



## **ISIS Property Trust 2 Limited**

Annual Report and Accounts

2007

# 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 2007 total assets less current liabilities were £236.7 million and shareholders' funds were £176.4 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 was 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. During the year, F&C Asset Management plc novated the investment management agreement with the Company to F&C Investment Business Limited, one of its wholly owned subsidiaries. There were no changes to the terms of the investment management agreement with the Company. Further details of the management contract are provided in the Notes to the Accounts.

## ISA/PEP Status

The Company's shares are eligible for ISAs and PEP transfers.

## Website

The Company's internet address is: [www.isispropertytrust2.com](http://www.isispropertytrust2.com)

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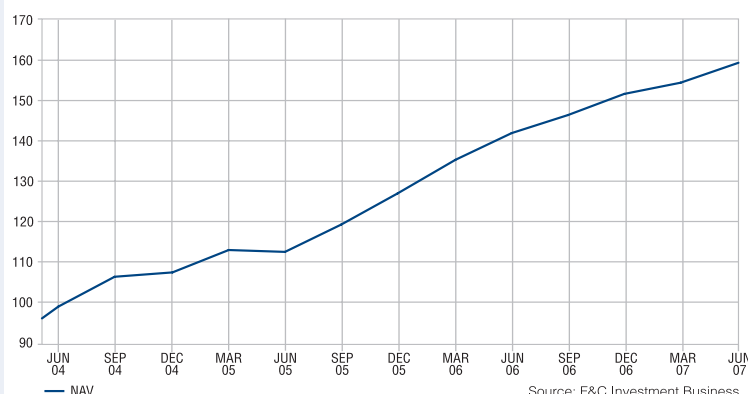
**This document is important and relates to certain matters on which voting action is required. Shareholders who are in any doubt as to what action to take should consult an appropriate independent adviser immediately.**

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

# Financial Highlights

- Net asset value total return since launch of 92.5 per cent
- Net asset value per share increased by 12.2 per cent to 159.6 pence in the year
- Dividend yield of 5.6 per cent based on year end share price
- Dividend of 7.0 pence per share for the year, an increase of 3.7 per cent

ISIS Property Trust 2 Limited NAV from Launch



# Performance Summary

	Year ended 30 June 2007	Year ended 30 June 2006	
<b>Total Return</b>			
Net asset value per share*	17.4%	32.9%	
Ordinary Share price*	(7.4)%	20.3%	
Investment Property Databank All Monthly Index	12.4%	21.3%	
FTSE All-Share Index	18.4%	19.7%	
	30 June 2007	30 June 2006	% Change
<b>Capital Values</b>			
Total assets less current liabilities £000's	236,703	231,118	2.4
Net asset value per share	159.6p	142.2p	12.2
Ordinary Share price	125.5p	142.5p	(11.9)
FTSE All-Share Index	3,404.1	2,967.6	14.7
(Discount)/premium to net asset value per share	(21.4)%	0.2%	(21.6)
Gearing †	25.5%	30.9%	(5.4)
	Year ended 30 June 2007	Year ended 30 June 2006	
<b>Earnings and Dividends</b>			
Earnings per Ordinary Share	18.8p	33.1p	
Dividends paid per Ordinary Share	6.88p	6.75p	
Dividend yield ‡	5.6%	4.7%	
<b>Total Expenses Ratio</b>			
As a percentage of average total assets less current liabilities ¶	1.3%	1.3%	
As a percentage of average shareholders' funds ¶	1.8%	2.0%	
	2007 Highs	2007 Lows	
<b>Highs/Lows</b>			
Net asset value per share	159.6p	142.2p	
Ordinary Share price	151.5p	125.5p	
Premium/(discount)	0.2%	(21.4)%	

\* Total return assuming gross dividends reinvested.

† Bank debt ÷ total assets less current liabilities.

‡ Calculated on annualised dividends of 7.0p per share. An analysis of dividend payments is contained in note 6 on page 27.

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

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

# Chairman's Statement



**Quentin Spicer** Chairman

The Company had another excellent year, recording a net asset value total return of 17.4 per cent. The Company's property portfolio produced an ungeared total return of 13.2 per cent, which compared favourably against a total return of 12.4 per cent for the Investment Property Databank UK Monthly Index (the 'IPD' Monthly Index) over the same period. The additional returns on net asset value can be attributed to the positive effects of gearing and an increase in the swap valuation.

Net asset value total return since launch is 92.5 per cent, significantly ahead of forecasts at that time.

However, in a tougher environment for property as an asset class, the Company's share price fell 11.9 per cent over the year from 142.50 pence per share at 30 June 2006 to 125.50 pence at 30 June 2007. This fall resulted in the shares showing a discount of 21.4 per cent, against a premium of 0.2 per cent a year earlier, a trend that has been seen across the peer group and the wider quoted property sector. Interest rates in the UK have increased five times during the last twelve months, by 1.25 per cent in total and the all-property initial yield is now lagging that of risk-free gilts. This has been a key factor behind the widening of discounts.

## **Property Market and Portfolio**

The UK property market experienced a change in sentiment during the year, as higher interest rates started to slow capital growth. Secondary property in particular is becoming vulnerable to a correction in market values, with town centre retail being the most susceptible. Offices, especially in Central London, are the leading sector and are expected to continue to outperform.

Having experienced three years of exceptional capital returns, the possibility of further yield compression to support this seems limited. Despite this change, there has still been considerable activity in direct property, with sizeable sums invested in the first half of 2007, particularly by overseas investors. This interest is mainly in prime property with secondary properties experiencing a weakening demand.

The Managers continued with their strategy of repositioning the portfolio away from standard retail units and concentrating further investment in additional high quality properties, with the emphasis on out of town retail and regional offices. Three properties were sold during the year for an aggregate of £26.6 million. These sales were all in excess of their market valuations and realised gains of £8.8 million against their original purchase price.

Although there were no purchases during the year, the Company completed the purchase of an office building, post year end, at a cost of £14.4 million. This building is in Edinburgh and offers good prospects of rental growth and some definite opportunities for asset management.

The void rate within the Company's property portfolio fell from 3.2 per cent at 30 June 2006 to a very low level of 0.3 per cent at the year end, the Managers having successfully let all but the smallest of vacant space, an indication of the high quality of the portfolio. This level of void sits substantially below the IPD average of 7.0 per cent and is extremely encouraging.

The amount of rental income from negligible and low risk tenants was 66.4 per cent as at 30 June 2007, which compares with the industry average of 68.5 per cent, although the recent purchase in Edinburgh will improve the risk profile of the portfolio. The average lease length of the portfolio fell during the year to 9.1 years, assuming all breaks

implemented, compared with 10.1 years at 30 June 2006. A number of rent negotiations are ongoing which should increase this figure in the longer term.

### **Dividends**

Three interim dividends of 1.73 pence per share have been paid during the year. After taking account of rental growth achieved since launch, combined with the interest rate savings achieved from the loan refinancing in January 2007, the Board has taken the decision to increase the fourth interim dividend by 4.6 per cent to 1.81 pence per share, giving a total dividend for the year ended 30 June 2007 of 7.0 pence per share. As previously announced, this dividend will be paid on 28 September 2007 to shareholders on the register on 7 September 2007.

In the absence of a material change in circumstances, it is the intention of the Board to maintain the quarterly dividend at 1.80 pence per share, giving a total dividend for the year ending 30 June 2008 of 7.2 pence per share.

### **Borrowings**

The use of borrowings continued to be an effective strategy during the year in a market of increasing property values, providing enhanced returns to shareholders. The gearing level as at 30 June 2007 was 25.5 per cent, which compares with 30.9 per cent as at 30 June 2006 and 40.0 per cent at launch on 1 June 2004.

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

At the same time, the Company terminated the interest rate swap with RBS and entered into a new interest rate swap transaction with LTSB. Under this agreement, the interest on the amount initially drawn down under the new facility has been fixed at an aggregate interest rate (including margin) of

5.655 per cent per annum for the first three years and 5.605 per cent per annum thereafter. This compares to a fixed rate of interest of 6.265 per cent under the previous facility.

The Board is pleased with the fixed rate of interest achieved, which is currently below The Bank of England base rate and the interest rate swap is therefore shown as an asset in the Balance Sheet. The Board is comfortable with the current level of gearing, particularly as the borrowings are on a revolving credit facility, giving the Company additional flexibility to manage the ongoing level of debt in an efficient manner.

### **Outlook**

The UK commercial property market has already started to show signs of a slowdown so far in 2007 and the Managers' forecast is for single digit total returns in the next couple of years. Good property selection, active asset management and strength of tenant covenant will be crucial in driving performance.

The Managers are considering various asset enhancing initiatives as they look to refresh the portfolio in the coming months. They will look to sell some targeted properties and repurchase high quality stock over the longer term. They will remain focussed on keeping voids at their current low rate and limiting risk by improving the covenant strength where opportunities arise.

The Company is well placed to perform, with flexible borrowings at a low fixed rate of interest in the current market. This takes the pressure off having to reinvest any sales proceeds immediately and the Managers can therefore concentrate on identifying the right type of property, with clear growth prospects and good letting potential.



### **Quentin Spicer**

Chairman  
17 September 2007

# Investment Managers



**Ian McBryde**  
Investment Manager

## **Investment Managers**

F&C Asset Management plc “FCAM” is a leading asset manager in both the UK and Europe and has approximately £101 billion of funds under management (as at 30 June 2007). The shares of FCAM are traded on the London Stock Exchange.

As part of an internal re-organisation, F&C Investment Business Limited “F&C”, a wholly owned subsidiary of FCAM, were appointed as investment managers of the Company with effect from 31 December 2006. FCAM 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 £4.4 billion (as at 30 June 2007), 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 has a strong investment performance track record of achieving outperformance of relevant benchmarks over short, medium and long term periods.

F&C’s ultimate parent company is Friends Provident plc, whose shareholdings in the Company are disclosed on page 13.

**Ian McBryde** Investment Manager joined F&C Asset Management plc in 1982 and is a director of F&C Property Asset Management. He is a fellow of the Royal Institution of Chartered Surveyors.



# Managers' Review

## Property market overview

The UK commercial property market has delivered exceptional returns over the past few years, mainly driven by yield compression. This has been achieved in an environment of low interest rates where debt-backed buyers have been a major factor behind market activity. The demand for UK commercial property has also been driven by overseas buyers and substantial sums flowing into UK open-ended funds.



*Mercury House, Strathclyde Business Park, Bellshill*

However, the scope for further yield compression is limited, with rising interest rates and the benchmark 10-year gilt yield some 60 basis points above the IPD all-property initial yield. Nevertheless, there remains a strong interest in UK commercial property, which continues to remain in favour due to its relatively high and stable income stream and low volatility of returns. In the 12 months to 30 June 2007 the Investment Property Databank (IPD) Monthly Index showed annual returns of 12.4 per cent. Prime property continues to attract most interest with secondary properties experiencing a weakening demand and vulnerable to a market correction.

The office market has outperformed the other sectors over the period delivering returns of 18.2 per cent, as measured by IPD. Central London offices have been the principal driver of these returns although the office markets outside London and the regions have attracted significant interest from investors. Retail property has been the poorest performer over the period, returning 9.3 per cent, as investors take on concerns surrounding potential oversupply and consumer spending. Industrial property delivered 12.1 per cent, close to the all property return.

## Portfolio

During the year the capital value of the Company's properties increased significantly, benefiting from the strong investment market for commercial property. The value of the portfolio increased by 7.8 per cent to £219.1m, after allowing for transactions and other capital expenditure. The total ungeared return for the portfolio was 13.2 per cent.

A number of properties made significant contributions to overall performance. 48/49 St James's Street, London SW1, with a value of £21.4 million, contributed most to performance, producing a total return of 33.3 per cent, a result of estimated rental value (ERV) growth. Units 1–8, Lakeside Road, Colnbrook, with a value of £16.68 million, produced a total return of 23.2 per cent, a result of new lettings and completed lease renewals. Mercury House, Strathclyde Business Park, Bellshill, Glasgow, with a value of £16.0 million, produced returns of 18.0 per cent, a result of ERV growth.

During the last 12 months, the Managers have pursued a strategy to reposition the portfolio away from standard retail units. The Company will concentrate future investment in regional offices and out of town retail and sell investments which are considered to be ex-growth.

The retail property at 99/103 Long Acre London WC2, let to FCUK Ltd (French Connection) was sold for £17.5 million, in excess of its valuation of £16.4 million, reflecting a yield of 3.6 per cent. The property was acquired by the Company at launch for £10.8 million.

The Company also sold Genesis House, Milton Keynes for £8.1 million, in excess of its valuation of £6.8 million, which showed a net initial yield of 5.8 per cent. The property was acquired by the Company at



*48/49 St James's, London SW1*

# Managers' Review (continued)

launch for £6.0 million. The property was let to Abbey National plc but on a relatively short term lease expiring in 2012, and was considered to be ex-growth.

The Company also sold the retail shop, 114 Princes Street, Edinburgh for £985,000, reflecting a yield of 4.1 per cent and above its valuation of £950,000.

The Managers have a number of asset management initiatives in progress which will enhance portfolio value. Further properties will also be sold during the next few months in accordance with the strategy.

amount of vacant space in the portfolio was 3.2 per cent. This significant reduction has principally been achieved by new lettings. Following refurbishments, 100a Princes Street, Edinburgh was let to Swarovski (UK) Ltd for 15 years at £155,000 per annum; 67/69 King Street, South Shields, was let to Select (Retail) Ltd for 15 years at £93,000 per annum; and 1 Lakeside Road, Colnbrook, was let to Global Transport Services Ltd for 10 years (with a tenant's break option after the fifth year) at £119,000 per annum.

At 30 June 2007, the Company's property portfolio had an average lease expiry (assuming all breaks exercised) of 9.1 years, with 52 per cent of gross rents having unexpired terms of greater than 10 years.

The Company entered into a new £75 million debt facility with Lloyds TSB Scotland plc and repaid in full its debt facility with The Royal Bank of Scotland plc. The Company initially drew down £60 million under the new facility. At the same time the Company terminated the interest rate swap with The Royal Bank of Scotland plc and entered into a new interest rate swap transaction with Lloyds TSB Scotland plc. Under this new agreement the interest on the full amount drawn down under the new facility was fixed at an aggregate interest rate (including margin) of 5.655 per cent for the first three years and 5.605 per cent thereafter. This compares to a fixed rate of interest of 6.265 per cent under the previous facility.



Unit 3663, Echo Park, Banbury

As a result of these sales the Managers are actively seeking new investments in the preferred sectors of regional offices and out of town retail. Although no new purchases were made during the year to 30 June, the Company has since acquired 1 and 2 Lochside Way, Edinburgh Park, Edinburgh. The property comprises an office building of 42,400 square feet located on Scotland's premier business park. The property is let to HSBC Securities (UK) Ltd, guaranteed by HSBC Bank plc, on two leases expiring in August 2014 at rents equating to £20 per square foot. The property was purchased for £14.4 million, which equates to a net initial yield of 5.5 per cent. The acquisition strengthens the Company's exposure to well-let prime regional offices and will improve the credit risk status of the Company's rental income.

The Company has continued to maintain a very low level of voids with the proportion of vacant space being 0.3 per cent as a proportion of Estimated Rental Value. This figure compares with the IPD average portfolio void of 7.0 per cent. This time last year the

## Outlook

The property market is experiencing a slowing of total returns in 2007 and is expected to deliver single digit returns in 2008. The forecasts assume broadly stable yields in 2007 with some outward shift in yields in 2008. Secondary property is considered to be most vulnerable to a correction.

Rental growth is forecast to be positive, if only modest, and not sufficient to offset the effect on performance from the ending of yield compression. Outperformance will be driven by superior stock selection and a strategy which focuses on managing downside risks. Prime property with better rental growth potential and sound letting prospects will be comparatively resilient.

## Ian McBryde

Investment Manager

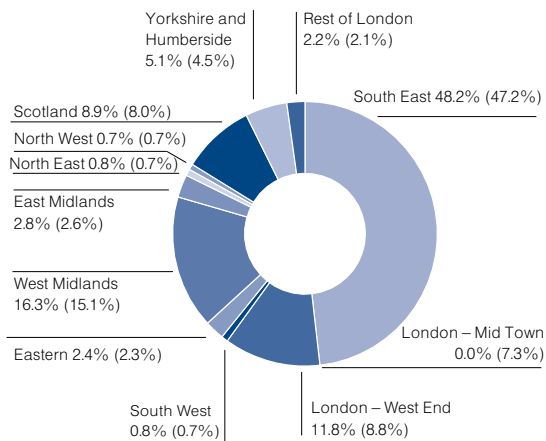
21 September 2007



# Portfolio Statistics

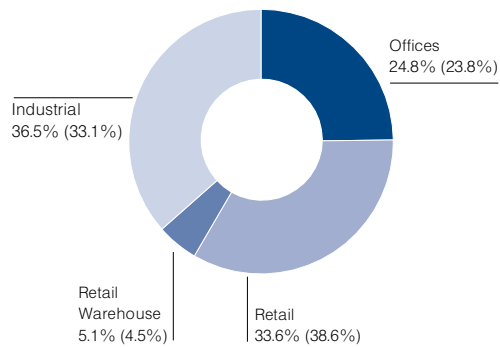
## Geographical Analysis

as at 30 June 2007 (prior year comparatives in brackets)



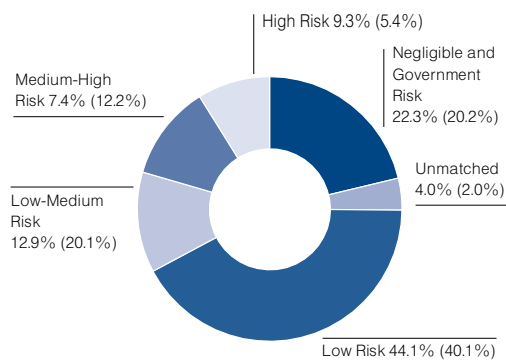
## Sector Analysis

as at 30 June 2007 (prior year comparatives in brackets)



## Covenant Strength

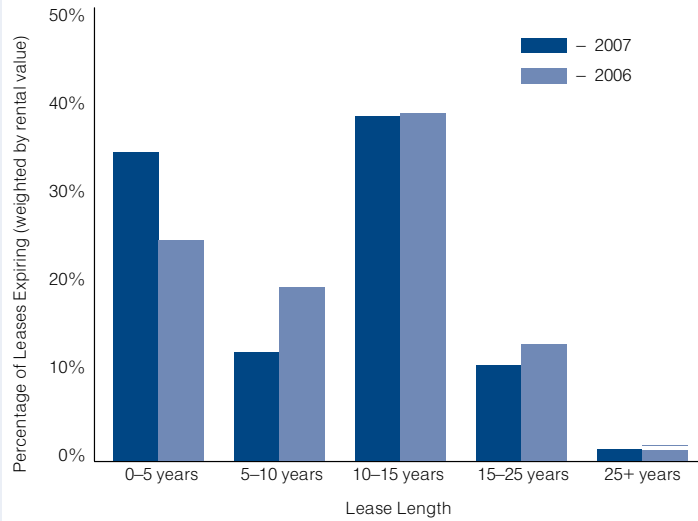
as at 30 June 2007 (prior year comparatives in brackets)



As measured by: Investment Property Databank (IPD).

# Portfolio Statistics (continued)

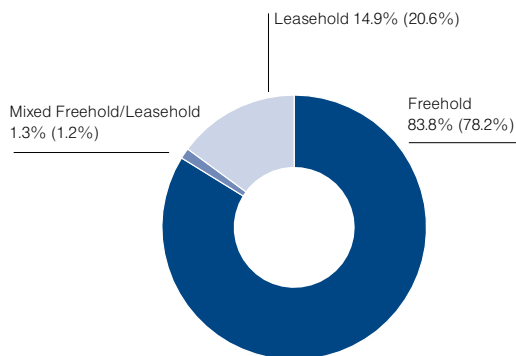
## Lease Expiry Profile



As at 30 June 2007 the average lease length for the portfolio, assuming all break options are exercised, was 9.1 years (2006: 10.1 years).

## Tenure Analysis

as at 30 June 2007 (prior year comparatives in brackets)



# Property Portfolio

Property	Sector	Book Cost £'000	Fair Value £'000†	% of Total Assets (less Current Liabilities)
London SW1, 48/49 St James's Street	Offices	10,000	21,400	9.0
Banbury, 3663 Unit, Echo Park	Industrial	13,850	19,850‡	8.4
Colnbrook, Units 1-8 Lakeside Road	Industrial	10,750	16,675	7.0
Bellshill, Mercury House, Strathclyde Business Park	Offices	11,680	16,000	6.8
Eastleigh, Southampton International Park	Industrial	11,375	14,700	6.2
Leamington Spa, 30-40 The Parade & 47/59a Warwick Street	Retail	9,340	12,400	5.2
York, Clifton Moor Gate *	Retail Warehouse	8,550	11,200	4.7
Hemel Hempstead, Hemel Gateway	Industrial	8,510	11,150	4.7
Rugby, Swift House, Cosford Lane *	Industrial	6,700	9,000	3.8
Brookwood, The Clock Tower	Offices	5,160	6,525	2.8
<b>Ten largest property holdings</b>		<b>95,915</b>	<b>138,900</b>	<b>58.6</b>
Winchester, 7-8 High St. & 50 Colebrook Street	Retail	4,720	6,260	2.6
Nottingham, Standard Hill	Offices	4,710	6,150	2.6
Milton Keynes, Site E Chippenham Drive	Industrial	4,730	5,700	2.4
Sutton Coldfield, 63-67 The Parade	Retail	4,330	5,450	2.3
Southampton, Units 1 & 2, Above Bar Church *	Retail	4,161	5,100	2.2
Guildford, 51-53 High Street	Retail	3,940	5,050	2.1
London SW1, 24 Haymarket & 1/2 Pantton Street *	Retail	2,974	4,475	1.9
Marlow, Globe Park, Unit GP9	Offices	3,780	4,300	1.8
Leamington Spa, 88/90 The Parade	Retail	2,890	3,975	1.7
Croydon, 17, 19 & 21 George Street	Retail	2,980	3,700	1.7
<b>Twenty largest property holdings</b>		<b>135,130</b>	<b>189,060</b>	<b>79.9</b>
Guildford, 7/11 Bridge Street	Retail	2,300	3,650	1.6
Edinburgh, 100A Princes Street	Retail	2,222	3,450	1.5
Rayleigh, 81/87 High Street	Retail	1,770	3,150	1.3
Nuneaton, 1-2 Church Street	Retail	1,890	2,880	1.2
Sunningdale, 53/79 Chobham Road, Berkshire	Retail	1,907	2,680	1.1
Wickford, 12/20 High Street	Retail	1,310	2,150	0.9
Brighton, 2-3 Pavilion Buildings *	Retail	1,760	2,000	0.8
Hereford, 9 High Street	Retail	1,470	1,925	0.8
South Shields, 67/69 King Street	Retail	1,120	1,760	0.7
Swindon, Unit 5, Newcombe Drive	Industrial	1,280	1,700	0.7
<b>Thirty largest property holdings</b>		<b>152,159</b>	<b>214,405</b>	<b>90.5</b>
Sutton, 97 High Street	Retail	910	1,150	0.5
Rochdale, 40 Yorkshire Street	Retail	730	950	0.4
Newbury, 25 Northbrook Street *	Retail	630	835	0.4
Rochdale, 42 Yorkshire Street	Retail	570	685	0.3
<b>Total property portfolio</b>		<b>154,999</b>	<b>218,025</b>	<b>92.1</b>
<b>Net current assets</b>			<b>15,281</b>	<b>6.5</b>
<b>Interest rate swap</b>			<b>3,397</b>	<b>1.4</b>
<b>Total assets less current liabilities</b>			<b>236,703</b>	<b>100.0</b>

\*Leasehold property

†Based on market value

‡The market value of Banbury is £20,925,000 (2006: £20,500,000). The difference between the market value and the fair value is the reverse lease surrender premium of £1,075,000 (2006: £1,162,000) which is recorded in the accounts as a current asset.

# Board of Directors



## **Quentin Spicer**

### **Chairman**

(age 62) is chairman of a number of companies including the Guernsey Housing Association LBG, RAB Special Situations Company Limited, European Value and Income Fund Limited, Quintain (Guernsey) Limited, South African Property Opportunities plc and Atlas Estates Limited. He is a non executive director of Summit Germany Limited, O Twelve Estates Limited, Develica Deutschland Limited and a number of other property investment funds.



## **Christopher Spencer**

(age 57) 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 non-executive director of a number of listed companies, including Bear Stearns Private Equity Limited, Henderson Far East Income Limited, Kenmore European Industrial Fund Limited, Queen's Walk Investment Limited, Dexion Trading Limited, Advance Focus Fund Limited, Ruffer Investment Company Limited and Thames River 2X Currency Alpha Limited.



## **Andrew Gulliford**

(age 60) is a UK resident. He is a chartered surveyor and was, until 1 January 2006, 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 Helical Bar plc and McKay Securities plc, UK listed property companies.



## **Giles Weaver**

(age 61) is a UK resident. He is a chartered accountant and was, until 2000, managing director and chairman of Murray Johnstone Limited. He has over 25 years' experience as a fund manager. He is chairman of Charter Pan-European Trust plc, Helical Bar plc, Kenmore European Industrial Fund Limited, AH Medical Properties Limited, and is a non-executive director of Aberdeen Asset Management plc and a number of other investment companies.



## **Christopher Sherwell**

(age 59) 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.

# Report of the Directors

The Directors present the report and accounts of the Group for the year ended 30 June 2007.

## Results and Dividends

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

The Company has paid interim dividends related to the year ended 30 June 2007 as follows:

	Payment date	Rate per share
Fourth interim for prior year	29 September 2006	1.6875p
First interim	22 December 2006	1.73p
Second interim	30 March 2007	1.73p
Third interim	29 June 2007	1.73p

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 1.81p will be paid on 28 September 2007 to shareholders on the register on 7 September 2007.

## Principal Activity and Status

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

## Listing Requirements

Throughout the year the Company complied (and intends to continue to comply) with the conditions applicable to property investment companies set out in paragraph 15.5.15R of the Listing Rules.

## Business Review

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, corporate governance, and risk management. Biographical details of the Directors, all of whom are non executive, can be found on page 10.

## Objectives and Strategy

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

As part of its strategy, the Board has contractually delegated the management of the property portfolio, and other services, to F&C Investment Business Ltd, ('the Managers').

The investment strategy employed by the Managers in meeting the investment objective focuses on investment in a diversified portfolio of freehold and predominantly long leasehold (over 60 years remaining at the time of acquisition) UK commercial properties. The Company invests principally in three commercial property sectors: offices, retail and industrial.

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

## Principal Risks and Risk Uncertainties

The Company's assets consist of direct investments in UK commercial property. Its principal risks are therefore related to the commercial property market in general, but also the particular circumstances of the properties in which it is invested and their tenants. More detailed explanations of these risks and the way in which they are managed are contained under the headings of Credit Risk, Liquidity Risk and Interest Rate Risk in note 17 to the accounts. The Managers also seek to mitigate these risks through continual review of the portfolio, active asset management initiatives, and carrying out due diligence work on potential tenants before entering into any new lease agreements. All of the properties in the portfolio are insured.

Other risks faced by the Company include the following:

- Economic – inflation or deflation, economic recessions and movements in interest rates could affect property valuations.
- Strategic – incorrect strategy, including sector and property allocation and use of gearing, could all lead to poor returns for shareholders.
- Regulatory – breach of regulatory rules could lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.
- Management and control – changes that cause the management and control of the Company to be exercised in the United Kingdom could lead to the Company becoming liable to



# Report of the Directors (continued)

United Kingdom taxation on income and capital gains.

- Financial – inadequate controls by the Managers or third party service providers could lead to misappropriation of assets. Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of regulations.
- Operational – failure of the Managers' accounting systems or disruption to the Managers' business, or that of third party service providers, could lead to an inability to provide accurate reporting and monitoring, leading to a loss of shareholders' confidence.

The Board seeks to mitigate and manage these risks through continual review, policy setting and enforcement of contractual obligations. It also regularly monitors the investment environment and the management of the Company's property portfolio, and applies the principles detailed in the Turnbull Guidance. Details of the Company's internal controls are described in more detail on pages 15 and 16.

## **Management of Assets and Shareholder Value**

As stated above, the Board has contractually delegated the management of the investment portfolio to F&C Investment Business Ltd.

The Company invests in properties which the Managers believe will generate a combination of long-term growth in income and capital for shareholders. Investment decisions are based on analysis of, amongst other things, prospects for future capital growth, sector and geographic prospects, tenant covenant strength, lease length and initial yield.

Investment risks are spread through investing in a range of geographical areas and sectors, and through letting properties to low risk tenants. A list of all the properties held as at 30 June 2007 is contained on page 9 and further analysis can be found in the Managers' Review. At each Board meeting, the Board receives a detailed presentation from the Managers together with a comprehensive analysis of the performance of the portfolio during the reporting period.

The Board receives recommendations on gearing levels from the Managers and it is responsible for setting the gearing range within which the Managers

may operate. The Company's gearing level as at 30 June 2007 was 25.5%.

The Board and the Managers recognise the importance of managing the discount of share price to net asset value in enhancing shareholder value. One aspect of this involves marketing, and to this end the Managers meet with current and potential new shareholders, and with stockbroking analysts who cover the investment company sector, on a regular basis. In addition, communication of quarterly portfolio information is provided through the Company's website.

## **Key Performance Indicators**

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

- Net asset value total return against the Investment Property Databank All Monthly Valued Funds.
- Discount of share price to net asset value.
- Dividend per share and dividend yield.
- Total expenses as a ratio of shareholders' funds.

A historical record of these indicators is contained in the Financial Highlights on page 1 and in the Historic Record on page 36.

## **Directors**

The Directors who held office during the year and their interests in the shares of the Company as at 30 June 2007 (all of which were beneficial) were:

	<b>As at 30 June 2007 Ordinary Shares</b>	As at 1 July 2006 Ordinary Shares
Q Spicer	<b>53,800</b>	20,000
A E G Gulliford	<b>25,000</b>	25,000
C W Sherwell	<b>20,000</b>	20,000
C P Spencer	<b>25,000</b>	25,000
C G H Weaver	<b>50,000</b>	50,000

There have been no changes in the above interests between 30 June 2007 and 21 September 2007.

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 10.

Mr A E Gulliford retires from the Board by rotation and, being eligible, offers himself for re-election at the Annual General Meeting. The Board confirms that, following formal performance evaluation, Mr Gulliford's performance continues to be effective and demonstrates commitment to the role, and believes that it is therefore in the interests of shareholders that he is re-elected.

The Directors received the following emoluments in the form of fees:

	<b>Year ended 30 June 2007</b>	Year ended 30 June 2006
	<b>£</b>	£
Q Spicer	<b>25,000</b>	18,000
A E G Gulliford	<b>20,000</b>	12,000
C W Sherwell	<b>20,000</b>	12,000
C P Spencer	<b>20,000</b>	12,000
C G H Weaver	<b>20,000</b>	12,000
<b>Total</b>	<b>105,000</b>	66,000

As any further increase in Directors' remuneration could result in the current maximum permitted under the Articles of Association being exceeded, a resolution to increase the maximum aggregate sum to which the Directors would be entitled as remuneration to £200,000 (currently £125,000) will be proposed at the Annual General Meeting. The amendment is proposed to allow for additional increases in the Directors' remuneration over a number of years.

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. The letters of appointment of the Directors are available for inspection at the Company's registered office during business hours and for fifteen minutes prior to the Annual General Meeting and at the meeting itself.

### Management

F&C Investment Business Limited provides management services to the Company. A summary

of the contract between the Company and F&C Investment Business Limited in respect of management services provided is given in note 2 to the accounts.

Since the year 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 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 due to the strength and quality of the management team and the Managers' commitment to the sector.

### Substantial Interests in Share Capital

At 21 September 2007 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	23,286,750	21.1
Scottish Widows Investment Partnership Ltd	10,000,000	9.0
Tilney Investment Management	5,623,646	5.1
Rensburg Sheppards Investment Management Ltd	4,334,324	3.9

### Corporate Governance

Guernsey does not have its own corporate governance code and, as a Guernsey registered company, the Company is not required to comply with the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ('the Code'). However, it is the Company's policy to comply with best practice on corporate governance that is applicable to investment companies.

# Report of the Directors (continued)

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 year with the provisions of 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. Consequently there is no requirement for a separate Remuneration Committee. Directors' fees are considered by the Board as a whole within the limits approved by shareholders.

In view of its non-executive nature and the requirement of the Articles of Association that all Directors retire by rotation at least every three years, the Board considers that it is not appropriate for the Directors to be appointed for a specified term as recommended by provision A.7.2 of the Code, nor for a Senior Independent Director to be appointed as recommended by provision A.3.3 of the Code.

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 A E G Gulliford and Mr C G H Weaver are both directors of Helical Bar plc and Mr C P Spencer and Mr C G H Weaver are both non-executive Directors of Kenmore European Industrial Fund Limited. However, in the opinion of the Board, these relationships do 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 Investment Business Limited, 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 year a number of committees have been in operation. These committees include the

Audit Committee and the Management Engagement Committee.

The Audit Committee, chaired by Mr C P Spencer, operates within clearly defined written terms of reference which are available on request 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 meets at least twice yearly. The objectivity of the auditors is reviewed by the Audit Committee which also reviews the terms under which the external auditors are appointed to perform non-audit services. The objectivity and independence of the auditors is safeguarded by obtaining assurances from the auditors that adequate policies and procedures exist within its firm to ensure the firm and its staff are independent of the Company by the Company by reason of family, finance, employment, investment and business relationships (other than in the normal course of the business) and enforcing a policy concerning the provision of non-audit services by the auditors which governs the types of work from which the additions are excluded. 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 £26,000 for the year ended 30 June 2007 (period ended 30 June 2006 – £21,000) and related principally to the provision of taxation services and a review of the interim financial information. 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.

During the year the performance of the Board, committees and individual Directors were evaluated through an assessment process, led by the Chairman. The performance of the Chairman was evaluated by the other Directors.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of

their duties. The Company maintains appropriate Directors' and Officers' liability insurance.

### Going Concern

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

### Environmental Policy

The Managers acquire, develop and manage properties on behalf of the Company. It is recognised that these activities have both direct and indirect environmental impacts.

The Board has endorsed the Managers' own environmental policy, which is to work in partnership with contractors, suppliers, tenants and consultants to maintain those impacts, seeking continuous improvements in environmental performance and conducting regular interviews.

### 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 issued by the Financial Reporting Council in October 2005. The process is based principally on the Managers'

existing risk-based approach to internal control whereby a test matrix is created that identifies the key functions carried out by the Managers and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The test matrix is regularly updated and the Board is provided with regular reports highlighting all material changes to the risk ratings and confirming the action which has been, or is being, taken. A formal annual review of these procedures is carried out by the Audit Committee and includes consideration of the AAF 01/06 Report and similar reports issued by the Investment Managers and other service providers.

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

The table below sets out the number of Board and Committee meetings held during the year and the number of meetings attended by each Director.

	Board of Directors		Audit Committee		Management Engagement Committee	
	Held	Attended	Held	Attended	Held	Attended
Q Spicer	4	4	2	2	1	1
A E G Gulliford	4	4	2	2	1	1
C W Sherwell	4	4	2	2	1	1
C P Spencer	4	4	2	1	1	1
C G H Weaver	4	4	2	1	1	1

In addition to the scheduled quarterly Board meetings detailed above, there were a further 8 Board Committee meetings held in Guernsey during the year, attended by non UK resident Directors.

# Report of the Directors (continued)

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 Investment 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 year.

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 5, as set out in the notice of the Annual General Meeting, seeks renewal of such authority until 21 February 2009 or, if earlier, at the conclusion of the Annual General Meeting in 2008. Any buyback 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. The Directors have no current intentions to utilise the share buy back authority.

## Treasury Shares

Under Guernsey law the Company is able to buy back its own shares to hold in treasury for re-sale. The Directors consider that this facility gives the Company more flexibility in managing its share capital. The Company currently holds no shares in treasury.

Such facility, however, requires a change to be made to the Company's Articles of Association and Resolution 6, as set out in the notice of the Annual General Meeting, seeks approval for such a change.

Any buy-back into treasury and re-sale from treasury will operate within the following limits:

- No more than 10 per cent of the Company's issued shares will be held in treasury at any time; and
- Shares will only be re-issued out of treasury if they are not trading at a discount to the net asset value.

## 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.

The Directors believe that the resolutions to be proposed at the Annual General Meeting are in the best interests of shareholders as a whole and unanimously recommend that shareholders vote in favour of each resolution.

Approved by the Board on 21 September 2007.



Q Spicer  
Director



C P Spencer  
Director



# Directors' Responsibility Statement and Independent Auditors' Report

## Directors' Responsibility Statement

The Directors are responsible for preparing consolidated financial statements for each financial year 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 year 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 inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the 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 year ended 30 June 2007 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 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 64 of the Companies (Guernsey) Law 1994. Our audit

work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 as set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements, 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, Managers' 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

# Directors' Responsibility Statement and Independent Auditors' Report (continued)

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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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, in accordance with International Financial Reporting Standards, of the state of affairs of the Group as at 30 June 2007 and of its profit for the year then ended and have been properly prepared in accordance with the Companies (Guernsey) Law 1994.

**Ernst & Young LLP**  
**Guernsey**  
**Channel Islands**  
**21 September 2007**

# Consolidated Income Statement

for the year ended 30 June

	Notes	2007 £'000	2006 £'000
<b>Revenue</b>			
Rental income		11,809	12,547
Gains on investment properties	8	16,832	31,158
<b>Total income</b>		<b>28,641</b>	43,705
<b>Expenditure</b>			
Investment management fee	2a	(2,006)	(1,883)
Other expenses	3	(956)	(913)
<b>Total expenditure</b>		<b>(2,962)</b>	(2,796)
<b>Net operating profit before finance costs</b>		<b>25,679</b>	40,909
<b>Net finance costs</b>			
Interest revenue receivable		747	201
Finance costs	4	(4,024)	(4,508)
Loss on termination of interest rate swap	12	(1,610)	–
		<b>(4,887)</b>	(4,307)
<b>Net profit from ordinary activities before taxation</b>		<b>20,792</b>	36,602
Taxation on profit on ordinary activities	5	–	–
<b>Net profit for the year</b>		<b>20,792</b>	36,602
<b>Earnings per share</b>	7	<b>18.8p</b>	33.1p

The accompanying notes are an integral part of this statement.

# Consolidated Balance Sheet

as at 30 June	Notes	2007 £'000	2006 £'000
<b>Non-current assets</b>			
Investment properties	8	218,025	227,293
Interest rate swap	12	3,397	–
		<b>221,422</b>	227,293
<b>Current assets</b>			
Trade and other receivables	10	2,870	2,939
Cash and cash equivalents	11	16,945	5,051
		<b>19,815</b>	7,990
<b>Total assets</b>		<b>241,237</b>	235,283
<b>Non-current liabilities</b>			
Interest-bearing bank loan	12	(60,326)	(71,330)
Interest rate swap	12	–	(2,652)
		<b>(60,326)</b>	(73,982)
<b>Current liabilities</b>			
Trade and other payables	13	(4,534)	(4,165)
<b>Total liabilities</b>		<b>(64,860)</b>	(78,147)
<b>Net assets</b>		<b>176,377</b>	157,136
<b>Represented by:</b>			
Share capital	14	1,105	1,105
Special distributable reserve		99,648	103,288
Capital reserve		72,227	55,395
Other reserve		3,397	(2,652)
<b>Equity shareholders' funds</b>		<b>176,377</b>	157,136
<b>Net asset value per share</b>	15	<b>159.6p</b>	142.2p

The accounts on pages 19 to 33 were approved and authorised for issue by the Board of Directors on 21 September 2007 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 year ended 30 June 2007

	Special					Total £'000
	Share Capital	Distributable Reserve	Capital Reserve	Other Reserve	Revenue Reserve	
	£'000	£'000	£'000	£'000	£'000	
At 1 July 2006	1,105	103,288	55,395	(2,652)	-	157,136
Net profit for the year	-	-	-	-	20,792	20,792
Dividends paid	-	-	-	-	(7,600)	(7,600)
Transfer in respect of gains on investment properties	-	-	16,832	-	(16,832)	-
Transfer from special distributable reserve	-	(3,640)	-	-	3,640	-
Realised loss on interest rate swap	-	-	-	1,610	-	1,610
Movement in fair value of interest rate swaps	-	-	-	4,439	-	4,439
<b>At 30 June 2007</b>	<b>1,105</b>	<b>99,648</b>	<b>72,227</b>	<b>3,397</b>	<b>-</b>	<b>176,377</b>

for the year ended 30 June 2006

	Special					Total £'000
	Share Capital	Distributable Reserve	Capital Reserve	Other Reserve	Revenue Reserve	
	£'000	£'000	£'000	£'000	£'000	
At 1 July 2005	1,105	105,303	24,237	(6,167)	-	124,478
Net profit for the year	-	-	-	-	36,602	36,602
Dividends paid	-	-	-	-	(7,459)	(7,459)
Transfer in respect of gains on investment properties	-	-	31,158	-	(31,158)	-
Transfer from special distributable reserve	-	(2,015)	-	-	2,015	-
Movement in fair value of interest rate swap	-	-	-	3,515	-	3,515
<b>At 30 June 2006</b>	<b>1,105</b>	<b>103,288</b>	<b>55,395</b>	<b>(2,652)</b>	<b>-</b>	<b>157,136</b>

The accompanying notes are an integral part of this statement.



# Consolidated Cash Flow Statement

for the year ended 30 June

	Notes	2007 £'000	2006 £'000
<b>Cash flows from operating activities</b>			
Net operating profit for the year before finance costs		25,679	40,909
Adjustments for:			
Gains on investment properties		(16,832)	(31,158)
Decrease/(increase) in operating trade and other receivables		176	(1,635)
Increase/(decrease) in operating trade and other payables		207	(326)
		<b>9,230</b>	7,790
Interest received		702	201
Bank loan interest paid		(3,759)	(3,927)
Payments under interest rate swap arrangement		(380)	(569)
		<b>(3,437)</b>	(4,295)
<b>Net cash inflow from operating activities</b>		<b>5,793</b>	3,495
<b>Cash flows from investing activities</b>			
Capital expenditure	8	(510)	(85)
Sale of investment properties	8	26,610	5,000
<b>Net cash inflow from investing activities</b>		<b>26,100</b>	4,915
<b>Cash flows from financing activities</b>			
Repayment of previous bank loan	12	(70,662)	–
Drawdown of new bank loan	12	60,000	–
New loan set-up costs paid		(127)	–
Payment on termination of interest rate swap	12	(1,610)	–
Dividends paid	6	(7,600)	(7,459)
<b>Net cash outflow from financing activities</b>		<b>(19,999)</b>	(7,459)
Net increase in cash and cash equivalents		11,894	951
Opening cash and cash equivalents		5,051	4,100
<b>Closing cash and cash equivalents</b>		<b>16,945</b>	5,051

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 year, 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.

The following new standards have been issued but are not effective for 2007 and have not been early adopted:

In August 2005, the IASB issued IFRS 7 *Financial Instruments: Disclosures* which becomes effective for periods commencing on or after 1 January 2007. The standard requires disclosures about the significance of financial instruments for an entity's financial position and performance. These disclosures incorporate many of the requirements of IAS 32 *Financial Instruments: Disclosure and Presentation*. IFRS 7 also requires information about the extent to which the entity is exposed to risks arising from financial instruments, and a description of management's objectives, policies and processes for managing those risks. The Group will apply IFRS 7 for its accounting period commencing 1 July 2007.

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

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 its subsidiary 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. As the Directors consider that the value of the property portfolio is likely to be realised by sale rather than use over time, no provision has been made for deferred tax on valuation uplifts.

# Notes to the Accounts (continued)

## **1. Accounting policies (continued)**

### **(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. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period during which the expenditure is incurred and included within the book cost of the 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 Income Statement and transferred to the Capital Reserve.

Recognition and 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 when the Group becomes party to the contractual provisions of the instrument. The derivative instruments are initially recognised 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.

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.

Surrender lease premiums paid are recognised as a current asset and amortised over the period from the date of lease commencement to the earliest termination date.

## 1. Accounting policies (continued)

### (l) Trade and Other Payables

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

### (m) Interest-Bearing borrowings

All non-current borrowings are initially recognised at the date of drawdown and are measured at cost, being the 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.

### (n) Reserves

#### Special reserve

The special reserve is a distributable reserve to be used for all purposes permitted under Guernsey law, including the buyback 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 year 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 and payment of dividends is taken to this reserve, with any deficit charged to the special reserve.

## 2. Fees

	2007	2006
	£'000	£'000
<b>(a) Investment management fee</b>	<b>2,006</b>	1,883

During the year, F&C Asset Management plc novated the investment management agreement with the Company to F&C Investment Business Limited, one of its wholly-owned subsidiaries. There were no changes to the terms of the investment management agreement with the Company.

The Company's Managers 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 increases annually in line with inflation) (see note 3), payable quarterly in arrears. The fees of any managing agents appointed by the Managers will be payable out of the investment management fee. The investment management agreement was for a fixed initial three year period which ended on 1 June 2007 and 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 Managers would otherwise have received during the notice period, is made.

### (b) Valuers' fees

The valuers, DTZ Debenham Tie Leung Limited provide valuation services in respect of the property portfolio. An annual fee is payable equal to 0.03 per cent of the aggregate value of the property portfolio.

# Notes to the Accounts (continued)

## 3. Other expenses

	Year ended 30 June 2007 £'000	Year ended 30 June 2006 £'000
Direct operating expenses of let rental property	416	275
Bad debts	(13)	190
Valuation and other professional fees	170	157
Directors' fees	105	66
Administration fee	64	62
Auditors' remuneration for:		
– statutory audit	33	33
– interim review	5	5
– tax services	17	13
– other services	4	3
Other	155	109
	<b>956</b>	<b>913</b>

## 4. Finance costs

	Year ended 30 June 2007 £'000	Year ended 30 June 2006 £'000
Interest on principal loan amount	3,699	3,882
Interest in respect of rate swap arrangement	180	612
Termination costs of previous loan	24	–
Amortisation of loan set up costs	26	10
Write-off of previous loan set up costs	77	–
Other interest/fees	18	4
	<b>4,024</b>	<b>4,508</b>

## 5. Taxation

	Year ended 30 June 2007 £'000	Year ended 30 June 2006 £'000
Current income tax charge	–	–
Deferred income tax relating to origination and reversal of temporary differences	–	–
Total tax charge	–	–

## 5. Taxation (continued)

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 year is as follows:

	<b>Year ended</b> <b>30 June</b> <b>2007</b> <b>£'000</b>	Year ended 30 June 2006 £'000
Net profit before taxation	<b>20,792</b>	36,602
UK income tax at a rate of 22 per cent	<b>4,574</b>	8,052
Effects of:		
Capital gains on revaluation of investment properties not taxable	<b>(3,703)</b>	(6,855)
Income not taxable, including interest receivable	<b>(164)</b>	(44)
Expenditure not allowed for income tax purposes (including set-up costs)	<b>1,264</b>	1,075
Inter company loan interest	<b>(2,289)</b>	(2,388)
Capital allowances	-	-
Deferred tax asset not provided for	<b>318</b>	160
Permanent timing differences	-	-
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 £556,000 (2006: £238,000) 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.

## 6. Dividends

	<b>Year ended</b> <b>30 June</b> <b>2007</b> <b>£'000</b>	Year ended 30 June 2006 £'000
Dividends on Ordinary Shares:		
Fourth interim for the prior year of 1.6875 pence per share paid on 29 September 2006	<b>1,864</b>	1,864
First interim of 1.73 pence per share paid on 22 December 2006	<b>1,912</b>	1,865
Second interim of 1.73 pence per share paid on 30 March 2007	<b>1,912</b>	1,865
Third interim of 1.73 pence per share paid on 29 June 2007	<b>1,912</b>	1,865
	<b>7,600</b>	7,459

A fourth interim dividend of 1.81 pence per share will be paid on 28 September 2007 to shareholders on the register on 7 September 2007. Although this payment of £2,000,050 relates to the year ended 30 June 2007, under International Financial Reporting Standards it will be accounted for in the year ending 30 June 2008.

## 7. Earnings per share

The earnings per Ordinary Share are based on the net profit for the year of £20,792,000 (year ended 30 June 2006: £36,602,000) and on 110,500,000 (year ended 30 June 2006: 110,500,000) Ordinary Shares, being the weighted average number of shares in issue during the year.

# Notes to the Accounts (continued)

## 8. Investment properties

	Year ended 30 June 2007 £'000	Year ended 30 June 2006 £'000
<b>Freehold and leasehold properties</b>		
Opening valuation	227,293	201,050
Capital expenditure	510	85
Sales proceeds	(26,610)	(5,000)
Gains on investment properties	16,832	31,158
Closing valuation	218,025	227,293

### Gains on investment properties disposed

	Year ended 30 June 2007
Original cost of investment properties sold	17,783
Market value of investment properties sold as at 30 June 2006	24,195
Sale proceeds	26,610
Gain on disposal calculated with reference to	
– original cost	8,827
– 30 June 2006 valuation	2,415

DTZ Debenham Tie Leung Limited completed a valuation of Group investment properties at 30 June 2007 on an open market basis in accordance with the requirements of the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors, which is deemed to equate to fair value. Fair value is determined by reference to market based evidence, which is the amounts for which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction as at the valuation date. The market value of these investment properties amounted to £219,100,000 (2006: £228,455,000) and the fair value amounted to £218,025,000 (2006: £227,293,000). The difference between the market value and the fair value is the reverse lease surrender premium of £1,075,000 (2006: £1,162,000) which is recorded in the accounts as a current asset.

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

The Group has entered into leases on its property portfolio as lessor (See note 19 for further information). No one property accounts for more than 15 per cent of the gross assets of the Group. The 10 largest properties per open market value are shown on page 9. 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 17.

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.



In addition to its investment in the shares of IPH, the Company had lent £128,330,000 to IPH as at 30 June 2007 (2006: £140,870,000). The loan is repayable on 30 May 2014 and is unsecured. Interest is payable in arrears at a fixed rate of 7.655 per cent per annum or such other interest rate that may be agreed from time to time between IPH and the Company.

<b>Name of subsidiary undertaking</b>	Class of share	% of class held	Country of incorporation
IPT2 Property Holdings Limited	Ordinary	100*	Guernsey

\*The Company's holding represents all the voting rights of the subsidiary undertaking.

<b>10. Trade and other receivables</b>	<b>2007</b>	2006
	<b>£'000</b>	£'000
Rents receivable (net of provision for bad debts)	<b>822</b>	746
Other debtors and prepayments	<b>2,048</b>	2,193
	<b>2,870</b>	2,939

#### **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 year end.

<b>12. Bank loan and interest rate swap asset</b>	<b>2007</b>	2006
	<b>£'000</b>	£'000
Facility	<b>75,000</b>	70,662
Drawn down	<b>60,000</b>	70,662
Set up costs	<b>(431)</b>	(102)
Accumulated amortisation of set up costs	<b>26</b>	20
Accrued variable rate interest on bank loan	<b>731</b>	750
Total due	<b>60,326</b>	71,330

On 10 January 2007 the Company repaid in full its existing debt facility of £70.7 million with The Royal Bank of Scotland plc ('RBS') and entered into a new £75.0 million facility with Lloyds TSB Scotland plc ('LTSB'). The Company has initially drawn down £60.0 million under the new facility.

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);
- the five most valuable properties do not account for more than 45 per cent of the gross secured assets value; and
- the growth secured asset value of any group of properties should not exceed 50 per cent for industrial properties, 60 per cent for offices and 60 per cent for retail properties.

# Notes to the Accounts (continued)

## 12. Bank loan and interest rate swap asset (continued)

Interest rate exposure has been hedged 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.

At the same time as the refinancing of the bank loan, the Company terminated the interest rate swap with RBS at a cost of £1,610,000 and entered into a new interest rate swap transaction with LTSB against the £60.0 million drawn down.

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 5.655 per cent per annum for the first three years and 5.605 per cent per annum thereafter.

The fair value of the asset in respect of the interest rate swap contract at 30 June 2007 is £3,397,000 (2006: a liability of £2,652,000), 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 and is payable quarterly. 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 0.50 per cent per annum for the first three years of the facility and 0.45 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 LTSB. Interest on the swap is payable quarterly. The interest rate swap expires on 10 January 2017. The loan is repayable on 10 January 2017.

<b>13. Trade and other payables</b>	<b>2007</b>	2006
	<b>£'000</b>	£'000
Rental income received in advance	<b>2,418</b>	2,550
VAT payable	<b>414</b>	245
Managers' fees payable	<b>518</b>	505
Other payables	<b>1,184</b>	865
	<b>4,534</b>	4,165

<b>14. Share capital account and reserves</b>	<b>2007</b>	2006
	<b>£'000</b>	£'000
<b>Authorised share capital:</b>		
200,000,000 Ordinary Shares of 1 pence each	<b>2,000</b>	2,000
<b>Issued share capital:</b>		
110,500,000 Ordinary Shares of 1 pence each, fully paid	<b>1,105</b>	1,105

## 15. Net asset value per share

The net asset value per ordinary share is based on net assets of £176,377,000 (2006: £157,136,000) and 110,500,000 (2006: 110,500,000) ordinary shares, being the number of ordinary shares in issue at the year end.

## 16. 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 Investment Business Limited received fees for its services as Investment Managers. Further details are provided in notes 2 and 3. The total charge to the Income Statement during the year was £2,070,000 (2006: £1,945,000) of which £518,000 (2006: £505,000) remained payable at the year end.

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 26. Total fees for the year were £105,000 (2006: £66,000) of which £26,250 (2006: £16,500) remained payable at the year end.

## 17. Financial instruments

The Group's investment objective is to provide ordinary shareholders with an attractive level of income together with the potential for income and capital 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 is used 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 remained unchanged during the year.

### Fair values

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

### 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 Managers monitor such reports in order to anticipate, and minimise the impact of, defaults by occupational tenants.

The Company has a diversified tenant portfolio. The maximum credit risk from the rent receivables of the Group at 30 June 2007 is £822,000 (2006: £746,000). The Group holds rental deposits of £380,000 (2006: £374,000) held as collateral against tenant arrears/defaults. 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.

# Notes to the Accounts (continued)

## 17. Financial instruments (continued)

### 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.

### Interest rate risk

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

#### As at 30 June 2007

Floating rate	Within					More than		Total
	1 year	1–2 years	2–3 years	3–4 years	4–5 years	5 years		
	£'000	£'000	£'000	£'000	£'000	£'000		
Cash assets	16,945	–	–	–	–	–	16,945	
Bank loan	–	–	–	–	–	(60,000)	(60,000)	
Interest rate swap*	–	–	–	–	–	3,397	3,397	

#### As at 30 June 2006

Floating rate	Within					More than		Total
	1 year	1–2 years	2–3 years	3–4 years	4–5 years	5 years		
	£'000	£'000	£'000	£'000	£'000	£'000		
Cash assets	5,051	–	–	–	–	–	5,051	
Bank loan	–	–	–	–	–	(70,662)	(70,662)	
Interest rate swap*	–	–	–	–	–	(2,652)	(2,652)	

\*The effect of the interest rate swap is discussed below.

Interest is receivable on cash at a variable rate of LIBOR plus 0.03 per cent.

Interest is payable on the bank loan at a variable rate of LIBOR plus a margin of 0.5 per cent. The effect of the interest rate swap is to currently fix interest payable at a rate of 5.655 per cent. The effective rate of interest on the loan is 5.927 per cent.

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

The other financial assets and liabilities of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

### 17. Financial instruments (continued)

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.

### Foreign currency risk

There was no foreign currency risk as at 30 June 2007 or 30 June 2006 as assets and liabilities of the Group are maintained in pounds sterling.

### 18. Capital commitments

The Group had no capital commitments as at 30 June 2007 (2006: £nil).

### 19. Lease length

The Group leases out its investment properties under operating leases.

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

	<b>2007</b>	2006
	<b>£'000</b>	£'000
Less than one year	<b>457</b>	244
Between two and five years	<b>10,199</b>	6,812
Over five years	<b>95,591</b>	116,740
Total	<b>106,247</b>	123,796

The largest single tenant at the year end accounted for 9.5 per cent of the current annual rental income (2006: 9.0 per cent).

The unoccupied property expressed as a percentage of estimated total rental value was 0.3 per cent at the year end (2006: 3.2 per cent).

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 7 and 8.

### 20. Post balance sheet events

Post year end the Company has purchased an office building at a cost of £14.4 million. The building is in Edinburgh and offers good prospects of rental growth and some definite opportunities for asset management.

# Notice of Annual General Meeting

Notice is hereby given that the Third Annual General Meeting of ISIS Property Trust 2 Limited will be held at Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3QL on 21 November 2007 at 12 noon 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 year ended 30 June 2007 be received and approved.
2. That Mr A E G Gulliford, who retires by rotation, be re-elected as a Director.
3. That Ernst & Young LLP, be re-appointed as Auditors.
4. That the Directors be authorised to determine the Auditors' Remuneration.

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

5. That the Company be authorised, in accordance with section 5 of The Companies (Purchase of Own Shares) Ordinance 1998 (the "Ordinance"), to make market purchases (within the meaning of section 18 of the Ordinance) of ordinary shares of 1p each ("Ordinary Shares") (either for retention as treasury shares or transfer, or cancellation), provided that:
  - (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 14.99 per cent of the issued Ordinary Shares on the date on which this resolution is passed;
  - (b) the minimum price which may be paid for an Ordinary Share shall be 1p;
  - (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall be 105 per cent of the average of the middle market quotations (as derived from the Daily Official List) for the Ordinary Shares for the five business days immediately preceding the date of purchase; and
  - (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 21 February 2009 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2008, 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.
6. That the Company be authorised, in accordance with section 1 of The Companies (Purchase of Own Shares) (Treasury Shares) Ordinance, 2006, to hold any shares, purchased by it in accordance with The Companies (Purchase of Own Shares) Ordinance, 1998, and out of distributable profits, as treasury shares, by way of an amendment to the Company's articles of association as set out in the proposed articles of association to be tabled at the Annual General Meeting which will replace the Company's existing articles of association.
7. That the limit of the remuneration payable to directors of the Company be increased from £125,000 to

£200,000, by way of an amendment to the Company's articles of association as set out in the proposed articles of association to be tabled at the Annual General Meeting which will replace the Company's existing articles of association.

8. Provided resolutions 6 and 7 set out in the notice convening this meeting have been passed, that the articles of association of the Company be amended to reflect the changes requested pursuant to resolutions 6 and 7 by deleting the existing articles of association in their entirety and replacing them with the articles of association as tabled at the Annual General Meeting, and signed by the Chairman of the Annual General Meeting for identification.

By order of the Board

Northern Trust International Fund Administration  
Services (Guernsey) Limited

Secretary

Trafalgar Court

Les Banques

St Peter Port

Guernsey GY1 3QL

21 September 2007

## 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, Ordinance House, 31 Pier Road, St Helier, Jersey JE4 8PW not later than 12 noon on 19 November 2007.
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 noon on 19 November 2007. Changes to entries in the register after that time shall be disregarded in determining the rights of any member to attend and vote at such Meeting.
5. The Directors' letters of appointment will be available for inspection for fifteen minutes prior to the Annual General Meeting and during the meeting itself.
6. In the opinion of the Directors it is beneficial for the Company to be able to hold treasury shares as permitted under the Companies (Purchase of Own Shares) (Treasury Shares) Ordinance, 2006. The proposed amendments to the articles of association will allow the Company to retain any shares bought back as treasury shares for future re-issue and re-sale or transfer or may cancel any such shares. During the period when the Company holds shares as treasury shares the rights and obligations in respect of those shares may not be exercised or enforced by or against the Company. In particular, the Company may not exercise any voting rights or make or receive any dividend or other distribution (whether in cash or otherwise) of the Company's assets (including any distribution of assets to members on a winding up) in respect of those shares. The maximum number of shares of any class that can be held as treasury shares by the Company is 10 per cent of the aggregate nominal value of all of the issued shares in that class.
7. Copies of the existing Articles of Association of the Company and the proposed revised Articles of Association will be available for inspection during normal business hours on any day (Saturdays, Sundays and public holidays excepted) until the close of the Annual General Meeting at the registered office of the Company and at the London offices of the Company's UK Legal Advisers, Dickson Minto WS, at 22/25 Finsbury Square, London EC2A 1DX. Copies of the proposed revised Articles of Association will also be available for inspection at the place of the Annual General Meeting for 15 minutes before and during the 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 and the Channel Islands 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.

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

## Financial Calendar 2007/08

28 September 2007	Payment of fourth interim dividend
21 November 2007	Annual General Meeting
December 2007	Payment of first interim dividend
February 2008	Announcement of interim results
February 2008	Posting of Interim Report
April 2008	Payment of second interim dividend
June 2008	Payment of third interim dividend
September 2008	Announcement of annual results
	Posting of Annual Report
	Payment of fourth interim dividend



# Historic Record

## Historic Record

	Total assets less current liabilities £'000	Shareholders' funds £'000	Net asset value per Ordinary Share p	Ordinary Share price p	Premium/ (discount) %	Earnings per Ordinary Share p	Dividends paid per Ordinary share p
1 June 2004 (launch)	176,814	106,152	96.0	100.0	4.2	–	–
30 June 2005	202,007	124,478	112.6	124.5	10.6	26.2	5.615
30 June 2006	231,118	157,136	142.2	142.5	0.2	33.1	6.750
<b>30 June 2007</b>	<b>236,703</b>	<b>176,377</b>	<b>159.6</b>	<b>125.5</b>	<b>(21.4)</b>	<b>18.8</b>	<b>6.876</b>

### ISIS Property Trust 2 Limited Share Price from Launch



# 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 third Annual General Meeting of the Company, to be held on 21 November 2007, 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 the Report and Accounts for the year ended 30 June 2007.			
2. To re-elect Mr A E G Gulliford as a Director.			
3. To re-appoint Ernst & Young LLP as Auditors.			
4. To authorise the Directors to determine the Auditors' remuneration.			
Special Resolutions			
5. To authorise the Directors to make market purchases of Ordinary Shares.			
6. To authorise the Company to hold treasury shares.			
7. To authorise the increase in the limit of remuneration payable to directors to £200,000.			
8. To authorise the amendment of the articles of association to reflect resolutions 6 and 7.			

Signature \_\_\_\_\_

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2007

## 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.

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

Only shareholders or their proxies may attend the meeting.



SECOND FOLD

RESPONSE LICENCE No.  
JE 147

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

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# 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 & Registrar**

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

## **Investment Manager**

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

## **Property Valuers**

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

## **Auditors**

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

## **Guernsey Legal Advisers**

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

## **UK Legal Advisers**

Dickson Minto WS  
22/25 Finsbury Square  
London EC2A 1DX

## **Bankers**

RBS International  
PO Box 64  
Royal Bank Place  
St Peter Port  
Guernsey

## **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.com](http://www.isispropertytrust2.com)



**Registered Office**

Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey GY1 3QL

**Registrars**

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