

# ISIS Property Trust 2 Limited

2005

Interim report for the  
six months ended  
31 December 2005

# 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 Asset Management plc

## Total Assets Less Current Liabilities

£217.6 million at 31 December 2005

## Shareholders' Funds

£140.6 million at 31 December 2005

## 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. Borrowings consist of a loan of £70.7 million drawn down for a period of 10 years to 30 May 2014. The loan carries interest at 0.74 per cent over LIBOR for the first three years and 0.65 per cent thereafter; this variable rate has been fixed through an interest rate swap, which matures on 1 June 2014, and results in a weighted average interest rate of 6.29 per cent per annum.

## 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 13.0 per cent
- Dividend yield of 5.2 per cent

## Total Return

	Six months to 31 December 2005
Net asset value per share (per accounts)	16.1%
Ordinary Share price	6.2%
Investment Property Databank Monthly Index	10.8%
FTSE All-Share Index	12.8%

## Capital Values

	31 December 2005	30 June 2005	% Change
Total assets less current liabilities £000's	<b>217,627</b>	202,007	7.7%
Net asset value per share (per accounts)	<b>127.2p</b>	112.6p	13.0%
Net asset value per share (as announced)*	<b>127.2p</b>	117.2p	8.5%
Ordinary Share price	<b>128.8p</b>	124.5p	3.4%
FTSE All-Share Index	<b>2,847.0</b>	2,560.2	11.2%
Premium to net asset value per share (as announced)†	<b>1.3%</b>	6.2%	–
Gearing†	<b>32.8%</b>	35.3%	–

\* Until 30 June 2005 the net asset value per share ("NAV") (as announced), was calculated on a capital only basis under UK Generally Accepted Accounting Principles ("UK GAAP") and practice for investment trust companies. The NAV (as announced) is now calculated under International Financial Reporting Standards ("IFRS"), the basis on which these consolidated accounts have also been prepared.

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

Sources: F&C Asset Management, Investment Property Databank (IPD), and Datastream.

# Chairman's Statement

## Results

The Company has continued to make good progress since I reported on the annual results to 30 June 2005. For the six months to 31 December 2005 the net asset value total return was 16.1 per cent, which compares favourably to a half year return of 10.8 per cent from the Investment Property Databank ('IPD') Monthly Index. The Company's net asset value per share increased by 13.0 per cent to 127.2 pence and the share price increased by 3.4 per cent to 128.8 pence per share as at 31 December 2005, representing a premium of 1.3 per cent to the net asset value.

## Property Market Overview

The second half of 2005 was another good period for the commercial property market. Continuing strong investment demand led to further yield compression and resulted in increased capital values.

For the half year as a whole, rental growth returned to all the main property sectors. There was a convergence in performance by sector with Retail retaining top place with an 11.3 per cent total return, Offices continuing their recovery with a return of 10.5 per cent, whilst Industrials recorded a return of 9.4 per cent. The period saw record levels of investment activity, particularly from overseas investors and institutions.

## Portfolio

The capital value of the portfolio increased to £214.1 million as at 31 December 2005,

representing a net un-gearred uplift of 8.3 per cent for the six month period. This compares favourably to a reported increase of 7.7 per cent in the IPD Monthly Index.

The largest increase came from 48/49 St James Street, London SW1, where the value rose by £2.9 million to £15.3 million (22.9 per cent) reflecting the continued strength of the occupational and investment market for West End offices. Further substantial increases came from 99/103 Long Acre, London WC2 (£1.5 million, 11.8 per cent), Southampton International Park, Eastleigh (£1.2 million, 10.0 per cent) and Mercury House, Strathclyde Business Park, Bellshill (£1.1 million, 8.5 per cent).

The lease of Unit 3663, Echo Park, Banbury was re-gearred in return for a payment to the tenant of £1.2 million. The existing term of 10 years has been extended to 20 years, and the rent increased by £41,000 per annum (3.8 per cent) subject to a fixed uplift in 2010. The value increased from £15.0 million as at 30 June 2005 to £19.0 million as at 31 December 2005, a net uplift of 18.5 per cent.

Across the portfolio, void rates remain low at 1.1 per cent by estimated rental value ('ERV'). During the period, two rent reviews were agreed which increased rents by £14,400 per annum.

As previously advised, at the beginning of December the property at Hemel Gateway,

# Chairman's Statement

Boundary Way, Hemel Hempstead was severely damaged as a result of the fuel explosion at the neighbouring Buncefield fuel terminal. This property is fully insured and the Board does not expect there to be any material capital or income loss to the Company.

Although no new properties were purchased during the period, Pincents Lane, Reading was sold in December for £5.0 million (8.7 per cent above valuation) with vacant possession, due to the tenants, Allders plc, being put into administration.

## Dividends

A first interim dividend of 1.6875 pence per share was paid on 16 December 2005, in respect of the year ending 30 June 2006. The Board has declared a second interim dividend of 1.6875 pence per Ordinary Share, which will be paid on 31 March 2006 to shareholders on the register on 17 March 2006.

## Borrowings

As a result of the strong rise in the value of the portfolio, the gearing level as at 31 December 2005 was 32.8 per cent, which compared to 35.3 per cent as at 30 June 2005 and 40.0 per cent at launch on 1 June 2004.

The Company's borrowings are represented by a ten year fixed rate bank loan of £70.7 million which is drawn down to 30 May 2014.

## Outlook

Prospects for the property market in 2006 remain positive, although we would expect returns to be lower than those of the last two years. The Managers' forecast for 2006 is for a modest improvement in rental growth, further fall in yields and for all property returns of approximately 10 per cent. Over the medium term, we would expect returns from property to continue to be attractive, but at more sustainable levels.



## Quentin Spicer

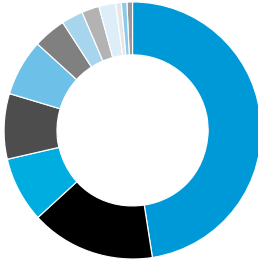
Chairman

9 March 2006

# Portfolio Statistics

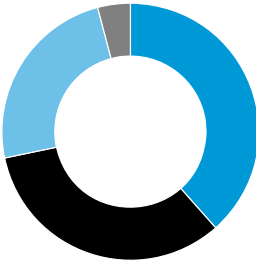
## Portfolio by . . .

Geographical Analysis as at 31 December 2005



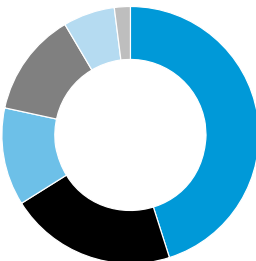
South East	47.7%
West Midlands	15.6%
Scotland	8.2%
London – West End	8.2%
London – Midtown	7.1%
Yorkshire and Humberside	4.1%
East Midlands	2.7%
Rest of London	2.2%
Eastern	2.1%
South West	0.7%
North West	0.7%
North East	0.7%

Sector Analysis as at 31 December 2005



Retail	38.5%
Industrial	33.3%
Offices	24.1%
Retail Warehouse	4.1%

Covenant Strength as at 31 December 2005



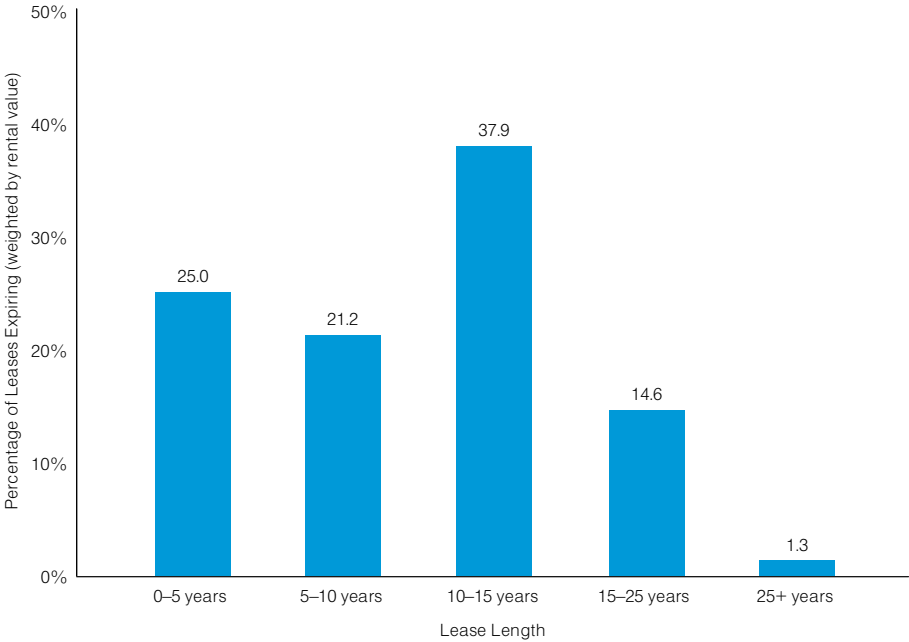
Negligible and Government Risk	21.0%
Low Risk	45.1%
Low-Medium Risk	12.3%
Medium-High Risk	13.1%
High Risk	6.5%
Unmatched	2.0%

Source: Investment Property Databank (IPD).

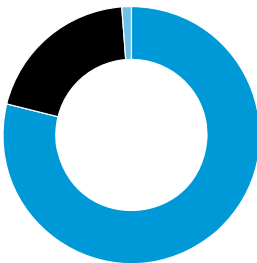
# Portfolio Statistics

## Lease Expiry Profile

At 31 December 2005 the average lease length for the portfolio, assuming all break options are exercised, was 10.4 years.



## Tenure Analysis as at 31 December 2005



Freehold	78.9%
Leasehold	19.9%
Mixed Freehold/Leasehold	1.2%

# Property Portfolio

Property	Market Value £'000	% of Total Assets (less current liabilities)
Unit 3663, Echo Park, Banbury	19,000	8.7
48/49 St James's Street & 161 Piccadilly, London SW1	15,300	7.0
99/103 Long Acre, London WC2*	14,000	6.4
Mercury House, 1 Dove Wynd, Strathclyde Business Park	13,750	6.3
Southampton International Park, Eastleigh	13,250	6.1
Units 1–8 Lakeside Road, Colnbrook	13,125	6.1
30/40 The Parade & 47/59A Warwick Street, Leamington Spa	12,000	5.5
Hemel Gateway, Boundary Way, Hemel Hempstead	10,500	4.8
Clifton Moor Gate, York*	8,750	4.1
Swift House, Cosford Lane, Rugby*	8,350	3.8
<b>Ten largest property holdings</b>	<b>128,025</b>	<b>58.8</b>
Genesis House, Midsummer Boulevard, Milton Keynes	6,820	3.1
The Clock Tower, Brookwood	5,950	2.7
7–8 High Street & 50 Colebrook Street, Winchester	5,900	2.7
Standard Hill, No 1 Royal Standard Place, Nottingham	5,675	2.7
Crown House, Chippenham Drive, Milton Keynes	5,425	2.5
Units 1, 2 & 3 Above Bar, Southampton*	5,275	2.4
63–67 The Parade, Sutton Coldfield	5,000	2.3
51–53 High Street, Guildford	4,520	2.2
Unit GP9, Globe Park, Marlow	4,200	1.9
88/90 The Parade, Leamington Spa	3,625	1.7
<b>Twenty largest property holdings</b>	<b>180,415</b>	<b>83.0</b>
17, 19 & 21 George Street, Croydon	3,500	1.6
24 Haymarket & 1/2 Panton Street, London SW1*	3,450	1.6
7/11 Bridge Street, Guildford	3,150	1.5
100A Princes Street, Edinburgh	2,875	1.3
81/87 High Street, Rayleigh	2,675	1.2
1–2 Church Street, Nuneaton	2,400	1.1
53/79 Chobham Road, Sunningdale	2,400	1.1
12/20 High Street, Wickford	2,000	0.9
2–3 Pavilion Buildings, Brighton*	1,980	0.9
9 High Street, Hereford	1,975	0.9
<b>Thirty largest property holdings</b>	<b>206,820</b>	<b>95.1</b>
Unit 5, Newcombe Drive, Swindon	1,600	0.8
67/69 King Street, South Shields	1,410	0.6
97 High Street, Sutton	1,160	0.5
114 Princes Street, Edinburgh	860	0.4
40 Yorkshire Street, Rochdale	845	0.4
25 Northbrook Street, Newbury*	720	0.3
42 Yorkshire Street, Rochdale	650	0.3
<b>Total property portfolio</b>	<b>214,065</b>	<b>98.4</b>
<b>Net current assets</b>	<b>3,562</b>	<b>1.6</b>
<b>Total assets less current liabilities</b>	<b>217,627</b>	<b>100.0</b>

\* Leasehold property



# Consolidated Income Statement

(unaudited) for the six months to 31 December 2005

	Notes	Six months to 31 December 2005 £'000	Period from 10 May 2004 to 31 December 2004 £'000	Period from 10 May 2004 to 30 June 2005 £'000
<b>Revenue</b>				
Rental income		6,201	7,148	13,410
<b>Gains on investment properties</b>				
Unrealised gains on revaluation of investment properties		16,173	15,785	24,237
Realised gains on disposal of investment properties		596	–	–
<b>Total income</b>		<b>22,970</b>	22,933	37,647
<b>Expenditure</b>				
Set up costs		–	(1,528)	(1,528)
Investment management fee		(898)	(914)	(1,772)
Direct operating expenses of let rental property		(87)	(92)	(162)
Administrative fee		(31)	(35)	(65)
Valuation and other professional fees		(70)	(107)	(180)
Directors' fees		(33)	(43)	(75)
Other expenses		(263)	(106)	(323)
<b>Total expenditure</b>		<b>(1,382)</b>	(2,825)	(4,105)
<b>Net operating profit before finance costs</b>		<b>21,588</b>	20,108	33,542
<b>Finance costs</b>				
Interest revenue receivable		64	114	270
Interest payable		(2,270)	(2,613)	(4,859)
		<b>(2,206)</b>	(2,499)	(4,589)
<b>Net profit from ordinary activities before taxation</b>		<b>19,382</b>	17,609	28,953
<b>Taxation on profit on ordinary activities</b>		–	–	–
<b>Net profit for the period</b>		<b>19,382</b>	17,609	28,953
<b>Earnings per Ordinary Share</b>	2	<b>17.5p</b>	15.9p	26.2p

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 period from 10 May 2004 to 30 June 2005.

All items in the above statement derive from continuing operations.

The Company was incorporated on 10 May 2004 and commenced operations on 1 June 2004.

# Consolidated Balance Sheet

(unaudited) as at 31 December 2005

	31 December 2005 £'000	31 December 2004 £'000	30 June 2005 £'000
<b>Non-current assets</b>			
Investment properties	<b>214,065</b>	192,595	201,050
<b>Current assets</b>			
Trade and other receivables	<b>1,046</b>	1,261	1,304
Cash and cash equivalents	<b>7,578</b>	4,729	4,100
	<b>8,624</b>	5,990	5,404
<b>Total assets</b>	<b>222,689</b>	198,585	206,454
<b>Non-current liabilities</b>			
Interest bearing bank loan	<b>(71,330)</b>	(70,566)	(71,362)
Interest rate swap	<b>(5,741)</b>	(4,284)	(6,167)
	<b>(77,071)</b>	(74,850)	(77,529)
<b>Current liabilities</b>			
Trade and other payables	<b>(5,062)</b>	(4,988)	(4,447)
<b>Total liabilities</b>	<b>(82,133)</b>	(79,838)	(81,976)
<b>Net assets</b>	<b>140,556</b>	118,747	124,478
<b>Represented by:</b>			
Share capital	<b>1,105</b>	1,105	1,105
Special distributable reserve	<b>104,186</b>	106,792	105,303
Capital reserve	<b>41,006</b>	15,785	24,237
Other reserve	<b>(5,741)</b>	(4,284)	(6,167)
Revenue reserve	–	(651)	–
<b>Equity shareholders' funds</b>	<b>140,556</b>	118,747	124,478
<b>Net asset value per Ordinary Share</b>	<b>127.2p</b>	107.5p	112.6p

# Consolidated Statement of Changes in Equity

(unaudited) for the six months to 31 December 2005

	Notes	Six months to 31 December 2005 £'000	Period from 10 May 2004 to 31 December 2004 £'000	Period from 10 May 2004 to 30 June 2005 £'000
<b>Opening net assets</b>		<b>124,478</b>	–	–
Net profit for the period		<b>19,382</b>	17,609	28,953
Issue of ordinary share capital, net of issue costs		–	107,897	107,897
Dividends paid	4	<b>(3,730)</b>	(2,475)	(6,205)
Unrealised gain/(loss) on revaluation of interest rate swap		<b>426</b>	(4,284)	(6,167)
<b>Closing net assets</b>		<b>140,556</b>	118,747	124,478

# Consolidated Statement of Cash Flows

(unaudited) for the six months to 31 December 2005

	Six months to 31 December 2005 £'000	Period from 10 May 2004 to 31 December 2004 £'000	Period from 10 May 2004 to 30 June 2005 £'000
<b>Cash flows from operating activities</b>			
Net operating profit for the period before finance costs	<b>21,588</b>	20,108	33,542
Adjustments for:			
Unrealised gains on revaluation of investment properties	<b>(16,173)</b>	(15,785)	(24,237)
Realised gains on disposal of investment properties	<b>(596)</b>	–	–
Decrease/(increase) in operating trade and other receivables	<b>258</b>	(1,261)	(1,304)
Increase in operating trade and other payables	<b>565</b>	3,722	4,353
	<b>5,642</b>	6,784	12,354
Interest received	<b>64</b>	96	270
Bank loan interest paid	<b>(1,959)</b>	(1,478)	(3,469)
Payments under interest rate swap arrangement	<b>(293)</b>	(235)	(494)
	<b>(2,188)</b>	(1,617)	(3,693)
<b>Net cash inflow from operating activities</b>	<b>3,454</b>	5,167	8,661
<b>Cash flows from investing activities</b>			
Purchases of investment properties	<b>(1,246)</b>	(176,695)	(176,813)
Sales of investment properties	<b>5,000</b>	–	–
<b>Net cash inflow/(outflow) from investing activities</b>	<b>3,754</b>	(176,695)	(176,813)
<b>Cash flows from financing activities</b>			
Proceeds of issue of ordinary share capital	–	110,500	110,500
Issue costs of ordinary share capital	–	(2,328)	(2,603)
Draw down of bank loan	–	70,662	70,662
Issue costs of bank loan	–	(102)	(102)
Dividends paid	<b>(3,730)</b>	(2,475)	(6,205)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(3,730)</b>	176,257	172,252
<b>Net increase in cash and cash equivalents</b>	<b>3,478</b>	4,729	4,100
<b>Opening cash and cash equivalents</b>	<b>4,100</b>	–	–
<b>Closing cash and cash equivalents</b>	<b>7,578</b>	4,729	4,100

# Notes to the Interim Report

for the six months to 31 December 2005

1. The unaudited interim results have been prepared on the basis of International Financial Reporting Standards and the accounting policies set out in the statutory accounts of the Group for the period from 10 May 2004 to 30 June 2005.
2. 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 2004 – 110,500,000; 30 June 2005 – 110,500,000).
3. Earnings for the six months to 31 December 2005 should not be taken as a guide to the results for the year to 30 June 2006.

4. Dividends	Period to 31 December 2005	
	Rate (pence)	£'000
Fourth interim dividend for the period to 30 June 2005, paid 30 September 2005	<b>1.6875</b>	<b>1,865</b>
First interim dividend for the year to 30 June 2006, paid 16 December 2005	<b>1.6875</b>	<b>1,865</b>
	<b>3.3750</b>	<b>3,730</b>

A second interim dividend for the year to 30 June 2006, of 1.6875p per share, will be paid on 31 March 2006 to shareholders on the register at close of business on 17 March 2006.

5. Related party transactions  
No Director has an interest in any transactions which are or were unusual in their nature or significant to the nature of 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 £898,000 of which £448,000 remained payable at the period end.

The Directors of the Company received fees for their services totalling £33,000. No fees remained payable at the period end.

6. Investment properties  
The property at Pincents Lane, Reading was sold in December 2005 for £5.0 million. The resulting realised gain on disposal of £0.6 million is included in the Income Statement.

At the beginning of December 2005 the property at Hemel Gateway, Boundary Way, Hemel Hempstead was severely damaged as a result of a fuel explosion at the neighbouring Buncefield fuel terminal. This property is fully insured and the Board does not expect there to be any material capital or income loss to the Company.

7. 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 period ended 31 December 2005 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 7. 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.

## **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 period ended 31 December 2005.

## **Ernst & Young LLP**

Guernsey

9 March 2006

# Corporate Information

## Directors

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

## 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

## Investment Managers

F&C Asset Management plc  
80 George Street  
Edinburgh EH2 3BU

## Property Valuers

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## Auditors

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## Guernsey Legal Advisers

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## UK Legal Advisers

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## Marketing Adviser

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

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

† Chairman of the Property Valuation Committee.

‡ Chairman of the Audit Committee.