets		**746,772**	731,049	**958,087**	1,039,769
Represented by:					
Share capital	16	**687,224**	661,500	**687,224**	661,500
Share premium account	16	**14,390**	–	**14,390**	–
Special reserve	16	**34,043**	58,434	**34,043**	58,434
Capital reserve – realised	16	**11,115**	11,115	**325**	4,202
Capital reserve – unrealised	16	**–**	–	**213,448**	312,412
Revenue reserve	16	**–**	–	**8,657**	3,221
Equity shareholders' funds		**746,772**	731,049	**958,087**	1,039,769
Net asset value per share	17			**130.8p**	141.5p

The accounts on pages 23 to 40 were approved by the Board of Directors on 27 March 2008 and signed on its behalf by:

P Niven, Director

N J M Tostevin, Director

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2007

	Notes	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Reserve – Realised £'000	Capital Reserve – Unrealised £'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	16	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	16	–	–	(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**

for the year ended 31 December 2006

	Notes	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Reserve – Realised £'000	Capital Reserve – Unrealised £'000	Revenue Reserve £'000	Total £'000
At 1 January 2006		661,500	–	62,337	–	133,450	6,171	863,458
Profit for the year		–	–	–	–	–	220,411	220,411
Dividends paid	7	–	–	–	–	–	(44,100)	(44,100)
Transfer from special reserve	16	–	–	(3,903)	–	–	3,903	–
Transfer in respect of unrealised gains on investment properties		–	–	–	–	152,099	(152,099)	–
Transfer in respect of unrealised gains on indirect property funds		–	–	–	–	27,653	(27,653)	–
Gains on sale of investment properties realised		–	–	–	3,412	–	(3,412)	–
Transfer of prior years' revaluation to realised reserve		–	–	–	790	(790)	–	–
At 31 December 2006		661,500	–	58,434	4,202	312,412	3,221	1,039,769

Company Statement of Changes in Equity

for the year ended 31 December 2007

	Notes	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Reserve – Realised £'000	Capital Reserve – Unrealised £'000	Revenue Reserve £'000	Total £'000
At 1 January 2007		**661,500**	**–**	**58,434**	**11,115**	**–**	**–**	**731,049**
Issue of ordinary share capital	16	25,724	14,390	–	–	–	–	40,114
Profit for the year		–	–	–	–	–	53,073	53,073
Dividends paid	7	–	–	–	–	–	(43,845)	(43,845)
Transfer from special reserve	16	–	–	(8,651)	–	–	8,651	–
Shares bought back		–	–	(15,740)	–	–	(17,879)	(33,619)
At 31 December 2007		**687,224**	**14,390**	**34,043**	**11,115**	**–**	**–**	**746,772**

for the year ended 31 December 2006

	Notes	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Reserve – Realised £'000	Capital Reserve – Unrealised £'000	Revenue Reserve £'000	Total £'000
At 1 January 2006		661,500	–	62,337	11,115	–	4,691	739,643
Profit for the year		–	–	–	–	–	35,506	35,506
Dividends paid	7	–	–	–	–	–	(44,100)	(44,100)
Transfer from special reserve	16	–	–	(3,903)	–	–	3,903	–
At 31 December 2006		661,500	–	58,434	11,115	–	–	731,049

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

Cash Flow Statements

for the year ended 31 December 2007	Notes	Company Year ended 31 December 2007 £'000	Company Year ended 31 December 2006 £'000	Group Year ended 31 December 2007 £'000	Group Year ended 31 December 2006 £'000
Cash flows from operating activities					
Operating profit/(loss) for the year before finance costs		**17,169**	(389)	**(35,893)**	231,418
Adjustments for:					
Unrealised losses/(gains) on revaluation of investment properties		**–**	–	**71,955**	(152,099)
Unrealised losses/(gains) on revaluation of indirect property funds		**–**	–	**14,626**	(27,653)
Gains on sale of investment properties realised		**–**	–	**(31)**	(3,412)
Gains on sale of indirect property funds realised		**–**	–	**(1,588)**	–
Decrease/(increase) in operating trade and other receivables		**13**	(15)	**541**	(1,654)
(Decrease)/increase in operating trade and other payables		**(660)**	(387)	**(382)**	2,452
		16,522	(791)	**49,228**	49,052
Interest received		**44,912**	50,968	**4,376**	1,573
Interest paid		**(12,028)**	(12,029)	**(12,028)**	(12,029)
Taxation paid		**–**	(201)	**(445)**	(311)
		32,884	38,738	**(8,097)**	(10,767)
Net cash inflow from operating activities		**49,406**	37,947	**41,131**	38,285
Cash flows from investing activities					
Purchase of investment properties	9	**–**	–	**–**	(975)
Sale of indirect property funds	9	**–**	–	**50,188**	–
Sale of investment properties	9	**–**	–	**31**	23,237
Capital expenditure	9	**–**	–	**(3,400)**	(4,836)
Net cash inflow from investing activities		**–**	–	**46,819**	17,426
Cash flows from financing activities					
Proceeds from issue of ordinary share capital	16	**40,114**	–	**40,114**	–
Share buy backs		**(33,619)**	–	**(33,619)**	–
Investment in subsidiary		**–**	(1,589)	**–**	–
Dividends paid	7	**(43,845)**	(44,100)	**(43,845)**	(44,100)
Net cash outflow from financing activities		**(37,350)**	(45,689)	**(37,350)**	(44,100)
Net increase/(decrease) in cash and cash equivalents		**12,056**	(7,742)	**50,600**	11,611
Opening cash and cash equivalents		**19,866**	27,608	**53,291**	41,680
Closing cash and cash equivalents		**31,922**	19,866	**103,891**	53,291

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

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, guidelines set out in the Statement of Recommended Practice ('SORP') for Investment Companies issued by the Association of Investment Companies, applicable legal and regulatory requirements of Guernsey Law and the Listing Rules of the UK Listing Authority.

The following new standard has been issued but is not effective for 2007 and has not been early adopted:

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

The Group does not consider that the future adoption of IFRS 8, 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.

(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.

(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 – Unrealised. Fair value is based on the open market valuation provided by DTZ Debenham Tie Leung Limited, chartered surveyors, at the balance sheet date.

Notes to the Accounts (continued)

1. Accounting policies (continued)

(f) Investment properties (continued)

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 – Realised.

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) Investment in subsidiary undertakings

Investments in subsidiary undertakings are recognised at cost, net of acquisition expenses, from the date control is transferred to the Company, and cease to be recognised from the date on which control is transferred from the Company.

(i) Segmental reporting

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

(j) 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.

(k) 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.

(l) Interest-bearing borrowings

All non-current borrowings are initially recognised as 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

	Company		Group	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
(a) Investment management fee	**–**	–	**9,430**	9,050

At the beginning of the year the Company's investment managers were F&C Asset Management plc (**'F&C'**). On 16 February 2007 the investment management agreement was novated to F&C Investment Business Limited, a wholly owned subsidiary of F&C. F&C Investment Business Limited receives a fee from the Group at an annual rate of 0.75 per cent of the total assets less current liabilities, plus an administration fee of £100,000 per annum (which increases annually in line with inflation), payable quarterly in arrears. The investment managers received £103,000 for administration services provided in respect of the year ended 31 December 2007 (2006: £102,000). The fees of any managing agents appointed by the investment managers will be payable out of the investment management fee. The investment management agreement is for a fixed initial four year period ending on 18 March 2009 and, with effect from 18 March 2008, may be terminated by either party by giving not less than 12 months' notice.

The investment management agreement may be terminated earlier provided that a payment in lieu of notice, equivalent to the amount the investment managers would otherwise have received during the notice period, is made.

(b) Valuers' fees

The valuers, 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 2007 and an annual fee is payable equal to 0.0165 per cent of the aggregate value of the property portfolio.

3. Other expenses

	Company		Group	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Direct operating expenses of let rental property	**–**	–	**2,488**	3,156
Provision for bad debts	**–**	(23)	**(17)**	(127)
Valuation and other professional fees	**372**	186	**567**	388
Directors' fees	**24**	20	**119**	97
Administration fee	**103**	102	**103**	102
Auditor's remuneration for:				
– audit	**19**	18	**34**	33
– other services	**3**	2	**7**	4
Other	**189**	84	**299**	217
	710	389	**3,600**	3,870

An analysis of the Directors' fees is provided in the Report of the Directors on page 15.

4. Interest revenue receivable

	Company		Group	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Intercompany loan interest	**46,883**	46,870	**–**	–
Deposit interest	**1,149**	1,148	**4,376**	1,573
	48,032	48,018	**4,376**	1,573

5. Finance costs

	Company		Group	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Interest on the 5.23 per cent Secured Bonds due 2017	**–**	–	**12,128**	12,123
Interest on the intercompany loan	**12,128**	12,123	**–**	–
	12,128	12,123	**12,128**	12,123

Notes to the Accounts (continued)

6. Taxation

	Company		Group	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Current income tax charge	**–**	–	**541**	262
Deferred income tax relating to origination and reversal of temporary differences	**–**	–	**146**	195
Total tax charge	**–**	–	**687**	457

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

	Company		Group	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Profit/(loss) before taxation	**53,073**	35,506	**(43,645)**	220,868
UK income tax at a rate of 22 per cent	**11,676**	7,811	**(9,602)**	48,591
Effects of:				
Capital losses/(gains) on investment properties and indirect property funds not taxable	**–**	–	**18,692**	(40,296)
Income not taxable, including interest receivable	**(14,500)**	(10,564)	**(963)**	(346)
Expenditure not allowed for income tax purposes	**17**	18	**2,875**	2,820
Intercompany loan interest	**–**	–	**(10,315)**	(10,312)
Excess management expenses	**2,807**	2,735	**–**	–
Total tax charge	**–**	–	**687**	457

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.

7. Dividends

	Company		Group	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
In respect of the previous period:				
Third interim dividend	**11,025**	11,025	**11,025**	11,025
Fourth interim dividend	**11,025**	11,025	**11,025**	11,025
In respect of the year under review:				
First interim dividend	**10,920**	11,025	**10,920**	11,025
Second interim dividend	**10,875**	11,025	**10,875**	11,025
	43,845	44,100	**43,845**	44,100

A third interim dividend of 1.5 pence per share totalling £10,875,000 was paid on 25 January 2008 and a fourth interim dividend of 1.5 pence per share totalling £10,687,000 will be paid on 25 April 2008 to shareholders on the register on 28 March 2008. Although these payments relate to the year ended 31 December 2007, under International Financial Reporting Standards they will be accounted for in the year ending 31 December 2008, being the year during which they are paid.

8. Earnings per share

The Group's basic and diluted earnings per Ordinary Share are based on the loss for the year of £44,332,000 (2006: profit of £220,411,000) and on 732,816,052 (2006: 735,000,000) Ordinary Shares, being the weighted average number of shares in issue during the year.

The Company's basic and diluted earnings per Ordinary Share are based on the profit for the year of £53,073,000 (2006: £35,506,000) and on 732,816,052 (2006: 735,000,000) Ordinary Shares, being the weighted average number of shares in issue during the year.

9. Investments

	Company		Group	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Freehold and leasehold properties				
Opening book cost	**–**	–	**782,498**	795,722
Opening unrealised appreciation	**–**	–	**264,482**	113,173
Opening valuation	**–**	–	**1,046,980**	908,895
Purchases	**–**	–	**–**	975
Sales – proceeds	**–**	–	**(31)**	(23,237)
– gain on sale	**–**	–	**31**	4,202
Capital expenditure	**–**	–	**3,400**	4,836
Unrealised gains realised during the year	**–**	–	**–**	(790)
(Decrease)/increase in unrealised appreciation	**–**	–	**(71,955)**	152,099
	–	–	**978,425**	1,046,980
Closing book cost	**–**	–	**785,898**	782,498
Closing unrealised appreciation	**–**	–	**192,527**	264,482
Closing valuation	**–**	–	**978,425**	1,046,980

Notes to the Accounts (continued)

9. Investments (continued)

	Company		Group	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Indirect property funds				
Opening book cost	**–**	–	**133,947**	133,947
Opening unrealised appreciation	**–**	–	**47,930**	20,277
Opening valuation	**–**	–	**181,877**	154,224
Sales – proceeds	**–**	–	**(50,188)**	–
– gain on sale	**–**	–	**13,971**	–
Unrealised gains realised during the year	**–**	–	**(12,383)**	–
(Decrease)/increase in unrealised appreciation	**–**	–	**(14,626)**	27,653
	–	–	**118,651**	181,877
Closing book cost	**–**	–	**97,730**	133,947
Closing unrealised appreciation	**–**	–	**20,921**	47,930
Closing valuation	**–**	–	**118,651**	181,877

DTZ Debenham Tie Leung Limited completed a valuation of the Group's investment properties at 31 December 2007 on an open market basis in accordance with the requirements of the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors, which is deemed to equate to fair value. Fair value is determined by reference to market based evidence, which is the amounts 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 £978,425,000 (2006: £1,046,980,000).

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.

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 21 for further information). No one property accounts for more than 15 per cent of the gross assets of the Group. The 10 largest properties per open market value are shown on page 11.

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, note 19.

Solely to meet the technical requirements of IFRS and following extensive consultation with the Company's auditor, the indirect property funds have been valued at their full, externally provided NAVs within the accounts on pages 23 to 40. However, the Board does not consider this to be an appropriate method of valuation given market conditions at the year end and that a discount of 10 per cent should be applied to the NAVs of the indirect property funds in order to reflect their likely realisable value should the Company wish to dispose of them in an orderly fashion over time. The effect of applying the discount would be to reduce the valuation of the indirect property funds by £11,865,000, or 1.6p per share, as at 31 December 2007. Further details are provided in the Chairman's Statement on pages 2 to 5.

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. Investment in subsidiary undertaking

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. Further details are contained in note 15.

	Company	
	2007	2006
	£'000	£'000
Equity investments in subsidiary		
Opening and closing book cost	**187,541**	187,541
Intercompany loan to subsidiary		
Intercompany loan	**750,165**	750,165
Arrangement fee	**(3,751)**	(3,751)
Amortisation of arrangement fee	**1,031**	656
Closing book cost	**747,445**	747,070

11. Trade and other receivables

	Company		Group	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Accrued income	**–**	38	**2,934**	2,609
Rents receivable (net of provision for bad debts)	**–**	–	**1,274**	2,099
Other debtors and prepayments	**12**	25	**1,468**	1,509
Due from subsidiary undertaking	**9,084**	6,302	**–**	–
	9,096	6,365	**5,676**	6,217

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.

12. Cash and cash equivalents

All cash balances at the year end date 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 2007 includes £3,263,000 (2006: £3,097,000) of rent deposits and therefore a corresponding creditor is included within trade and other payables.

13. Trade and other payables

	Company		Group	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Rental income received in advance	**–**	–	**11,960**	11,489
VAT payable	**–**	–	**1,198**	1,246
Investment managers' fees payable	**–**	–	**2,210**	2,412
Tax payable	**–**	–	**466**	371
Due to group companies	**7**	712	**–**	–
Other payables	**132**	88	**3,122**	3,725
	139	800	**18,956**	19,243

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

Notes to the Accounts (continued)

14. Interest bearing bonds

	Company		Group	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Principal amount outstanding	**–**	–	**230,000**	230,000
Issue costs	**–**	–	**(1,196)**	(1,196)
Amortisation of issue costs	**–**	–	**289**	189
Total due	**–**	–	**229,093**	228,993

The Group, incorporating 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 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 2007 was £225,799,000 (2006: £229,777,000).

15. Loan from group company

	Company	
	2007	2006
	£'000	£'000
Principal amount outstanding	**230,000**	230,000
Issue costs paid on behalf of F&C Commercial Property Finance Limited	**(1,196)**	(1,196)
Amortisation of issue costs	**289**	189
	229,093	228,993

The Company has borrowed the proceeds of the bond issue, detailed in note 14, from F&C Commercial Property Finance Limited, a special purpose vehicle incorporated to be the issuer of the bonds. The interest rate payable on this intercompany loan is the same as the interest payable on the 5.23 per cent bonds issued by F&C Commercial Property Finance Limited. The loan is repayable on 30 June 2015.

16. Share capital and share premium account and reserves

	Company and Group £'000
Authorised share capital	
1,000,000,000 Ordinary Shares of 90p each (as at 31 December 2007 and 31 December 2006)	**900,000**
Allotted, called-up and fully paid	
735,000,000 Ordinary Shares of 90p each, listed at 31 December 2006	**661,500**
28,582,016 Ordinary Shares of 90p each issued during the year	**25,724**
763,582,016 Ordinary Shares of 90p each, listed at 31 December 2007	**687,224**
31,048,013 Ordinary Shares of 90p each repurchased during the year and held in treasury at the year end	**(27,943)**
732,534,003 Ordinary Shares of 90p each in issue at 31 December 2007	**659,281**

Share capital

During the year the Company issued 28,582,016 new Ordinary Shares with an aggregate nominal value of £25.7 million for a total consideration of £40.1 million. The shares were issued at net asset value to shareholders in The UK Balanced Property Trust Limited (**'UKBPT'**) who elected to roll-over their investment into the Company as part of the winding up and scheme of reconstruction of UKBPT.

Ordinary Shareholders are entitled to all dividends declared by the Company and to all 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.

	2007 £'000	2006 £'000
Share premium account		
Received on the placing of Ordinary Shares	**14,390**	–
Closing balance	**14,390**	–
Listed share capital and share premium account	**701,614**	661,500

Special reserve

The special reserve was created by the cancellation of the Company's Share Premium Account by the Royal Court of Guernsey in July 2006. 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 – 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 – unrealised'; 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.

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.

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 Company and Group's capital is represented by the Ordinary Shares, share premium account, special reserve, capital reserve – realised, capital reserve – unrealised and revenue reserve. Neither the Company nor the Group are subject to any externally imposed capital requirements.

The capital of the Company 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 13 and 14.

Notes to the Accounts (continued)

17. Net asset value per share

The Group's net asset value per Ordinary Share of 130.8p (2006: 141.5p) is based on the equity shareholders' funds of £958,087,000 (2006: £1,039,769,000) and on 732,534,003 (2006: 735,000,000) Ordinary Shares, being the number of shares in issue at the year end.

18. Related party transactions

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 2007. Friends Provident plc is also the ultimate parent company of the Company's investment managers, F&C Investment Business Limited.

F&C Investment Business Limited received fees for its services as investment managers. Further details are provided in note 2 on page 28. The total charge to the Income Statement during the year was £9,430,000 (2006: £9,050,000) of which £2,210,000 (2006: £2,412,000) remained payable at the year end. F&C Investment Business Limited received a further £103,000 for administration services provided in respect of the year ended 31 December 2007 (2006: £102,000).

The Directors of the Company received fees for their services. Further details are provided in the Report of the Directors on page 15 and in note 3 on page 29. Total fees for the year were £119,000 (2006: £97,000). No fees remained payable at the year end.

Since the end of the year, the Company has repurchased 10.0 million of its own Ordinary Shares through an on-market transaction from FP Life Assurance Limited, a wholly owned subsidiary of Friends Provident plc, at a price of 95.0p per share, representing a discount of 4.9 per cent to the bid price at the time of the transaction.

19. Financial instruments

The Group'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 its 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 2007					
Investments in indirect property funds	–	–	–	118,651	118,651
Cash and cash equivalents	103,891	–	–	–	103,891
Rents receivable	1,274	–	–	–	1,274
As at 31 December 2006					
Investments in indirect property funds	1,864	–	–	180,013	181,877
Cash and cash equivalents	53,291	–	–	–	53,291
Rents receivable	2,099	–	–	–	2,099

19. Financial instruments (continued)

Financial liabilities	Within one year £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000	Total £'000
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
As at 31 December 2006					
Trade and other payables	19,243	–	–	–	19,243
Interest bearing bonds	12,029	12,029	36,087	272,102	332,247

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 2007 was £1,274,000 (2006: £2,099,000).

As at 31 December 2007, rent receivable of £135,000 that was greater than three months overdue was fully provided for. As at 31 December 2006 the provision was £152,000. Of this amount £4,000 was subsequently written off although £148,000 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 2007 (2006: 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.

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.

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.

As a reflection of the liquidity risk relating to the indirect property funds for the purpose of calculating the published NAV and monitoring the performance of the Company the Board has valued such funds at a discount of 10 per cent to their underlying net asset values at 31 December 2007 (2006: discount of nil). This discount reflects the Board's view of the likely realisable value of these assets should the Group wish to dispose of its holdings in an orderly fashion over time, based on current market conditions. The quantum of such discount, if any, will be reviewed regularly by the Board and will be amended, as required, to reflect changes in market conditions and practice. Under the technical requirements of IFRS such discount is not permitted and therefore the accounts on pages 23 to 40 include the value of the indirect property funds at their full, externally provided NAVs. Further details are provided within note 9 and the Chairman's Statement on pages 2 to 5.

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 2007 the Group's cash balance was £103,891,000 (2006: £53,291,000).

19. Financial instruments (continued)

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.

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 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
As at 31 December 2006						
Financial assets						
Cash and cash equivalents	53,291	–	53,291	–	4.54	–
Rents receivable	2,099	–	–	2,099	–	–
Financial liabilities						
5.23 per cent Secured Bonds due 2017	228,993	228,993	–	–	5.29	8.5

Apart from the 5.23 per cent Secured Bonds as disclosed in note 14, 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 100 basis points in interest rates as at the balance sheet date would have decreased their fair value by approximately £13,965,000 (2006: £14,583,000), a decrease of 100 basis points would have increased their fair value by approximately £12,944,000 (2006: £15,867,000). 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 5.50 per cent as at 31 December 2007 (2006: 5.0 per cent). The Company's policy is to hold cash in variable 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 100 basis points in interest rates would have increased net assets and income for the year by £1,039,000 (2006: £533,000). A decrease of 100 basis points would have had an equal but opposite effect. The calculations are based on the cash balances at the respective balance sheet dates.

19. Financial instruments (continued)

Market price risk

The Group's strategy for the management of market price risk is driven by the Group's investment policy as outlined within the Report of the Directors on pages 13 and 14. 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.

The Group also holds investments in indirect property funds which in turn invest directly in commercial property. The underlying investments 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 investments, such funds also carry the risk that the investment cannot be disposed of at their net asset value due to a lack of liquidity. As highlighted under Liquidity risk on page 37 the Board considers that a discount of 10 per cent should be applied to such investments to reflect the likely realisable value of these assets at the balance sheet date.

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 11. A 10 per cent increase in the value of the direct properties at 31 December 2007 would have increased net assets and income for the year by £97,843,000 (2006: £104,698,000). A decrease of 10 per cent would have had an equal but opposite effect.

A 20 per cent increase in the underlying net asset values of the indirect property funds at 31 December 2007 would have increased net assets and income for the year by £23,730,000 (2006: £36,375,000). A decrease of 20 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.

Company financial instruments

The financial instruments held by the Company comprise balances with other Group members, cash and receivables and payables that arise directly from its operations.

The Board reviews and agrees policies for managing the Company's exposure to credit risk, liquidity risk, interest rate risk and market price risk and these policies are identical to those previously detailed for the Group on pages 36 to 39.

20. Capital commitments

The Group had capital commitments totalling £1,984,000 as at 31 December 2007 (2006: £186,000).

The Company did not have any capital commitments at 31 December 2007 (2006: nil).

Notes to the Accounts (continued)

21. 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):

	Company		Group	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Less than one year	**–**	–	**1,961**	607
Between two and five years	**–**	–	**45,889**	32,071
Over five years	**–**	–	**413,764**	452,016
Total	**–**	–	**461,614**	484,694

The largest single tenant at the year end accounted for 5.2 per cent (2006: 5.3 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 1.2 per cent (2006: 2.1 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 Manager's Review on pages 7 to 10.

22. Post balance sheet event

At the 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 will 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 regards to 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 regards to the cancellation of the share premium account.

Notice of Annual General Meeting

Notice is hereby given that the Third Annual General Meeting of F&C Commercial Property Trust Limited will be held at Trafalgar Court, Les Banques, St. Peter Port, Guernsey GY1 3QL on Wednesday, 21 May 2008 at 12.30 pm for the following purposes.

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

1. That the accounts and the reports of the Directors and of the Auditor for the year ended 31 December 2007 be received and approved.
2. That Mr D L Adamson, who retires by rotation, be re-elected as a Director.
3. That Mr B W Sweetland, who retires annually, be re-elected as a Director.
4. That KPMG Channel Islands Limited be re-appointed as Auditor.
5. That the Directors be authorised to determine the Auditor's remuneration.

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

6. That the Company be authorised, in accordance with section 5 of The Companies (Purchase of Own Shares) Ordinance, 1998 (the ''Ordinance''), to make market purchases (within the meaning of section 18 of the Ordinance) 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 2009, or on 20 November 2009, 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 GY1 3QL

27 March 2008

Notes:

1. A member who is entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company.
2. A 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 Computershare Investor Services (CI) Limited, Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW not later than 12.30 pm on 19 May 2008.
3. 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.
4. 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 12.30 pm on 19 May 2008. 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.
5. As at 27 March 2008, the latest practicable date prior to publication of this document, the Company had 763,582,016 Ordinary Shares in issue, including 51,148,013 in treasury. The number of shares with voting rights was 712,434,003, each carrying one voting right.
6. 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.
7. The Articles of Association and the Directors' letters of appointment will be available for inspection for 15 minutes prior to, and at, the Annual General Meeting.

Shareholder Information

Dividends

Ordinary dividends are paid quarterly in January, April, July and October each year. 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.

Dividend Reinvestment Plan

Shareholders who wish to use their dividends to purchase further shares in the Company by participating in the Dividend Reinvestment Plan can complete a Mandate Form which 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.

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 GY1 3QL. Additional information regarding the Company may also be found at its website address which is: www.fccpt.co.uk.

Financial Calendar 2007/08

25 April 2008	Payment of fourth interim dividend
April 2008	Publication of Interim Management Statement
21 May 2008	Annual General Meeting
July 2008	Payment of first interim dividend
August 2008	Announcement of interim results
September 2008	Posting of Interim Report
October 2008	Payment of second interim dividend
October 2008	Publication of Interim Management Statement
January 2009	Payment of third interim dividend
March 2009	Announcement of annual results
April 2009	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 paid 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**

*Excluding set up costs.

†Ex-dividend for third interim dividend payable in January each year.

‡After application of a 10 per cent discount to the value of the Company's investments in the indirect property funds. Further details are provided in the Chairman's Statement and note 9 to the accounts.

F&C Commercial Property Trust Limited

PROXY

I/We (name in full)____
(BLOCK LETTERS PLEASE)

of (address in full)____

being (a) member(s) of F&C Commercial Property Trust Limited, hereby appoint the Chairman of the meeting or the Company Secretary, or*

____

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company, to be held on 21 May 2008, on the following Resolutions to be submitted to the meeting and at any adjournment thereof.

Please indicate with an 'X' in the appropriate spaces how you wish your votes to be cast. Unless otherwise instructed, the proxy will vote as he thinks fit or abstain.

Ordinary Resolutions	For	Against	Vote Withheld
1. To receive and approve the accounts and the reports of the Directors and of the Auditor for the year to 31 December 2007.			
2. To re-elect Mr D L Adamson, who retires by rotation, as a Director.			
3. To re-elect Mr B W Sweetland, who retires annually, as a Director.			
4. To re-appoint KPMG Channel Islands Limited as Auditor.			
5. To authorise the Directors to determine the Auditor's remuneration.			
Special Resolution			
6. To renew the Directors' authority to make market purchases of Ordinary Shares.			

Signature ____

Dated this ____________________ day of ____________________ 2008

Notes:

You may, if you wish, in the space provided, after deleting the words "the Chairman of the meeting or the Company Secretary, or", insert the name(s) of the person(s) of your choice to attend and vote at the meeting on your behalf. A proxy need not be a member of the Company but must attend the meeting to represent you.

In the case of a corporation, the proxy must be either under its common seal or under the hand of an officer.

In order to have effect, the proxy must be deposited at Computershare Investor Services (CI) Limited, Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW at least 48 hours before the time of the meeting.

In the case of a joint holding, a proxy need only be signed by one joint holder. If more than one such joint holder lodges a proxy only that of the holder first on the Register will be counted.

Any alterations made in this proxy should be initialled.

Completion of a proxy shall not prevent a shareholder from attending the Annual General Meeting.

Only shareholders or their proxies may attend the meeting. Only shareholders personally present may vote on a show of hands.

SECOND FOLD

RESPONSE LICENCE No.
JE 147

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Computershare Investor Services (CI) Limited
Ordnance House
31 Pier Road
St. Helier
Jersey JE4 8PW

FIRST FOLD

THIRD FOLD AND TUCK IN

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 GY1 3QL

Registered Office
Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL

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

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

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

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

Summerhall Corporate 38875

Registered Office

Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL

Registrars

Northern Trust International Fund Administration Services (Guernsey) Limited
Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL
Telephone: 01481 745 001