

ISIS Property Trust 2 Limited

2004

Interim report for the
period ended
31 December 2004



Company Summary

Objective

To provide Ordinary Shareholders with an attractive level of income together with the potential for capital and income growth from investing in a diversified UK commercial property portfolio.

Investment Manager

F&C Asset Management plc – Michael Barrie

Total Assets Less Current Liabilities

£193.6 million at 31 December 2004

Shareholders' Funds

£121.3 million at 31 December 2004

Capital Structure

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

Ordinary shareholders are entitled to all dividends declared by the Company and to all the Company's assets after repayment of its borrowings. Borrowings consist of £70.7 million drawn down for a period of 10 years. The loan carries interest at 0.65 per cent over LIBOR; this variable rate has been fixed through an interest rate swap, which matures during May 2014, and results in an aggregate rate of approximately 6.3 per cent per annum.

Isa/Pep Status

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

Financial Highlights and Performance Summary

- Share price increased by 9.8 per cent
- Net asset value per share increased by 15.3 per cent
- Dividends of 2.24 pence per share paid to date and another 1.6875 pence per share to be paid on 29 March 2005

Total Return

	31 December 2004†
Net asset value*	19.2%
Ordinary Share price	14.7%
Investment Property Databank All Property Index	11.8%
FTSE All-Share Index	11.6%

Capital Values

	31 December 2004	Launch 1 June 2004	% Change
Total assets (less current liabilities) £000's	193,597	176,814	9.5
Net asset value per share (per accounts)	107.5p	96.0p	12.0
Net asset value per share (as announced)*	110.7p	96.0p	15.3
Ordinary Share price	109.8p	100.0p	9.8
FTSE All-Share Index	2,410.8	2,197.0	9.7
(Discount)/premium*	(0.8)%	4.2%	
Gearing‡	36.4%	40.0%	

* Net asset value (NAV), net asset value total return and (discount)/premium are calculated on a capital basis under UK Generally Accepted Accounting Principles ("UK GAAP") and practice for investment trust companies. A reconciliation between International Financial Reporting Standards and UK GAAP is shown in note 5 to the accounts.

† Total return (net dividends reinvested) since launch on 1 June 2004.

‡ Gearing: Loans ÷ Total Assets (less Current Liabilities).

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

Chairman's Statement

This is my first statement to shareholders since the Company's launch on 1 June 2004. I am pleased to welcome shareholders to the Company and report an encouraging set of results for the first interim period to 31 December 2004.

Results

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." I have set out below how progress has been made in respect of each part of this objective.

Dividends

The Company's first interim dividend of 2.24p per Ordinary Share was paid on 24 December 2004 and the Board has declared a second interim dividend, of 1.6875p per Ordinary Share, which will be paid on 29 March 2005 to shareholders on the register on 11 March 2005.

As stated in the prospectus, the Company expects to make further dividend payments in respect of its first full accounting period to 30 June 2005, of 1.6875p per Ordinary Share, during each of June and September 2005. The total expected dividends in respect of this period, of 7.3025p per Ordinary Share, are equivalent to an annual gross dividend yield of 6.75 per cent on the issue price of 100p per share.

Capital

The Company's net asset value (capital only) per share as at 31 December 2004 was 110.7p. This represents an increase of 15.3 per cent compared to the net asset

value per share of 96.0p on 1 June 2004. The total return for the period, reflecting both capital growth and dividends payable, was 19.2 per cent. This compares favourably with returns from the IPD All Property and FTSE All-Share indices of 11.8 per cent and 11.6 per cent respectively.

The Company's share price increased to 109.8p during the period, representing an increase of 9.8 per cent from the launch price of 100p per share. The share price total return for the period was 14.7%.

Property Market Overview

The 19 per cent full year out-turn for all property total returns in 2004 was the highest seen for ten years and reflected continued strong investor demand. This strength was maintained in the final quarter of 2004, with returns of 5 per cent. The year saw a return to rental growth after two years of decline, helped by stabilisation in the office market as the year progressed. 2004 was an atypical year with capital growth exceeding income return. Yields fell across all sectors due to the weight of money entering the market.

The retail sector continues to out-perform but the office sector has staged a sharp recovery and the sector gap has narrowed.

Portfolio

Within the context of a strong investment market the portfolio experienced an above average increase in capital values during the period.

The portfolio valuation increased from £176.7 million at launch on 1 June 2004 to

Chairman's Statement

£192.6 million as at 31 December 2004, an un-gearing uplift of 9.0 per cent. This compares to a reported index growth figure of 7.8 per cent (IPD UK monthly Index).

The level of investment activity within the UK commercial property market has undoubtedly created an extremely competitive transactional environment with the resultant impact on yields and pricing. In addition, there has been some portfolio specific activity which improved returns.

The largest single impact was seen at 48/49 St James Street, London SW1. An uplift of £1.85 million (18.5 per cent) reflected, not only the improved market appetite for West End offices, but also improved rents. This was witnessed by the reletting of the 6th floor at £50.00 per sq. ft. (Estimated Rental Value on 1 June 2004 was £42.50 per sq. ft).

At 30/40 The Parade, Leamington Spa, three completed lease renewals and one agreed rent review were, in part, responsible for the valuation uplift of £1.31 million (14.0 per cent).

In total, six rent reviews and nine lease renewals were agreed during the period with a total annualised increase in rents achieved of £96,190. The largest uplift was recorded at Genesis House, Milton Keynes where the rent increased from £460,000 per annum to £505,000 per annum, an increase of 9.8 per cent.

In summary, the portfolio continues to provide a sound base from which to deliver income and capital growth. No sales or purchases have been undertaken to date. The overall void level for the portfolio currently stands at 0.1 per cent.

Gearing

At the time of the launch the Company drew down a bank facility of £70,662,000 which represented 40.0 per cent of the initial portfolio valuation. At the same time the Company entered into an interest rate swap transaction under which it fixed the interest rate payable on the full amount of the loan, such that the rate of interest which the Company will pay is fixed at 6.355 per cent per annum until 31 May 2007 and 6.265 per cent from 1 June 2007 until 31 May 2014.

As a result of the strong growth in the value of the portfolio during the period, the level of gearing as at 31 December 2004 had decreased to 36.4 per cent.

Outlook

Prospects remain positive over the next 12 months. The Managers' estimate for all property total returns is between 7 per cent and 9 per cent with the possibility of further yield compression. Rental growth is expected to remain at or around 2004 levels.

Quentin Spicer

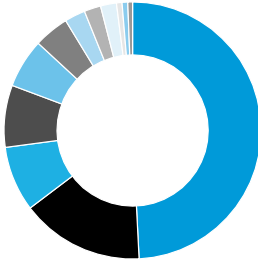
Chairman

17 February 2005

Portfolio Statistics

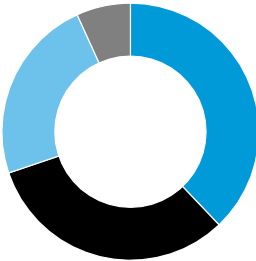
Portfolio by . . .

Geographical Analysis as at 31 December 2004



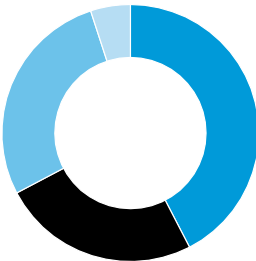
South East	49.2%
West Midlands	15.5%
Scotland	8.2%
West End	7.8%
Midtown	6.2%
Yorkshire and Humberside	4.4%
East Midlands	2.6%
Rest of London	2.1%
Eastern	2.0%
South West	0.7%
North West	0.7%
North East	0.6%

Sector Analysis as at 31 December 2004



Retail	37.9%
Industrial	31.9%
Offices	23.4%
Retail Warehouse	6.8%

Covenant Strength as at 31 December 2004



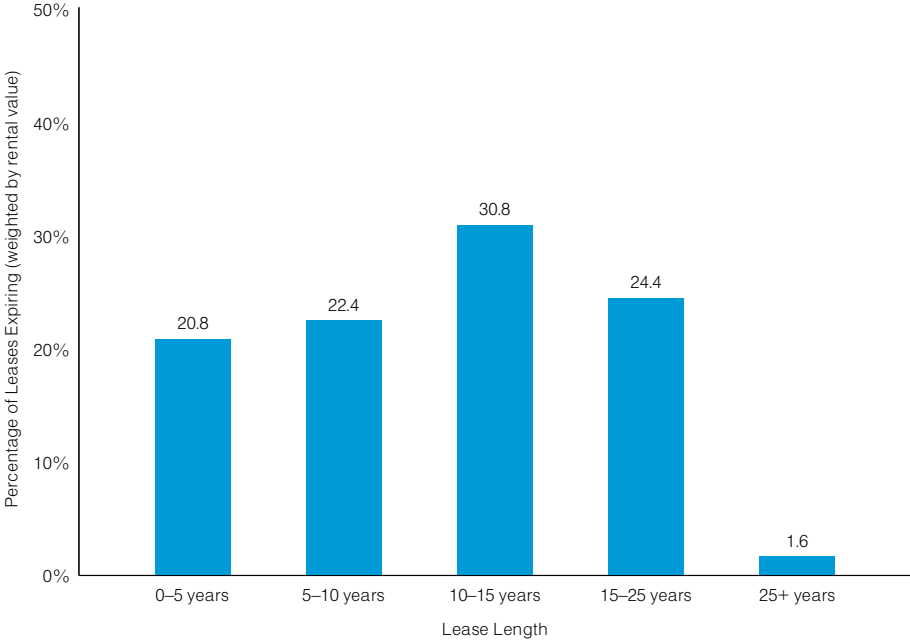
Negligible and Government Risk	42.4%
Low Risk	24.9%
Low-Medium Risk	27.7%
Medium-High Risk	0.0%
High Risk	5.0%

Source: Investment Property Databank (IPD).

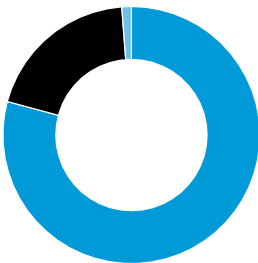
Portfolio Statistics

Lease Expiry Profile

At 31 December 2004 the average lease length for the portfolio, assuming all break options are exercised, was 10.3 years.



Tenure Analysis as at 31 December 2004



Freehold	79.2%
Leasehold	19.6%
Mixed Freehold/Leasehold	1.2%

Property Portfolio

Property	Market Value £'000	% of Total Assets (less current liabilities)
Banbury, Unit 3663, Echo Park	14,800	7.6
Bellshill, Mercury House, 1, Dove Wynd, Strathclyde Business Park	12,300	6.4
London, 99/103 Long Acre	11,875	6.1
London, 48–49 St James's Street & 161 Piccadilly	11,850	6.1
Colnbrook, Units 1–8, Lakeside Road	11,750	6.1
Eastleigh, Southampton International Park	11,550	6.0
Leamington Spa, 30/40, The Parade & 47/59A Warwick Street	10,650	5.5
Hemel Hempstead, Units A & B, Hemel Gateway	9,600	4.9
York, Clifton Moor Gate	8,550	4.4
Rugby, Swift House, Cosford Lane	7,300	3.8
Ten largest properties	110,225	56.9
Milton Keynes, Genesis House, Midsummer Boulevard	6,350	3.3
Brookwood, The Clock Tower, Cemetery Pales	5,450	2.8
Winchester, 7–8, High Street & 50 Colebrook Street	5,350	2.8
Nottingham, No 1 Royal Standard Place & Cumberland Place	5,040	2.6
Milton Keynes, Crown House, Chippenham Drive	5,000	2.6
Sutton Coldfield, 63/67 The Parade	4,900	2.5
Reading, Alders Store, Pincents Lane	4,600	2.4
Southampton, Units 1, 2 & 3, Above Bar Church	4,500	2.3
Guildford, 51/53 High Street	4,210	2.2
Marlow, Unit GP9, Globe Park	4,000	2.1
Twenty largest properties	159,625	82.5
Leamington Spa, 88/90 The Parade	3,230	1.7
London, 24 Haymarket & 1–2 Panton Street	3,150	1.6
Croydon, 17/21 George Street	3,040	1.6
Guildford, 7/11 Bridge Street	2,720	1.4
Edinburgh, 100A Princes Street	2,670	1.4
Rayleigh, 81/87 High Street	2,250	1.1
Sunningdale, 53/79 Chobham Road	2,150	1.1
Nuneaton, 1–2 Church Street	2,050	1.0
Brighton, 2–3 Pavilion Buildings	1,760	0.9
Hereford, 9 High Street	1,750	0.9
Thirty largest properties	184,395	95.2
Wickford, 12–20 High Street	1,620	0.8
Swindon, Unit 5, Newcombe Drive	1,400	0.7
South Shields, 67/69 King Street	1,250	0.7
Sutton, 97 High Street	1,000	0.6
Edinburgh, 114 Princes Street	830	0.4
Rochdale, 40 Yorkshire Street	795	0.4
Newbury, 25 Northbrook Street	690	0.4
Rochdale, 42 Yorkshire Street	615	0.3
Total property portfolio	192,595	99.5
Net current assets	1,002	0.5
Total assets (less current liabilities)	193,597	100.0

Consolidated Income Statement

(unaudited) for the period from 10 May 2004 to 31 December 2004

	Notes	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000
Revenue				
Rental income		7,148	–	7,148
Unrealised gain on revaluation of investment properties		–	15,785	15,785
Total income		7,148	15,785	22,933
Expenditure				
Set up costs		(1,528)	–	(1,528)
Investment management fee		(914)	–	(914)
Administrative fee		(35)	–	(35)
Valuers' and other professional fees		(107)	–	(107)
Directors' fees		(43)	–	(43)
Other expenses		(198)	–	(198)
Total expenditure		(2,825)	–	(2,825)
Net operating profit before finance costs		4,323	15,785	20,108
Finance costs				
Interest receivable		114	–	114
Interest payable		(2,613)	–	(2,613)
		(2,499)	–	(2,499)
Net operating profit from ordinary activities before taxation		1,824	15,785	17,609
Taxation on profit on ordinary activities		–	–	–
Net operating profit on ordinary activities after taxation		1,824	15,785	17,609
Net profit for the period		1,824	15,785	17,609
				Pence
Earnings per Ordinary Share	2			15.9

This financial information has been prepared on the basis of the accounting standards and policies set out in the placing document.

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

Consolidated Balance Sheet

(unaudited) as at 31 December 2004

	Notes	31 December 2004 £'000
Investment properties		192,595
Current assets		
Trade and other receivables		1,261
Cash and cash equivalents		4,729
		5,990
Current liabilities		
Trade and other payables		(4,988)
Non-current liabilities		
Interest bearing bank loan		(70,566)
Interest rate swap		(4,284)
		(74,850)
Total liabilities		(79,838)
Net assets	5	118,747
Represented by:		
Share capital		1,105
Special distributable reserve		106,792
Capital reserves		11,501
Revenue reserve		(651)
		118,747
Equity shareholders' funds		118,747
Net asset value per Ordinary Share	5	107.5p

The Interim Report was approved by the Board of Directors on 17 February 2005 and signed on its behalf by

Quentin Spicer
Chairman

Christopher Spencer
Director

Consolidated Statement of Changes in Equity

(unaudited) for the period from 10 May 2004 to 31 December 2004

	Notes	2004 £'000
Net profit for the period		17,609
Issue of ordinary share capital, net of issue costs		107,897
Dividends paid	4	(2,475)
		105,422
Unrealised loss on revaluation of interest rate swap		(4,284)
Net assets as at 31 December 2004		118,747

Consolidated Statement of Cash Flows

(unaudited) for the period from 10 May 2004 to 31 December 2004

2004
£'000

Cash flows from operating activities

Rent and service charges received	8,555
Bank interest received	96
Bank loan interest paid	(1,713)
Investment management fees paid	(534)
Operating expense payments	(1,237)

Net cash inflow from operating activities

5,167**Cash flows from investing activities**

Purchases of property	(176,695)
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Net cash outflow from investing activities

(176,695)**Cash flows from financing activities**

Proceeds of issue of Ordinary Shares	110,500
Issue costs	(2,430)
Draw down of bank loan	70,662
Dividends paid	(2,475)

Net cash inflow from financing activities

176,257**Net increase in cash and cash equivalents****4,729****Opening cash and cash equivalents**

–**Closing cash and cash equivalents**

4,729

Notes to the Interim Report

for the period from 10 May 2004 to 31 December 2004

1. The unaudited interim results have been prepared on the basis of International Financial Reporting Standards and the accounting policies which will be set out in the statutory accounts of the Group for the period ending 30 June 2005.
2. Earnings per Ordinary Share are based on 110,500,000 shares, being the weighted average number of shares in issue during the period.
3. Earnings for the period from 10 May 2004 to 31 December 2004 should not be taken as a guide to the results of the period to 30 June 2005.

4. Dividend on Ordinary Shares	Period to 31 December 2004 Rate (pence)	£'000
First interim dividend paid 24 December 2004	2.24	2,475

A second interim dividend of 1.6875p per share, equivalent to £1,865,000, was declared on 17 February 2005. The dividend will be paid on 29 March 2005 to shareholders on the register at close of business on 11 March 2005. The ex-dividend date will be 9 March 2005.

5. Reconciliation of consolidated net asset value to published net asset value

	31 December 2004 £'000	31 December 2004 Pence per share
Consolidated net asset value per accounts	118,747	107.5
Adjustments:*		
Revenue after taxation	(1,824)	(1.6)
Dividends paid	2,475	2.2
Unrealised loss on revaluation of interest rate swap	4,284	3.9
Costs allocated to capital as permitted by SORP	(1,411)	(1.3)
Published net asset value	122,271	110.7

*The published NAV is calculated on a capital basis under UK Generally Accepted Accounting Principles ('UK GAAP') and practice for investment trust companies. In order to reconcile this to the published accounts it is necessary to add back all revenue reserves and account for the effect of International Financial Reporting Standards versus UK GAAP. Costs allocated to capital comprise management fees and bank loan interest payable, charged 60 per cent to revenue and 40 per cent to capital in recognition of the long term expected returns of the Group, as permitted by the UK Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' published in January 2003.

6. On 10 December 2004 the Royal Court of Guernsey confirmed the reduction of capital by way of a cancellation of the Company's share premium account. The amount cancelled, being £106,792,000, has been credited as a distributable reserve established in the Company's books of account and shall be available as distributable profits to be used for all purposes permitted under Guernsey law, including the buyback of shares and the payment of dividends.
7. The Group results consolidate those of IPT2 Property Holdings Limited, a wholly owned subsidiary which invests in properties.

Independent Review Report to ISIS Property Trust 2 Limited

Introduction

We have been instructed by the Company to review the financial information for the period ended 31 December 2004 which comprises the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and the related notes 1 to 7. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

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

Directors' Responsibilities

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

Review Work Performed

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

Review Conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the period ended 31 December 2004.

Ernst & Young LLP

Guernsey

17 February 2005

Corporate Information

Directors

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

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