ISIS Property Trust 2 Limited

2005

Annual report and accounts for the period from 10 May 2004 to 30 June 2005

This document is important and relates to certain matters on which voting action is required. Shareholders who are in any doubt as to what action to take should consult an appropriate independent adviser immediately.

If any shareholder has sold or transferred all their shares in the Company, he or she should pass this document to the person through whom the transfer or sale was effected for onwards transmission to the transferee or purchaser.

Contents

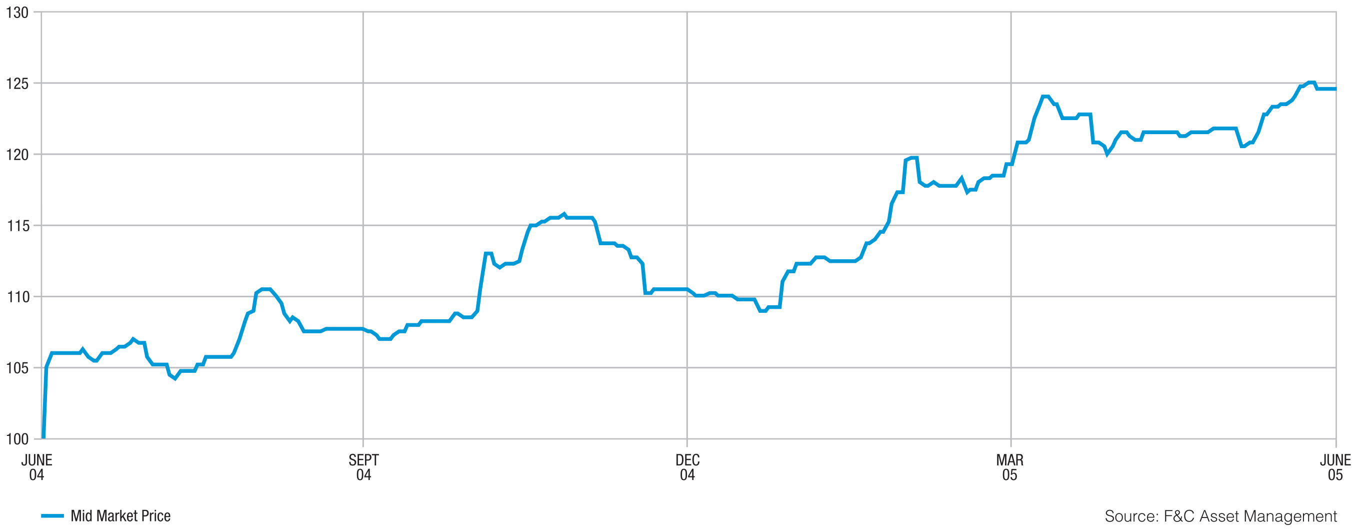
Company Summary

The Company	The Company is a closed-ended Guernsey registered investment company and 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 incorporated on 10 May 2004 and launched on 1 June 2004. At 30 June 2005 total assets less current liabilities were £202.0 million and shareholders' funds were £124.5 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.
Management	At launch the Board appointed F&C Asset Management plc as Investment Managers. The investment management agreement is for a fixed initial three year period ending on 1 June 2007 and, with effect from 1 June 2006, 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.
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 Isas and Pep transfers.
Website	The Company's internet address is: www.isispropertytrust2.co.uk

Financial Highlights

- Share price increased by 24.5 per cent to 124.5 pence.
- Net asset value per share increased by 17.3 per cent.
- Annualised dividend yield of 5.4 per cent.

ISIS Property Trust 2 Limited Share Price from Launch



Source: F&C Asset Management

Reconciliation of net asset value per accounts to published net asset value

	Total £'000	Per share Pence
Net asset value per accounts	124,478	112.6
Adjustments:		
Net profit from ordinary activities after taxation (excluding unrealised gains on revaluations of properties)	(4,716)	(4.3)
Dividends paid	6,205	5.6
Unrealised deficit on interest rate swap	6,167	5.6
Costs allocated to capital as permitted by the SORP	(2,648)	(2.3)
Published net asset value	129,486	117.2

The published net asset value was calculated on a capital only basis and otherwise in accordance with UK accounting standards applicable to accounting periods commencing prior to 1 January 2005. In order to reconcile this to the published accounts it is necessary to add back all current period revenue reserves and account for the effect of International Financial Reporting Standards versus UK GAAP. Costs allocated to capital comprise management fees and bank loan interest payable charged 40 per cent to capital and 60 per cent to revenue in recognition of the long term expected returns of the Group, as permitted by the UK Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (the 'SORP') published in January 2003.

Performance Summary

Total Return (from launch on 1 June 2004)

	30 June 2005
Net asset value per share (per accounts)	**23.2%**
Net asset value per share (as announced) *	**27.9%**
Ordinary Share price	**32.6%**
Investment Property Databank All Monthly Valued Funds	**21.3%**
FTSE All-Share Index	**20.5%**

Capital Values

	30 June 2005	Launch 1 June 2004	% Change
Total assets less current liabilities £000's	**202,007**	176,814	14.2%
Net asset value per share (per accounts)	**112.6p**	96.0p	17.3%
Net asset value per share (as announced) *	**117.2p**	96.0p	22.1%
Ordinary Share price	**124.5p**	100.0p	24.5%
FTSE All-Share Index	**2,560.2**	2,197.0	16.5%
Premium to net asset value per share (as announced)	**6.2%**	4.2%	–
Gearing ‡	**35.3%**	40.0%	–

Earnings and Dividends (from launch on 1 June 2004 to 30 June 2005)

Earnings per Ordinary Share	**26.2p**
Dividends paid per Ordinary Share	**5.615p**
Dividend yield **	**5.4%**

Total Expenses Ratio

As a percentage of average total assets less current liabilities (excluding set up costs of £1,528,000 expensed under International Financial Reporting Standards) ¶	**1.2%**
As a percentage of average total assets less current liabilities ¶	**1.9%**
As a percentage of average shareholders' funds ¶	**3.2%**

Highs/Lows (since launch on 1 June 2004)

	Highs	Lows
Net asset value per share (as announced)	117.2p	96.0p
Ordinary Share price	125.0p	100.0p
Premium/(discount) (as announced)	11.6%	(1.5)%

* Net asset value ('NAV') and net asset value total return are calculated on a capital only basis and otherwise in accordance with UK accounting standards. A reconciliation between the NAV as calculated on that basis and as calculated under International Financial Reporting Standards is shown on the previous page.

‡ Bank debt ÷ total assets less current liabilities.

** Calculated on annualised dividends of 6.75p per share. An analysis of dividend payments is contained in note 6 on page 23.

¶ Calculated on an annualised basis and including non-recoverable property expenses.

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

Chairman's Statement

Quentin Spicer
Chairman

The Company was launched on 1 June 2004 with an 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".

I would like to thank my Board colleagues, the Investment Managers and advisers for their significant input at the time of the launch, and for their subsequent efforts, all of which have helped make the Company's first accounting period a successful one on which to report.

Results

In addition to providing an attractive level of income to shareholders the Company's share price increased by 24.5 per cent during the period ended 30 June 2005, to 124.5p per Ordinary Share. This compared favourably to the issue price of 100p and represented a premium of 6.2 per cent to the net asset value announced at the end of the period. The dividend yield as at 30 June 2005 was 5.4 per cent which compared to a yield of 6.75 per cent at launch.

The net asset value per share benefited not only from strong growth within the property portfolio but also from the Company's geared structure. Shareholders also benefited from the continuing demand for the Company's shares. This is a reflection of demand by investors for the attractive level of income provided by the Company and the underlying quality of the property portfolio. This demand has been maintained despite the launch of four new companies with similar structures and objectives over the past year. When the Company was launched, its peer group comprised four companies with an aggregate market capitalisation of approximately £500 million. At 30 June 2005 there were eight such companies with an aggregate market capitalisation of £1.9 billion.

Property Market and Portfolio

The commercial property market delivered strong returns during the period. A major factor for this performance was the strength of the investment market, much of it coming from overseas. The strongest returns came from the retail sector to which the Company is most exposed.

Against this background, the portfolio performed well with all 38 properties increasing in value. The overall valuation increase, from £176.8 million at launch to £201.1 million as at 30 June 2005, represents an un-geared increase of 13.7 per cent. This compares favourably to an increase of 12.1 per cent in the IPD All Property Index.

The two largest increases in value came from 48/49 St James's Street, London and 30/40 The Parade, Leamington Spa, with increases of £2.5 million (24.5 per cent) and £1.9 million (20.4 per cent) respectively. Taken together these two properties account for 11.8 per cent of the portfolio.

The Board believes that the portfolio continues to provide a sound base from which to deliver capital and income growth. To date, other than the initial purchase of the property portfolio, there have been no purchases or sales of properties.

Dividends

The Company's first interim dividend of 2.24p per Ordinary Share was paid on 24 December 2004 and the second and third interim dividends, each of 1.6875p per Ordinary Share, were paid on 29 March and 24 June 2005 respectively. The Board has declared a fourth interim dividend of 1.6875p per Ordinary Share, which will be paid on 30 September 2005 to shareholders on the register on 16 September 2005.

These dividends, totalling 7.3025p per Ordinary Share, are as stated in the prospectus and equivalent to an annual gross dividend yield of 6.75 per cent on the issue price of 100p per share.

It is the Board's intention that the Company continues to make four dividend payments each year, in March, June, September and December.

Gearing

At the time of its launch, the Company drew down a ten year bank facility of £70.7 million which represented 40.0 per cent of the initial portfolio valuation. At the same time the Company entered into an interest rate swap transaction under which it fixed the interest rate payable on the full amount of the loan, such that the rate of interest which the Company will pay is fixed at 6.355 per cent until 31 May 2007 and 6.265 per cent from 1 June 2007 until 1 June 2014.

As a result of the strong growth in the value of the portfolio during the period, the level of gearing as at 30 June 2005 had decreased to 35.3 per cent.

Chairman's Statement

Corporate Governance

As a Guernsey incorporated Company, the Company is not required to comply with the Combined Code on Corporate Governance. However, as stated in the prospectus, the Directors intend to comply with best practice on good governance that is applicable to investment companies and, accordingly, during the period put in place the necessary procedures to implement the relevant parts of the Combined Code. The Board's statement on corporate governance is contained on pages 14 and 15.

Shareholder Communication

In addition to the production of an Interim and Annual Report, a factsheet is produced at the end of each of the two quarters when these reports are not produced. These factsheets and the Interim and Annual Reports are available on the Company's website (www.isispropertytrust2.co.uk).

Outlook

The Board does not expect returns from the property portfolio during the current year to match the strong returns produced in its first accounting period. At current valuation levels the scope for further increases in commercial property values is limited and rental growth could come under pressure if there is a prolonged slowdown in economic growth or consumer expenditure. However, the combination of lower interest rates and the continuing strong demand for property is likely to be beneficial for valuations.

Quentin Spicer

Chairman

7 September 2005

Investment Managers

F&C Asset Management plc (F&C) is the diversified asset management business created on 11 October 2004 following the merger of ISIS Asset Management plc and F&C Group (Holdings) Limited. The combined business has £128 billion of funds under management (as at 30 June 2005) and is a leading asset manager in both the UK and Europe. The shares of F&C are traded on the London Stock Exchange.

F&C 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 £6 billion (as at 30 June 2005), and manages property investments on behalf of a wide range of clients including ISIS Property Trust Limited, ISIS Property Trust 2 Limited and F&C Commercial Property Trust Limited.

The F&C property team comprises 38 investment professionals. The team has a strong investment performance track record of achieving out-performance of relevant benchmarks over short, medium and long term periods.

Manager's Review

Property Market Review

Although the period under review covers the period from the Company's launch on 1 June 2004 to 30 June 2005, in order to outline the recent principal features in the UK commercial property market we have used statistics for the year to 30 June 2005 for illustrative purposes.

The property market continued to deliver strong total returns in the year to 30 June 2005 with all property total returns of 17.5 per cent. There was some slippage in March due to the abolition of stamp duty tax relief in disadvantaged areas. The market has, however, recovered its momentum and in the quarter to 30 June 2005, total returns were running at an 18 per cent per annum rate.

A major factor under-pinning this performance has been the continued strength of the investment market. More than £43 billion was invested in property during the year, up 25 per cent from prior year levels. Institutions became net investors over the period, with overseas investors also being a major factor driving the market forward.

This weight of money has pushed property yields in still further. IPD figures show initial yields down 0.6 per cent in the period to a new low of 5.6 per cent. There has been strong competition for limited stock and high prices are being paid.

Rental growth has returned to all three sub-markets, albeit at modest rates. Retail rents remain the main driver of all property rental growth although the gap between the sectors is narrowing.

At the total return level, sector performance has also continued to converge. Retail property continues to out-perform on a 12 month basis, recording total returns of 18.7 per cent against 17.0 per cent for industrials and 15.2 per cent for offices.

IPD Monthly Index

	Rental Growth	Capital Growth	Total Returns
12 month average	2.3	10.5	17.5
3 year average per annum	0.5	7.0	14.3
5 year average per annum	1.4	4.5	11.9

Portfolio Review

The period since launch has seen substantial capital value growth within the Company's portfolio, greatly aided by the strength of the underlying investment market. The original purchase price of £176.8 million improved to £201.1 million by 30 June 2005, an overall increase of 13.7 per cent.

The greatest value movement came at 48/49 St. James's Street, London SW1 where the value of the property increased from £10 million to £12.45 million (24.5 per cent). Other substantial increases were recorded at 30/40 The Parade, Leamington Spa (£1.91 million) and Units 1-8 Lakeside Road, Colnbrook (£1.775 million). The largest percentage change was seen at 12/20 High Street, Wickford where the year end valuation of £1.925 million reflected a 46.9 per cent improvement over the reporting period. None of the year-end valuations showed negative shifts in capital values although four of the holdings were affected by the withdrawal of stamp duty tax relief for disadvantaged areas.

The overall estimated rental value of the portfolio has risen by 1.9 per cent since launch. This is marginally below the change recorded by the IPD Property Index but still respectable. The main improvements were seen in the industrial sector at Colnbrook (+5.6 per cent) and in Central London offices at 48/49 St. James's Street (+8.8 per cent).

Despite some early letting activity (the portfolio void rate now stands at 0.09 per cent) the majority of the added value actions have focused on rent reviews and lease renewals. Ten lease renewals were completed with a total rental value of £435,030 per annum and an uplift of £32,765 per annum (8.15 per cent) on the passing rents. In addition, eleven rent reviews were settled with an overall uplift of £31,325 per annum.

The average lease length remains a respectable 10.1 years with 77.3 per cent of the Company's income received from tenants in the Low-Medium or better risk bracket.

To date we have chosen to retain the original portfolio as we believe it comprises a strong mix of assets capable of meeting our core targets. The main underweight position continues to be retail warehousing, where income

Manager's Review

dilution is the main concern. We remain alert to opportunities to adjust the portfolio mix as required but also acknowledge the benefit of retaining as close to 100 per cent of value invested in property assets for the benefit of the shareholders.

Outlook

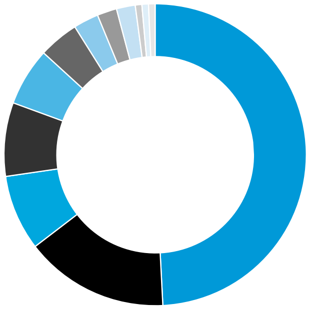
We have revised our forecasts for the property market for the 2005 calendar year upwards due to the strength of investment demand, and our current estimate for all property total returns is around 12 per cent. However, the scope for further reductions in yields from current levels is limited and rental growth could disappoint if the slowdown in GDP and consumer spending growth is prolonged. For the 2006 calendar year, we expect property to deliver solid returns, helped by low interest rates, but at a more sustainable pace than that recorded in 2004 and probably 2005.

F&C Asset Management plc
Investment Managers

7 September 2005

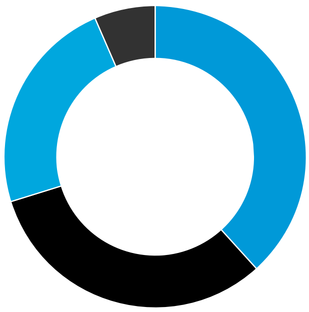
Portfolio Statistics

Geographical Analysis as at 30 June 2005



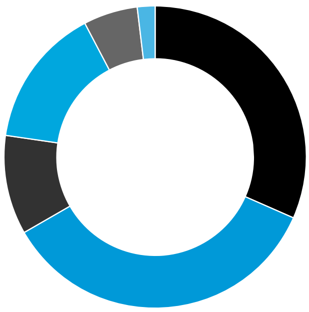
South East	**49.2%**
West Midlands	**15.4%**
Scotland	**8.1%**
London – West End	**7.9%**
London – Mid Town	**6.2%**
Yorkshire and Humberside	**4.3%**
East Midlands	**2.7%**
Eastern	**2.1%**
Rest of London	**2.0%**
North East	**0.7%**
North West	**0.7%**
South West	**0.7%**

Sector Analysis as at 30 June 2005



Retail	**38.3%**
Industrial	**31.9%**
Offices	**23.3%**
Retail Warehouse	**6.5%**

Covenant Strength as at 30 June 2005



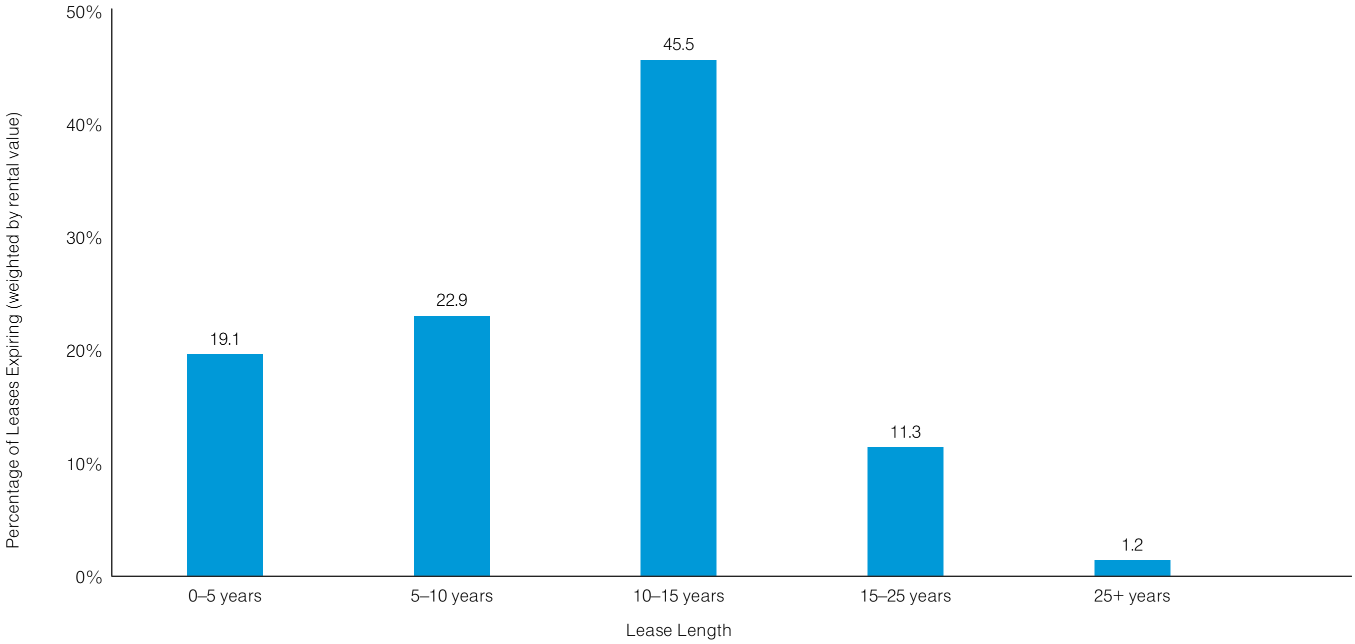
Negligible and Government Risk	**31.6%**
Low Risk	**35.1%**
Low-Medium Risk	**10.6%**
Medium-High Risk	**15.0%**
High Risk	**5.8%**
Unmatched	**1.9%**

As measured by: Investment Property Databank (IPD).

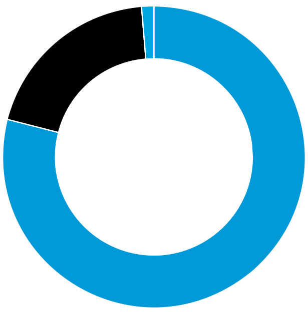
Portfolio Statistics

Lease Expiry Profile

At 30 June 2005 the average lease length for the portfolio, assuming all break options are exercised, was 10.1 years.



Tenure Analysis as at 30 June 2005



Freehold	**79.0%**
Leasehold	**19.7%**
Mixed Freehold/Leasehold	**1.3%**

Property Portfolio

Property	Sector	Market Value £'000	Initial yield	% of Total Assets (less current liabilities)
Unit 3663, Echo Park, Banbury	Industrial	£15,050	6.69%	7.4
Mercury House, 1 Dove Wynd, Strathclyde Business Park	Offices	£12,675	6.51%	6.3
Units 1–8, Lakeside Road, Colnbrook	Industrial	£12,525	4.65%	6.2
99/103 Long Acre, London WC2 *	Retail	£12,525	4.75%	6.2
48–49 St James's Street & 161 Piccadilly, London SW1	Offices	£12,450	5.34%	6.2
Southampton International Park, Eastleigh	Industrial	£12,050	6.37%	6.0
30/40 The Parade & 47/59A Warwick Street, Leamington Spa	Retail	£11,250	5.34%	5.6
Hemel Gateway, Boundary Way, Hemel Hempstead	Industrial	£10,150	6.46%	5.0
Clifton Moor Gate, York *	Retail Warehouse	£8,550	5.24%	4.2
Swift House, Cosford Lane, Rugby *	Industrial	£7,670	6.40%	3.8
Ten largest property holdings		**£114,895**		**56.9**
Genesis House, Midsummer Boulevard, Milton Keynes	Offices	£6,585	7.25%	3.3
The Clock Tower, Brookwood	Offices	£5,650	7.09%	2.8
7–8 High Street & 50 Colebrook Street, Winchester	Retail	£5,635	4.98%	2.8
Standard Hill, No 1 Royal Standard Place, Nottingham	Offices	£5,340	6.63%	2.6
Crown House, Chippenham Drive, Milton Keynes	Industrial	£5,200	7.25%	2.6
Units 1, 2 & 3, Above Bar, Southampton *	Retail	£5,000	5.55%	2.5
63/67 The Parade, Sutton Coldfield	Retail	£4,910	5.00%	2.4
Pincents Lane, Reading	Retail Warehouse	£4,600	4.93%	2.3
51/53 High Street, Guildford	Retail	£4,350	5.00%	2.1
Unit GP9, Globe Park, Marlow	Offices	£4,150	6.85%	2.0
Twenty largest property holdings		**£166,315**		**82.3**
24 Haymarket & 1–2 Panton Street, London SW1 *	Retail	£3,300	5.73%	1.6
88/90 The Parade, Leamington Spa	Retail	£3,240	5.15%	1.6
17/21 George Street, Croydon	Retail	£3,070	6.17%	1.5
7/11 Bridge Street, Guildford	Retail	£3,000	5.00%	1.5
100A Princes Street, Edinburgh	Retail	£2,700	5.25%	1.3
81/87 High Street, Rayleigh	Retail	£2,340	5.54%	1.2
53/79 Chobham Road, Sunningdale	Retail	£2,330	6.31%	1.2
1–2 Church Street, Nuneaton	Retail	£2,140	5.75%	1.1
12–20 High Street, Wickford	Retail	£1,925	7.03%	1.0
2–3 Pavilion Buildings, Brighton *	Retail	£1,900	8.27%	0.9
Thirty largest property holdings		**£192,260**		**95.2**
9 High Street, Hereford	Retail	£1,850	4.97%	0.9
Unit 5, Newcombe Drive, Swindon	Industrial	£1,480	6.50%	0.7
67/69 King Street, South Shields	Retail	£1,330	5.50%	0.7
97 High Street, Sutton	Retail	£1,100	5.25%	0.5
114 Princes Street, Edinburgh	Retail	£850	4.75%	0.4
40 Yorkshire Street, Rochdale	Retail	£825	5.62%	0.4
25 Northbrook Street, Newbury *	Retail	£720	5.25%	0.4
42 Yorkshire Street, Rochdale	Retail	£635	5.63%	0.3
Total property portfolio		**£201,050**		**99.5**
Net current assets		**£957**		**0.5**
Total assets less current liabilities		**£202,007**		**100.0**

*Leasehold property

Board of Directors

Quentin Spicer

(Chairman)

Aged 60, is a resident of Guernsey. He is an English solicitor and was the head of the property department of Wedlake Bell in London before moving to head the Guernsey office. He is chairman of a number of companies, including the Guernsey Housing Association LBG, RAB Special Situations Company Limited and European Value and Income Fund Limited, and is a non-executive director of PINE Trustee (Jersey) Limited and of a number of property investment funds.

Andrew Gulliford

Aged 58, is a UK resident. He is a chartered surveyor and deputy senior partner of Cushman & Wakefield Healey & Baker. He joined one of its predecessor firms in 1972 and was head of the firm's investment group for twelve years until the end of 2002. He advises a number of institutions on property matters and is also a non-executive director of McKay Securities plc, a UK listed property company.

Christopher Sherwell

Aged 57, is a resident of Guernsey. He worked with the *Financial Times* for thirteen years before becoming a Far East Regional Strategist for Smith New Court Securities in 1990. In 1993 he joined Schroders in the Channel Islands as investment director of Schroders (C.I.) Limited and was managing director from April 2000 to January 2004. He is still a non-executive director of Schroders (C.I.) Limited and is non-executive chairman of Consulta (Channel Islands) Limited, a fund management business, and Hermes Absolute Return Fund (Guernsey) Limited, a fund of hedge funds. He is also a non-executive director of various other investment companies.

Christopher Spencer

Aged 55, is a resident of Guernsey. He is a chartered accountant and was managing director of Pannell Kerr Forster (Guernsey) Limited until 2000. He is a member of the Guernsey Gambling Control Commission. He is also a non-executive director of a number of listed companies, including Gartmore SICAV, Bear Stearns Private Equity Limited, Dexion Trading Limited, Advance Focus Fund Limited and Ruffer Investment Company Limited.

Giles Weaver

Aged 59, is a UK resident. He is a chartered accountant and was previously managing director and chairman of Murray Johnstone Limited. He has over 25 years' experience as a fund manger. He is chairman of Charter Pan-European Trust plc and Helical Bar plc, and is a non-executive director of Aberdeen Asset Management plc, James Finlay Limited, Gartmore SICAV, Anglo & Overseas Trust plc, Investec High Income Trust plc and Isotron plc.

Report of the Directors

The Directors present their report and accounts of the Group for the period from incorporation on 10 May 2004 to 30 June 2005.

Results and Dividends

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

The Company has paid interim dividends related to the period ended 30 June 2005 as follows:

	Payment date	Rate per share
First interim	24 December 2004	2.24p
Second interim	29 March 2005	1.6875p
Third interim	24 June 2005	1.6875p

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 fourth interim dividend of 1.6875p will be paid on 30 September 2005 to shareholders on the register on 16 September 2005.

Principal Activity and Status

The Company is a Guernsey registered company and during the period carried on business as a property investment company.

A review of the business during the period is contained in the Chairman's Statement and the Manager's Review.

Listing Requirements

Throughout the accounting period the Company complied with the conditions applicable to property investment companies set out in paragraphs 21.27(e) to 21.27(i) of the Listing Rules in effect at that time. On 1 July 2005, new Listing Rules were brought into effect. The Company considers that it has, throughout the accounting period, complied (and intends to continue to comply) with the conditions applicable to property investment companies set out in paragraph 15.5.5R of the new Listing Rules.

Directors

The Directors who held office during the period and their interests in the shares of the Company as at 30 June 2005 (all of which were beneficial) were:

	Ordinary Shares
Q Spicer	20,000
A E G Gulliford	25,000
C W Sherwell	20,000
C P Spencer	25,000
C G H Weaver	50,000

There have been no changes in the above interests between 30 June 2005 and 7 September 2005.

The Directors are also directors of IPT2 Property Holdings Limited, the Company's wholly owned subsidiary undertaking.

Biographical details of each of the Directors are shown on page 12. In accordance with the Company's Articles of Association each Director will retire at the Annual General Meeting, being the first such meeting following his appointment 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, and believes that it is therefore in the interests of shareholders that these Directors are re-elected.

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

Q Spicer	£20,460
A E G Gulliford	£13,640
C W Sherwell	£13,640
C P Spencer	£13,640
C G H Weaver	£13,640
Total	£75,020

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

F&C Asset Management plc provides management services to the Company. A summary of the contract between the Company and F&C Asset Management plc in respect of management services provided is given in note 2 to the accounts.

Since the period end, the Management Engagement Committee has reviewed the appropriateness of the Managers' appointment. In carrying out the review the Committee considered the investment performance of the Company during its first accounting period 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 contract and the fees payable to the Managers, together with the standard of the other services provided.

Following this review, it is the Directors' opinion that the continuing appointment of the Managers on the terms agreed is in the interests of shareholders as a whole.

Substantial Interests in Share Capital

At 7 September 2005 the following holdings representing more than 3 per cent of the Company's issued share capital had been notified to the Company.

	Number of Ordinary Shares Held	Percentage Held
Friends Provident Group	**19,576,750**	**17.7**
Scottish Widows Investment Partnership Ltd	**10,000,000**	**9.0**

Report of the Directors

Corporate Governance

Guernsey does not have its own corporate governance regime and, as a Guernsey registered company, the Company is not required to comply with the Combined Code on Corporate Governance. However, it is the Company's policy to comply with best practice on good corporate governance that is applicable to investment companies.

Arrangements in respect of corporate governance have therefore been made by the Board, which it believes are appropriate for the Company. Except as disclosed in the following paragraph, the Company complied throughout the period with the provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ('the Code'). Since all the Directors are non-executive the provisions of the Code in respect of Directors' remuneration are not relevant to the Company except in so far as they relate to non-executive Directors.

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 the code provision A.7.2, nor for a Senior Independent Director to be appointed as recommended by the code provision A.3.3.

The Board consists solely of non-executive Directors of which Mr Q Spicer is Chairman. All Directors are considered by the Board to be independent of the Company's Managers. It should be noted that Mr C P Spencer and Mr C G H Weaver are both directors of Gartmore SICAV. However, in the opinion of the Board, this relationship does not affect their independence in any way. 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 its Managers, F&C Asset Management plc, 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 currently 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 period a number of committees have been in operation. The committees are the Property Valuation Committee, the Audit Committee, the Management Engagement Committee and the Nomination Committee.

The Property Valuation Committee, chaired by Mr A E G Gulliford, comprises the full Board and is convened for the purpose of reviewing the quarterly independent property valuation reports prior to their submission to the Board.

The Audit Committee, chaired by Mr C P Spencer, operates within clearly defined terms of reference and comprises all of the Directors. 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 will meet 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 £224,000 for the period ended 30 June 2005 and related to the provision of taxation services, a review of the interim financial information and services in connection with the launch of the Company. Notwithstanding such services the Audit Committee considers Ernst & Young LLP to be independent of the Company.

The Management Engagement Committee, chaired by Mr Q Spicer, comprises the full Board and reviews the appropriateness of the Managers' continuing appointment together with the terms and conditions thereof on a regular basis. The Management Engagement Committee held its first meeting in August 2005.

The Nomination Committee, chaired by Mr Q Spicer, comprises the full Board and is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate.

Since the end of the period the performance of the Board, committees and individual Directors has been evaluated through an assessment process, led by the Chairman. The performance of the Chairman was evaluated by the other Directors.

The table below sets out the number of Board and Committee meetings held during the period from the Company's launch to 30 June 2005 and the number of meetings attended by each Director.

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.

	Board of Directors		Property Valuation Committee		Audit Committee		Management Engagement Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Q Spicer	4	4	4	4	1	1	–	–	–	–
A E G Gulliford	4	3	4	3	1	1	–	–	–	–
C W Sherwell	4	4	4	4	1	1	–	–	–	–
C P Spencer	4	4	4	4	1	1	–	–	–	–
C G H Weaver	4	4	4	4	1	1	–	–	–	–

Report of the Directors

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 guidance provided by the Turnbull Committee. 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 FRAG 21 and similar reports issued by the Managers and other service providers.

Such review procedures have been in place throughout the financial period and up to the date of approval of the Annual Report, and the Board is satisfied with their effectiveness. By their nature these procedures can 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 such policy and 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 shareholders' investments and the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

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.

Directors' Authority to Buy Back Shares

The Company did not purchase any shares for cancellation during the period.

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 9, as set out in the notice of the Annual General Meeting, seeks renewal of such authority until the Annual General Meeting in 2006. 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. The Directors believe that Resolution 9 is in the best interests of shareholders as a whole and recommends that shareholders vote in favour of this resolution.

Auditors

Ernst & Young LLP 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.

Approved by the Board on 7 September 2005.

Q Spicer
Director

C P Spencer
Director

Consolidated Income Statement

For the period from 10 May 2004 to 30 June 2005

	Notes	£'000
Revenue		
Rental income		**13,410**
Gains on investment properties		
Unrealised gains on revaluations of properties	8	**24,237**
Total income		**37,647**
Expenditure		
Investment management fee	2a	**(1,772)**
Set up costs		**(1,528)**
Other expenses	3	**(805)**
Total expenditure		**(4,105)**
Net operating profit before finance costs		**33,542**
Net finance costs		
Interest revenue receivable		**270**
Finance costs	4	**(4,859)**
		(4,589)
Net profit from ordinary activities before taxation		**28,953**
Taxation on profit on ordinary activities	5	**–**
Net profit for the period		**28,953**
Earnings per share	7	**26.2p**

The accompanying notes are an integral part of this statement.

Consolidated Balance Sheet

As at 30 June 2005

	Notes	£'000
Non-current assets		
Investment properties	8	**201,050**
Current assets		
Trade and other receivables	10	**1,304**
Cash and cash equivalents	11	**4,100**
		5,404
Total assets		**206,454**
Non-current liabilities		
Interest-bearing bank loan	12	**(71,362)**
Interest rate swap	12	**(6,167)**
		(77,529)
Current liabilities		
Trade and other payables	13	**(4,447)**
Total liabilities		**(81,976)**
Net assets		**124,478**
Represented by:		
Share capital	14	**1,105**
Share premium account	14	**–**
Special distributable reserve	14	**105,303**
Capital reserve	14	**24,237**
Other reserve	14	**(6,167)**
Revenue reserve	14	**–**
Equity shareholders' funds		**124,478**
Net asset value per share		**112.6p**

The accounts on pages 16 to 27 were approved by the Board of Directors on 7 September 2005 and signed on its behalf by:

Q Spicer
Director

C P Spencer
Director

The accompanying notes are an integral part of this statement.

Consolidated Statement of Changes in Equity

For the period from 10 May 2004 to 30 June 2005

	Share Capital £'000	Share Premium Account £'000	Special Distributable Reserve £'000	Capital Reserve £'000	Other Reserve £'000	Revenue Reserve £'000	Total £'000
Issue of ordinary share capital, net of issue costs	1,105	106,792	–	–	–	–	107,897
Conversion of share premium account	–	(106,792)	106,792	–	–	–	–
Net profit for the period	–	–	–	–	–	28,953	28,953
Dividends paid	–	–	–	–	–	(6,205)	(6,205)
Transfer from special distributable reserve	–	–	(1,489)	–	–	1,489	–
Transfer in respect of gains on investment properties	–	–	–	24,237	–	(24,237)	–
Cash flow hedge	–	–	–	–	(6,167)	–	(6,167)
At 30 June 2005	**1,105**	**–**	**105,303**	**24,237**	**(6,167)**	**–**	**124,478**

The accompanying notes are an integral part of this statement.

Consolidated Cash Flow Statement

For the period from 10 May 2004 to 30 June 2005

	Notes	£'000
Cash flows from operating activities		
Net operating profit for the period before finance costs		**33,542**
Adjustments for:		
Unrealised gains on revaluation of properties		**(24,237)**
Increase in operating trade and other receivables		**(1,304)**
Increase in operating trade and other payables		**4,353**
		12,354
Interest received		**270**
Bank loan interest paid		**(3,469)**
Interest rate swap arrangement		**(494)**
		(3,693)
Net cash inflow from operating activities		**8,661**
Cash flows from investing activities		
Purchases of investment properties	8	**(176,813)**
Net cash outflow from investing activities		**(176,813)**
Cash flows from financing activities		
Proceeds from issue of ordinary share capital	14	**110,500**
Issue costs of ordinary share capital	14	**(2,603)**
Draw down of bank loan	12	**70,662**
Issue costs of bank loan	12	**(102)**
Dividends paid	6	**(6,205)**
Net cash inflow from financing activities		**172,252**
Net increase in cash and cash equivalents		**4,100**
Opening cash and cash equivalents		**–**
Closing cash and cash equivalents		**4,100**

The accompanying notes are an integral part of this statement.

Notes to the Accounts

1. Accounting policies

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

(a) Basis of Accounting

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards issued by, or adopted by, the International Accounting Standards Board (the "IASB"), interpretations issued by the International Financial Reporting Standards Committee, applicable legal and regulatory requirements of Guernsey Law and the Listing Rules of the UK Listing Authority. IAS 40 (revised 2003) has been adopted early.

The consolidated accounts have been prepared under the historical cost convention, except for investment properties and derivative financial instruments that have been measured at fair value.

As IAS 40 (revised 2003) has been adopted early, the Group does not consider that the future adoption of International Financial Reporting Standards, in the form currently available, will have any material impact on the financial statements as presented.

(b) Basis of Consolidation

The consolidated accounts comprise the accounts of the Company and all of its subsidiaries drawn up to 30 June each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

(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.

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 Company is exempt from Guernsey taxation on dividend income derived outside Guernsey 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.

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.

(f) Investment Properties

Investment properties are initially recognised at cost, being the fair value of consideration given, including transaction costs associated with the investment property.

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

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

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

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

(g) Derivative Financial Instruments

The Group uses derivative financial instruments to hedge its risk associated with interest rate fluctuations. It is not the Group's policy to trade in derivative instruments.

Derivative instruments are initially recognised in the Balance Sheet at cost and are subsequently re-measured at their fair value. Fair value is determined by reference to market values for similar instruments.

Gains or losses arising in the fair value of cash flow hedges in the form of derivative instruments are taken directly to the Statement of Changes in Equity. Such gains and losses are taken to a reserve created specifically for that purpose, described as the Other Reserve in the Balance Sheet.

Notes to the Accounts

1. Accounting policies (continued)

On maturity or early redemption the realised gains or losses arising from cash flow hedges in the form of derivative instruments are taken to the Income Statement, with an associated transfer from the Other Reserve to the Revenue Reserve in the Statement of Changes in Equity in respect of unrealised gains or losses arising in the fair value of the same arrangement.

The Group considers its interest rate swap qualifies for hedge accounting when the following criteria are satisfied:

- The instrument must be related to an asset or liability;
- It must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa; and
- It must match the principal amounts and maturity date of the hedged item.

(h) Share Issue Expenses
Incremental external costs directly attributable to the equity transaction that would have otherwise been avoided are written off against the Share Premium Account.

(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 that are held to maturity 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 Bank Loans and Borrowings
All bank loans and borrowings are initially recognised at cost, being fair value of the consideration received net of arrangement costs associated with the borrowing. After initial recognition, all interest bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any loan arrangement costs and any discount or premium on settlement.

On maturity bank loans are recognised at par, which is equivalent to amortised cost. Bank loans redeemed before maturity are recognised at amortised cost with any charges associated with early redemption being taken to the Income Statement.

2. Fees

	£'000
(a) Investment management fee	1,772
	1,772

The Company's Investment Managers, F&C Asset Management plc, receive a fee from the Group at an annual rate of 0.85 per cent of the total assets less current liabilities, plus an administration fee of £60,000 per annum (which will increase annually in line with inflation), payable quarterly in arrears. The Investment Managers received £64,958 for administration services provided in respect of the financial period to 30 June 2005 (see note 3). 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 three year period ending on 1 June 2007 and, with effect from 1 June 2006, 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 valuer, DTZ Debenham Tie Leung Limited, has agreed to provide valuation services in respect of the property portfolio. The valuation agreement is for a fixed term up to 31 March 2007 and an annual fee is payable equal to 0.03 per cent of the aggregate value of the property portfolio.

Notes to the Accounts

3. Other expenses

	£'000
Valuation and other professional fees	180
Direct operating expenses of let rental property	162
Provision for bad debts	85
Directors' fees	75
Administration fee	65
Auditors' remuneration for:	
– audit	33
– other services to the Group	30
Other	175
	805

In addition to the above, the auditors received £194,000 for services provided in connection with the launch of the Company. This expense is included within set up costs on the Consolidated Income Statement.

4. Finance costs

	£'000
Interest on principal loan amount	4,246
Interest in respect of rate swap arrangement	588
Other interest	15
Amortisation of loan set up costs	10
	4,859

5. Taxation

	£'000
Current income tax charge	–
Deferred income tax relating to origination and reversal of temporary differences	–
Total tax charge	–

A reconciliation of the income tax charge applicable to the results from ordinary activities at the statutory income tax rate to the charge for the period is as follows:

	£'000
Net profit before taxation	28,953
UK income tax at a rate of 22 per cent	6,370
Effects of:	
Capital gains on revaluation of investment properties not taxable	(5,332)
Income not taxable, including interest receivable	(58)
Expenditure not allowed for income tax purposes (including set-up costs)	1,302
Inter company loan interest	(2,149)
Capital allowances	(30)
Deferred tax asset not provided for	78
Permanent timing capital allowances	(181)
Total tax charge	–

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 Group has not recognised deferred tax assets of £70,000 arising as a result of the tax loss carried forward. These will only be utilised if the Group has profits chargeable to income tax in the future.

Notes to the Accounts

6. Dividends

	£'000
Dividends on Ordinary Shares:	
First interim of 2.24 pence per share paid on 24 December 2004	2,475
Second interim of 1.6875 pence per share paid on 29 March 2005	1,865
Third interim of 1.6875 pence per share paid on 24 June 2005	1,865
	6,205

A fourth interim dividend of 1.6875 pence per share will be paid on 30 September 2005 to shareholders on the register on 16 September 2005. Although this payment relates to the period ended 30 June 2005, under International Financial Reporting Standards it will be accounted for in the year ending 30 June 2006.

7. Earnings per share

The earnings per Ordinary Share are based on the net profit for the period of £28,953,000 and on 110,500,000 Ordinary Shares, being the weighted average number of shares in issue during the period.

8. Investment properties

	£'000
Freehold and leasehold properties	
Purchases at cost	176,813
Surplus on revaluation to fair value	24,237
Closing valuation	201,050

DTZ Debenham Tie Leung Limited completed a valuation of Group investment properties at 30 June 2005 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 £201,050,000.

The Group has elected to adopt IAS 40 (revised 2003) early, 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.

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 Investment Managers advise the presence of such materials.

The Group has entered into leases on its property portfolio as lessor (See note 18 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. All leasehold properties have more than 60 years remaining on the lease term.

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 16.

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.

9. Investment in subsidiary undertaking

The Company owns 100 per cent of the issued ordinary share capital of IPT2 Property Holdings Limited (''IPH''), a company incorporated in Guernsey whose principal business is that of an investment and property company.

Notes to the Accounts

10. Trade and other receivables

	£'000
Rents receivable (net of provision for bad debts)	1,089
Other debtors and prepayments	215
	1,304

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

11. Cash and cash equivalents

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

12. Bank loan and interest rate swap liability

	£'000
Facility	70,662
Drawn down	70,662
Set up costs	(102)
Amortisation of set up costs	10
Accrued variable rate interest on bank loan	792
Total due	71,362

The bank loan is secured on the property portfolio of the Group. Under the bank covenants related to the loan the Company is to ensure that at all times:

- the loan to value percentage does not exceed 60 per cent (this is defined as the ratio of the loan compared to the aggregate of the open market property valuations plus any cash deposits);
- the qualifying adjusted net rental income for any calculation period (any 3 month period) is not less than 150 per cent of the projected finance costs for that period;
- no single tenant accounts for more than 20 per cent of the total net rental income;
- the five largest tenants do not account for more than 40 per cent of total net rental income;
- no single property accounts for more than 15 per cent of the gross secured assets value (this is defined as the sum of the value of the properties as stated in the latest valuations plus any cash deposits); and
- the five most valuable properties do not account for more than 40 per cent of the gross secured assets value.

Interest rate exposure has been limited by the purchase of an interest rate swap contract. The hedge has been achieved by matching the notional amount of the swap with the loan principal and matching the swap term to the loan term. Interest on the swap is receivable at a variable rate calculated on the same LIBOR basis as for the bank loan (as detailed below but excluding margins) and payable at a fixed rate of 5.615 per cent per annum.

The fair value of the liabilities in respect of the interest rate swap contract at 30 June 2005 is a liability of £6,167,000, which is based on the marked to market value.

Interest accrues on the bank loan at a variable rate based on LIBOR plus margin and mandatory lending costs. The LIBOR rate used is the screen rate available for sterling at 11 am on the date of commencement of each investment period of three months. The margin is 0.74 per cent per annum for the first three years of the facility and 0.65 per cent per annum thereafter, save that if the loan to value percentage is more than 55 per cent, the margin shall be increased in each case by 0.10 per cent per annum. The amount payable by the Company in respect of the variable LIBOR part of the bank loan is fixed through an interest rate swap on the amount drawn down arranged with The Royal Bank of Scotland plc. The interest rate swap expires on 1 June 2014. The loan is repayable on 30 May 2014.

13. Trade and other payables

	£'000
Rental income received in advance	2,904
VAT payable	411
Investment managers' fees payable	415
Other payables	717
	4,447

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

14. Share capital and share premium account and reserves

	£'000
Authorised share capital:	
200,000,000 Ordinary Shares of 1 pence each	2,000
Issued share capital:	
110,500,000 Ordinary Shares of 1 pence each, fully paid	1,105
Share premium account:	
Received on the placing of Ordinary Shares	109,395
Less: issue costs charged to capital	(2,603)
	106,792
Conversion to special distributable reserve	(106,792)
Closing balance	–
Issued share capital and share premium account	1,105

On 10 December 2004 the Royal Court of Guernsey confirmed the reduction of capital by way of a cancellation of the Company's Share Premium Account. The amount cancelled, being £106,792,000, has been credited as a distributable reserve established in the Company's books of account and shall be available as distributable profits to be used for all purposes permitted under Guernsey law, including the buy back of shares and the payment of dividends.

Special distributable reserve

As noted above, the special distributable reserve was created by the cancellation of the Company's Share Premium Account. 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

The following are accounted for in this reserve:

– gains and losses on the disposal of investment properties
– increases and decreases in the fair value of investment properties held at the period end.

Other reserve

The following are accounted for in this reserve:

– movements relating to the interest rate swap arrangement accounted for as a cash flow hedge.

Revenue reserve

Any surplus arising from the net profit on ordinary activities after taxation after payment of dividends is taken to this reserve, with any deficit charged to the Special Distributable Reserve.

Notes to the Accounts

15. 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. Further details are provided in note 2 on page 21. The total charge to the Income Statement during the period was £1,772,000 of which £415,000 remains payable at the period end. Issue expenses of the Company were fixed at 2.4 per cent of gross funds raised, with any excess to be refunded to the Company by F&C Asset Management plc. At the period end an amount of £108,000 was payable by the Company to F&C Asset Management plc in this respect.

The Directors of the Company received fees for their services. Further details are provided in the Report of the Directors on page 13 and in note 3 on page 22. Total fees for the period were £75,000. No fees remained payable at the period end.

16. 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 a bank loan, interest rate swap, cash, receivables and payables that arise directly from its operations. The Group has a bank loan as disclosed in note 12 and an interest rate swap contract which it uses to limit its exposure to interest rate risk but does not have exposure to any other derivative instruments.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and interest rate risk. The Board reviews and agrees policies for managing its risk exposure. These policies are summarised below and have remained unchanged for the period 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. 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 until it is re-let. The Board receives regular reports on concentrations of risk and any tenants in arrears. The Investment Managers monitor such reports in order to anticipate, and minimise the impact of, defaults by occupational tenants.

The maximum credit risk from the rent receivables of the Group at 30 June 2005 is £1,089,000. There is no credit risk associated with the financial liabilities of the Group.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents and certain other derivative instruments, the Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying value of these instruments. There are no significant concentrations of credit risk within the Group.

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 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.

In certain circumstances, the terms of the Group's bank loan entitle the lender 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. Further details of the bank loan and associated cash flow hedge arrangement are provided in note 12.

Notes to the Accounts

16. Financial instruments (continued)

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's long-term debt obligations. The Group's policy is to manage its interest rate risk using an interest rate swap, in which the Group has agreed to exchange the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. The swap is designed to fix the interest payable on the loan. The interest rate swap contract covers the exact amount of the loan and has the same duration. Interest fixing periods are identical and on this basis the swap contract complies with IAS 39's criteria for hedge accounting.

The interest rate on the bank loan is fixed through an interest rate swap as disclosed in note 12.

The interest rate profile of the Group as at 30 June 2005 was as follows:

Financial assets

Type	Total £'000	Variable rate £'000	Assets where no interest is received £'000	Weighted average interest rate %	Weighted average period for which rate is fixed
Cash and cash equivalents	4,100	4,100	–	3.75	–
Trade and other receivables	1,304	–	1,304	–	–
	5,404	4,100	1,304	3.75	–

Financial liabilities

Type	Total £'000	Fixed rate £'000	Variable rate £'000	Liabilities where no interest is paid £'000	Weighted average interest rate %	Weighted average period for which rate is fixed (years)
Long term loan	71,362	71,362	–	–	6.28	8.9
Interest rate swap liability	6,167	6,167	–	–	6.28	8.9
	77,529	77,529	–	–	6.28	8.9

The fair value of financial assets and liabilities is not materially different from their carrying value in the financial statements.

Foreign currency risk

There is no foreign currency risk as assets and liabilities of the Group are maintained in pounds sterling.

17. Capital commitments

The Group had no capital commitments as at 30 June 2005.

18. Lease length

The Group leases out its investment properties under operating leases.

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

	£'000
Less than one year	162
Between two and five years	5,274
Over five years	129,081
Total	134,517

The largest single tenant at the year end accounted for 8.5 per cent of the current annual rental income.

The unoccupied property expressed as a percentage of estimated total rental value was 0.2 per cent at the period 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 'Portfolio Statistics' on pages 9 and 10.

Directors' Responsibility Statement and Independent Auditors' Report

Directors' Responsibility Statement

The Directors are responsible for preparing consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period and which are in accordance with applicable laws. 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; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the 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 Group and which enable them to ensure that the financial statements have been properly prepared in accordance with the Companies (Guernsey) Law, 1994. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Members of ISIS Property Trust 2 Limited

We have audited the Group's financial statements for the period ended 30 June 2005 which comprise the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, and the related notes 1 to 18. These financial statements have been prepared on the basis of 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to any one other than the Company and 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, including the financial statements which are required to be prepared in accordance with applicable Guernsey law.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements, which have been prepared in accordance with international financial reporting standards, 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 Directors' Report is not consistent with the financial statements, if 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Company Summary, Financial Highlights, Performance Summary, Chairman's Statement, Investment Managers, Manager's Review, Portfolio Statistics, Property Portfolio, Board of Directors, Report of the Directors, Notice of Annual General Meeting, Shareholder Information and Corporate Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards 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 Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2005 and of the profit of the Group for the period then ended and have been properly prepared in accordance with the Companies (Guernsey) Law 1994.

Ernst & Young LLP
Guernsey, Channel Islands

7 September 2005

Notice of Annual General Meeting

Notice is hereby given that the First Annual General Meeting of ISIS Property Trust 2 Limited will be held at Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3QL on Wednesday, 2 November 2005 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 Auditors for the period ended 30 June 2005 be received and approved.
2. That Mr Q Spicer, who retires at the first Annual General Meeting following his appointment, be re-elected as a Director.
3. That Mr A E Gulliford, who retires at the first Annual General Meeting following his appointment, be re-elected as a Director.
4. That Mr C W Sherwell, who retires at the first Annual General Meeting following his appointment, be re-elected as a Director.
5. That Mr C P Spencer, who retires at the first Annual General Meeting following his appointment, be re-elected as a Director.
6. That Mr C G H Weaver, who retires at the first Annual General Meeting following his appointment, be re-elected as a Director.
7. That Ernst & Young LLP, be re-appointed as Auditors.
8. That the Directors be authorised to determine the Auditors' remuneration.

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

9. 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"), 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 2006, 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

7 September 2005

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 31 October 2005.
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 31 October 2005. 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.

Shareholder Information

Dividends

Ordinary dividends are paid quarterly in March, June, September and December 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 Northern Trust International Fund Administration Services (Guernsey) Limited, Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3QL on request. Where dividends are paid directly to shareholders' bank accounts, dividend tax vouchers are sent directly to shareholders' registered addresses.

Share Price

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

Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to Northern Trust International Fund Administration Services (Guernsey) Limited, Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3QL under the signature of the registered holder.

Financial Calendar

30 September 2005	Payment of fourth interim dividend
2 November 2005	Annual General Meeting
December 2005	Payment of first interim dividend
March 2006	Announcement of interim results
	Posting of Interim Report
	Payment of second interim dividend
June 2006	Payment of third interim dividend
September 2006	Announcement of annual results
	Posting of Annual Report
	Payment of fourth interim dividend

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.isispropertytrust2.co.uk

Historic Record

	Total assets less current liabilities £'000	Shareholders' funds £'000	Net asset value per Ordinary Share p	Ordinary Share price p	Premium %	Earnings per Ordinary Share p	Dividends paid per Ordinary share p
1 June 2004 (launch)	176,814	106,152	96.0	100.0	4.2	–	–
30 June 2005 (per accounts)	202,007	124,478	112.6	124.5	10.6	26.2	5.615

ISIS Property Trust 2 Limited PROXY

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

of (address in full)____
being (a) member(s) of ISIS Property Trust 2 Limited, hereby appoint the Chairman of the meeting, 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 2 November 2005, 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 Report and Accounts for the period to 30 June 2005.			
2. To re-elect Mr Q Spicer, who retires at the first Annual General Meeting following his appointment, as a Director.			
3. To re-elect Mr A E G Gulliford, who retires at the first Annual General Meeting following his appointment, as a Director.			
4. To re-elect Mr C W Sherwell, who retires at the first Annual General Meeting following his appointment, as a Director.			
5. To re-elect Mr C P Spencer, who retires at the first Annual General Meeting following his appointment, as a Director.			
6. To re-elect Mr C G H Weaver, who retires at the first Annual General Meeting following his appointment, as a Director.			
7. To re-appoint Ernst & Young LLP as Auditors.			
8. To authorise the Directors to determine the Auditors' remuneration.			
Special Resolution			
9. To renew the Directors' authority to make market purchases of Ordinary Shares.			

Signature ____

Dated this ____________________ day of ____________________ 2005

Notes

You may, if you wish, in the space provided, after deleting the words "the Chairman of the meeting, 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.

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 8PN

FIRST FOLD

THIRD FOLD AND TUCK IN

Corporate Information

Directors (all non-executive)
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
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
The Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3UR

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

Website:
www.isispropertytrust2.co.uk

Pillans & Waddies, Edinburgh. 302645