



## **ISIS Property Trust 2 Limited**

Interim Report

For the six months ended

31 December 2006

# Company Summary

## **Objective**

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 Managers**

F&C Investment Business Limited

## **Total Assets Less Current Liabilities**

£240.4 million at 31 December 2006

## **Shareholders' Funds**

£167.9 million at 31 December 2006

## **Capital Structure**

At launch, on 1 June 2004, the Company had a capital structure comprising approximately 60 per cent Ordinary Shares and 40 per cent bank debt.

Ordinary shareholders are entitled to all dividends declared by the Company and to all the Company's assets after repayment of its borrowings. As at 31 December 2006 borrowings consisted of a loan of £70.7 million drawn down for a period of 10 years to 30 May 2014. The loan carried interest at 0.74 per cent over LIBOR for the first three years and 0.65 per cent thereafter; this variable rate had been fixed through an interest rate swap, which was due to mature on 1 June 2014, and resulted in a weighted average interest rate of 6.29 per cent per annum.

On 10 January 2007, the company repaid in full its existing debt facility and entered into a new £75 million facility with Lloyds TSB Scotland plc. ('LTSB'). The term of this facility is until January 2017. This loan carries interest at 50 basis points over LIBOR for the first three years and 45 basis points over LIBOR thereafter. The company has also terminated the interest rate swap detailed above and entered into a new swap with LTSB. Interest on the full amount initially drawn down has been fixed at 5.655 per cent for the first three years and 5.605 per cent thereafter.

## **Isa/Pep Status**

The Company's shares are eligible for Individual Savings Accounts (Isas) and Pep transfers.

# Financial Highlights and Performance Summary

- Net asset value per share increased by 6.8 per cent
- Dividend yield of 4.9 per cent

## Total Return

	<b>Six months to 31 December 2006</b>
Net asset value per share*	<b>9.3%</b>
Ordinary Share price*	<b>2.1%</b>
Investment Property Databank Monthly Index	<b>7.7%</b>
FTSE All-Share Index	<b>10.0%</b>

## Capital Values

	<b>31 December 2006</b>	30 June 2006	% Change
Total assets less current liabilities £000's	<b>240,418</b>	231,118	4.0%
Net asset value per share	<b>151.9p</b>	142.2p	6.8%
Ordinary Share price	<b>142.0p</b>	142.5p	(0.3)%
FTSE All-Share Index	<b>3,221.4</b>	2,967.6	8.6%
(Discount)/premium to net asset value per share	<b>(6.5)%</b>	0.2%	–
Gearing†	<b>29.4%</b>	30.9%	–

\* Total return assumes that gross dividends are reinvested

† Gearing: Bank Debt ÷ Total Assets less Current Liabilities.

Sources: F&C Investment Business, Investment Property Databank ('IPD'), and Datastream.

# Chairman's Statement

## Results

The six months to 31 December 2006 saw further strong performance for the commercial property sector, with total returns according to the Investment Property Databank ('IPD') Monthly Index of 7.7 per cent. The Company's net asset value total return for the period was 9.3 per cent and the net asset value per share as at 31 December 2006 was 151.9 pence.

The shares have historically traded at a premium to net asset value. However, this trend changed during the second half of 2006, subsequent to the announcement of two interest rate increases. The share price fell by 0.5 pence during the period and the shares were trading at a 6.5 per cent discount as at 31 December 2006.

## Property Market and Portfolio

There was an increased level of activity within the portfolio during the period, with three properties being sold. The largest sale was 99/101 Long Acre, London WC2 which was sold for £17.5 million, reflecting a yield of 3.6 per cent. The property valuation at 30 June 2006 was £16.4 million and the original purchase price at launch was £10.8 million.

The property at Genesis House, Milton Keynes was sold for £8.1 million reflecting a yield of 5.85 per cent. The valuation as at 30 June 2006 was £6.8 million and the purchase price was £6.0 million in June 2004. The Company also sold 114 Princes Street, Edinburgh for £985,000 reflecting a yield of 4.1 per cent, compared with its valuation at 30 June 2006 of £950,000 and a purchase price of £710,000.

Apart from the sales, further significant increases in value were recorded on a number of properties. A significant contribution came from

the property at Units 1–8 Lakeside Road, Colnbrook which increased in value by 10.7 per cent to £15.5 million, as a result of the refurbishment and re-letting of units. Also of particular note was 48/9 St James Street, London WC2 which increased in value by 10.5 per cent to £18.4 million, as a result of an increase in Estimated Rental Value ('ERV') and an inward yield shift from continued occupational and investor demand for West End office property. Clifton Moor Gate, York increased in value by 4.9 per cent to £10.7 million, as a result of yield movement from increasing investor demand in the motor showroom sector.

Across the portfolio, void rates remain extremely low at 0.3 per cent, compared with the IPD average of 7.4 per cent. During the period, six rent reviews were completed providing an uplift of £45,875 per annum, or 6.4 per cent.

The receipts from the sales of property in the first half of the financial year are expected to be reinvested in the short to medium term, with a view to rebalancing the portfolio. It is the intention of the Managers to seek further investment in the out of town retail and office sectors.

## Dividends

A first interim dividend of 1.73 pence per share was paid on 22 December 2006. A second interim dividend of 1.73 pence per share will be paid on 30 March 2007 to shareholders on the register on 16 March 2007. As explained in my 2006 annual results statement, this new rate of dividend represents an increase of 2.5 per cent on the rate set at launch and it is intended that, in the absence of unforeseen circumstances, future quarterly dividends will be maintained at this level.

## Borrowings

The use of borrowings has continued to be an effective strategy in a market of increasing property values, providing enhanced returns to shareholders. The gearing level as at 31 December 2006 was 29.4 per cent, which compared to 30.9 per cent as at 30 June 2006 and 40.0 per cent at launch on 1 June 2004.

On 10 January 2007 the Company repaid in full its existing debt facility of £70.7 million with The Royal Bank of Scotland plc ('RBS') and entered into a new £75 million facility with Lloyds TSB Scotland plc ('LTSB'). The term of this facility is until January 2017. The margin under the new debt facility is 50 basis points over LIBOR for the first three years and 45 basis points over LIBOR for the remaining period. The other terms of the facility are substantially identical to the terms of the previous facility with RBS. The Company has initially drawn down £60 million under the new facility.

At the same time, the Company terminated the interest rate swap with RBS and entered into a new interest rate swap transaction with LTSB. Under this agreement, the interest on the amount initially drawn down under the new facility has been fixed at an aggregate interest rate (including margin) of 5.655 per cent per annum for the first three years and 5.605 per cent per annum thereafter. This compares to a fixed rate of interest of 6.265 per cent under the previous facility.

## Outlook

It has been another successful six months for the Company and further positive returns are expected during the remainder of the financial year, although at more modest levels than previously witnessed.

Future returns are expected to be driven by income growth, rather than the capital returns experienced to date. The Company has realised capital gains on some properties and the Board believes it is well placed to take advantage of any new investment opportunities that come to the market.



**Quentin Spicer**

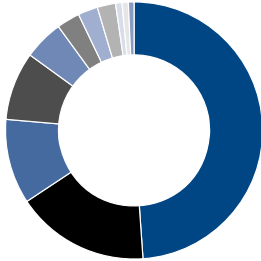
Chairman

8 March 2007

# Portfolio Statistics

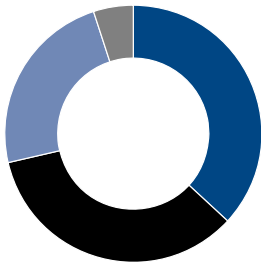
## Portfolio by . . .

### Geographical Analysis as at 31 December 2006



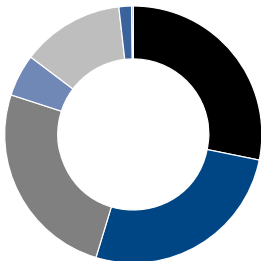
South East	48.9%
West Midlands	16.8%
London – West End	10.7%
Scotland	8.6%
Yorkshire and Humberside	5.0%
East Midlands	2.9%
Eastern	2.5%
Rest of London	2.3%
South West	0.8%
North East	0.8%
North West	0.7%

### Sector Analysis as at 31 December 2006



Industrial	36.9%
Retail	34.5%
Offices	23.6%
Retail Warehouse	5.0%

### Covenant Strength as at 31 December 2006

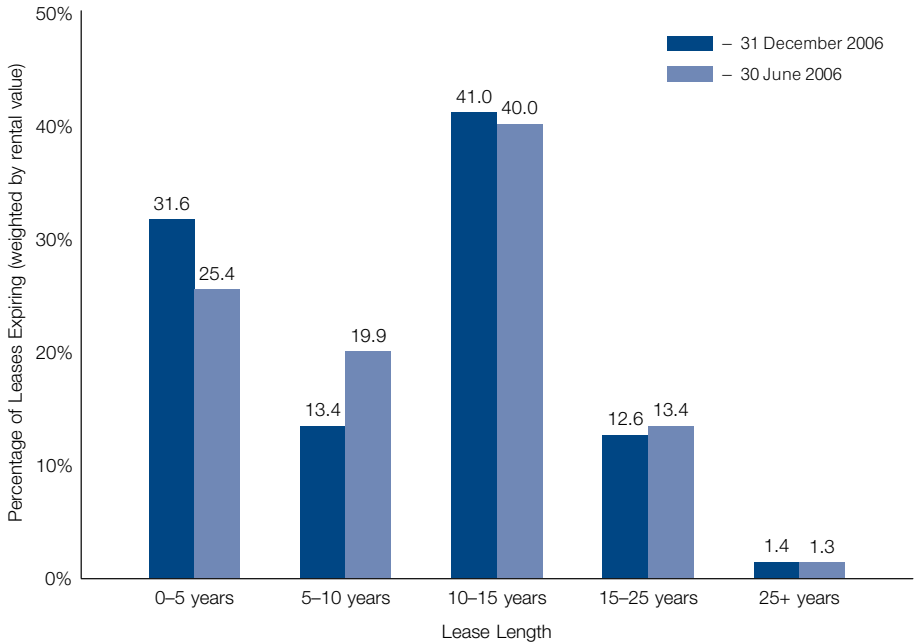


Negligible and Government Risk	28.2%
Low Risk	26.5%
Low-Medium Risk	25.3%
Medium-High Risk	5.3%
High Risk	12.9%
Unmatched	1.6%
Ineligible	0.2%

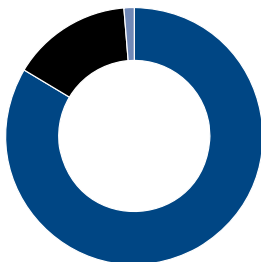
Source: Investment Property Databank ('IPD').

### Lease Expiry Profile

At 31 December 2006 the average lease length for the portfolio, assuming all break options are exercised, was 9.7 years (30 June 2006: 10.1 years).



### Tenure Analysis as at 31 December 2006



# Property Portfolio

as at 31 December 2006

Property	Fair Value £'000	% of Total Assets (less current liabilities)
Banbury, 3663 Unit, Echo Park†	19,821	8.2
London SW1, 48/49 St James Street	18,400	7.7
Colnbrook, Units 1-8 Lakeside Road	15,550	6.5
Bellshill, Mercury House, Strathclyde Business Park	15,000	6.2
Eastleigh, Southampton International Park	14,825	6.2
Leamington Spa, 30-40 The Parade & 47/59a Warwick Street	12,400	5.2
Hemel Hempstead, Hemel Gateway	11,150	4.6
York, Clifton Moor Gate*	10,750	4.5
Rugby, Swift House, Cosford Lane*	9,000	3.7
Brookwood, The Clock Tower	6,525	2.7
<b>Ten largest property holdings</b>	<b>133,421</b>	<b>55.5</b>
Winchester, 7-8 High Street & 50 Colebrook Street	6,210	2.6
Nottingham, Standard Hill	6,150	2.5
Milton Keynes, Site E Chippenham Drive	5,700	2.4
Sutton Coldfield, 63-67 The Parade	5,450	2.3
Southampton, Units 1, 2 & 3, Above – Bar Church*	5,200	2.2
Guildford, 51-53 High Street	4,960	2.1
London SW1, 24 Haymarket & 1/2 Panton Street*	4,475	1.8
Marlow, Globe Park, Unit GP9	4,300	1.8
Leamington Spa, 88/90 The Parade	3,975	1.6
Croydon, 17, 19 & 21 George Street	3,700	1.5
<b>Twenty largest property holdings</b>	<b>183,541</b>	<b>76.3</b>
Guildford, 7/11 Bridge Street	3,650	1.5
Edinburgh, 100A Princes Street	3,350	1.4
Rayleigh, 81/87 High Street	3,150	1.3
Nuneaton, 1-2 Church Street	2,940	1.2
Sunningdale, 53/79 Chobham Road	2,650	1.1
Wickford, 12/20 High Street	2,150	0.9
Brighton, 2-3 Pavilion Buildings*	2,000	0.9
Hereford, 9 High Street	2,000	0.9
South Shields, 67/69 King Street	1,790	0.7
Swindon, Unit 5, Newcombe Drive	1,700	0.7
<b>Thirty largest property holdings</b>	<b>208,921</b>	<b>86.9</b>
Sutton, 97 High Street	1,150	0.5
Rochdale, 40 Yorkshire Street	900	0.4
Newbury, 25 Northbrook Street*	835	0.3
Rochdale, 42 Yorkshire Street	665	0.3
<b>Total property portfolio</b>	<b>212,471</b>	<b>88.4</b>
<b>Net current assets</b>	<b>27,947</b>	<b>11.6</b>
<b>Total assets less current liabilities</b>	<b>240,418</b>	<b>100.0</b>

\* Leasehold property.

† The market value of Banbury is £20,925,000. The difference between the market value and the fair value is the reverse lease surrender premium of £1,104,000 which is recorded in the accounts as a current asset.



# Consolidated Income Statement

		<b>Six months to 31 December 2006 (unaudited) £'000</b>	Six months to 31 December 2005 (unaudited) £'000	Year to 30 June 2006 (audited) £'000
	Notes			
<b>Revenue</b>				
Rental income		<b>6,106</b>	6,201	12,547
<b>Gains on investment properties</b>	2	<b>11,173</b>	16,769	31,158
<b>Total income</b>		<b>17,279</b>	22,970	43,705
<b>Expenditure</b>				
Investment management fee		<b>(1,024)</b>	(898)	(1,883)
Direct operating expenses of let rental property		<b>(240)</b>	(237)	(466)
Administrative fee		<b>(32)</b>	(31)	(62)
Valuation and other professional fees		<b>(78)</b>	(70)	(157)
Directors' fees		<b>(52)</b>	(33)	(66)
Other expenses		<b>(94)</b>	(113)	(162)
<b>Total expenditure</b>		<b>(1,520)</b>	(1,382)	(2,796)
<b>Net operating profit before finance costs</b>		<b>15,759</b>	21,588	40,909
<b>Finance costs</b>				
Interest revenue receivable		<b>187</b>	64	201
Interest payable		<b>(2,265)</b>	(2,270)	(4,508)
		<b>(2,078)</b>	(2,206)	(4,307)
<b>Net profit from ordinary activities before taxation</b>		<b>13,681</b>	19,382	36,602
Taxation on profit on ordinary activities		-	-	-
<b>Net profit for the period</b>		<b>13,681</b>	19,382	36,602
<b>Earnings per Ordinary Share</b>	3	<b>12.4p</b>	17.5p	33.1p

This financial information has been prepared on the basis of the accounting standards and policies set out in the Annual Report and Accounts for the year ended 30 June 2006.

All items in the above statement derive from continuing operations.

# Consolidated Balance Sheet

	Notes	<b>31 December 2006 (unaudited) £'000</b>	31 December 2005 (unaudited) £'000	30 June 2006 (audited) £'000
<b>Non-current assets</b>				
Investment properties		<b>212,471</b>	214,065	227,293
<b>Current assets</b>				
Trade and other receivables		<b>3,306</b>	1,046	2,939
Cash and cash equivalents		<b>28,822</b>	7,578	5,051
		<b>32,128</b>	8,624	7,990
<b>Total assets</b>		<b>244,599</b>	222,689	235,283
<b>Non-current liabilities</b>				
Interest bearing bank loan		<b>(70,725)</b>	(71,330)	(71,330)
Interest rate swap		<b>(1,807)</b>	(5,741)	(2,652)
		<b>(72,532)</b>	(77,071)	(73,982)
<b>Current liabilities</b>				
Trade and other payables		<b>(4,181)</b>	(5,062)	(4,165)
<b>Total liabilities</b>		<b>(76,713)</b>	(82,133)	(78,147)
<b>Net assets</b>		<b>167,886</b>	140,556	157,136
<b>Represented by:</b>				
Share capital		<b>1,105</b>	1,105	1,105
Special distributable reserve		<b>102,020</b>	104,186	103,288
Capital reserve		<b>66,568</b>	41,006	55,395
Other reserve		<b>(1,807)</b>	(5,741)	(2,652)
<b>Equity shareholders' funds</b>		<b>167,886</b>	140,556	157,136
<b>Net asset value per Ordinary Share</b>	5	<b>151.9p</b>	127.2p	142.2p

# Consolidated Statement of Changes in Equity

	<b>Six months to 31 December 2006 (unaudited) £'000</b>	Six months to 31 December 2005 (unaudited) £'000	Year to 30 June 2006 (audited) £'000
<b>Opening net assets</b>	<b>157,136</b>	124,478	124,478
Net profit for the period	<b>13,681</b>	19,382	36,602
Dividends paid	<b>(3,776)</b>	(3,730)	(7,459)
Unrealised gain on revaluation of interest rate swap	<b>845</b>	426	3,515
<b>Closing net assets</b>	<b>167,886</b>	140,556	157,136

Notes

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# Consolidated Statement of Cash Flows

	<b>Six months to 31 December 2006 (unaudited) £'000</b>	Six months to 31 December 2005 (unaudited) £'000	Year to 30 June 2006 (audited) £'000
<b>Cash flows from operating activities</b>			
Net operating profit for the period before finance costs	<b>15,759</b>	21,588	40,909
Adjustments for:			
Gains on investment properties	<b>(11,173)</b>	(16,769)	(31,158)
(Increase)/decrease in operating trade and other receivables	<b>(367)</b>	258	(1,635)
Increase/(decrease) in operating trade and other payables	<b>87</b>	565	(326)
	<b>4,306</b>	5,642	7,790
Interest received	<b>187</b>	64	201
Bank loan interest paid	<b>(2,611)</b>	(1,959)	(3,927)
Payments under interest rate swap arrangement	<b>(330)</b>	(293)	(569)
	<b>(2,754)</b>	(2,188)	(4,295)
<b>Net cash inflow from operating activities</b>	<b>1,552</b>	3,454	3,495
<b>Cash flows from investing activities</b>			
Capital expenditure	<b>(615)</b>	(1,246)	(85)
Sale of investment properties	<b>26,610</b>	5,000	5,000
<b>Net cash inflow from investing activities</b>	<b>25,995</b>	3,754	4,915
<b>Cash flows from financing activities</b>			
Dividends paid	<b>(3,776)</b>	(3,730)	(7,459)
<b>Net cash outflow from financing activities</b>	<b>(3,776)</b>	(3,730)	(7,459)
<b>Net increase in cash and cash equivalents</b>	<b>23,771</b>	3,478	951
<b>Opening cash and cash equivalents</b>	<b>5,051</b>	4,100	4,100
<b>Closing cash and cash equivalents</b>	<b>28,822</b>	7,578	5,051

# Notes to the Interim Report

## for the six months to 31 December 2006

1. The unaudited interim results have been prepared in accordance with the accounting policies that the directors anticipate will be complied with in the annual financial statements for the year to June 2007.

2. Gains on investments disposed in period

	<b>Six month period to 31 December 2006 £ million</b>
Original cost of investment properties sold	<b>17.8</b>
Market value of investment properties sold as at 30 June 2006	<b>24.2</b>
Sale proceeds	<b>26.6</b>
Gain on disposal calculated with reference to	
– original cost	<b>8.8</b>
– 30 June 2006 valuation	<b>2.4</b>

3. Earnings per Ordinary Share are based on 110,500,000 shares, being the weighted average number of shares in issue during the period (31 December 2005 – 110,500,000; 30 June 2006 – 110,500,000).

4. Earnings for the six months to 31 December 2006 should not be taken as a guide to the results for the year to 30 June 2007.

5. The net asset value per Ordinary Share is based on net assets of £167,886,000 (31 December 2005 – £140,556,000 and 30 June 2006 – £157,136,000) and 110,500,000 Ordinary Shares (31 December 2005 – 110,500,000 and 30 June 2006 – 110,500,000), being the number of shares in issue at the period end.

6.

	<b>Period to 31 December 2006</b>	
	<b>Rate (pence)</b>	<b>£'000</b>
Fourth interim dividend for the period to 30 June 2006, paid 29 September 2006	<b>1.6875</b>	<b>1,865</b>
First interim dividend for the year to 30 June 2007, paid 22 December 2006	<b>1.7300</b>	<b>1,911</b>
	<b>3.4175</b>	<b>3,776</b>

A second interim dividend for the year to 30 June 2007, of 1.73p per share, will be paid on 30 March 2007 to shareholders on the register at close of business on 16 March 2007.

7. No Director has an interest in any transactions which are or were unusual in their nature or significant to the Group. F&C Asset Management plc received fees for its services as Investment Managers. The total charge to the Income Statement during the period was £1,024,000 of which £520,000 remained payable at the period end. During the year, F&C Asset Management plc novated the investment management agreement with the Company to F&C Investment Business Limited, one of its wholly-owned subsidiaries. There were no changes to the terms of the investment management agreement with the Company.

The Directors of the Company received fees for their services totalling £52,500, of which £26,000 remained payable at the period end.

8. The Group results consolidate those of IPT2 Property Holdings Limited ('IPH'), a wholly owned subsidiary. IPH is incorporated in Guernsey whose principal business is that of an investment and property company.

# Independent Review Report to ISIS Property Trust 2 Limited

## Introduction

We have been instructed by the Company to review the financial information for the six months ended 31 December 2006 which comprises the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and the related notes 1 to 8. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

## Directors' Responsibilities

The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the Interim Report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those which will be applied in preparing the annual accounts, except where any changes, and the reasons for them, are disclosed.

## Review Work Performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 "Review of interim financial information" issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

## Review Conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2006.

## Ernst & Young LLP

Guernsey

14 March 2007

# Corporate Information

## Directors

Quentin Spicer (Chairman)\*  
Andrew E G Gulliford†  
Christopher W Sherwell  
Christopher P Spencer‡  
C Giles H Weaver

## 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

## Auditors

Ernst & Young LLP  
14 New Street  
St Peter Port  
Guernsey GY1 4LE

## 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

## Bankers

RBS International  
PO Box 604  
Royal Bank Place  
St Peter Port  
Guernsey

## Marketing Adviser

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

## Website:

[www.isispropertytrust2.com](http://www.isispropertytrust2.com)

\* Chairman of the Nomination Committee and Management Engagement Committee.

† Chairman of the Property Valuation Committee.

‡ Chairman of the Audit Committee.



**Registered Office**

Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey GY1 3QL

**Secretary and Registrar**

Northern Trust International Fund Administration  
Services (Guernsey) Limited  
Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey GY1 3QL