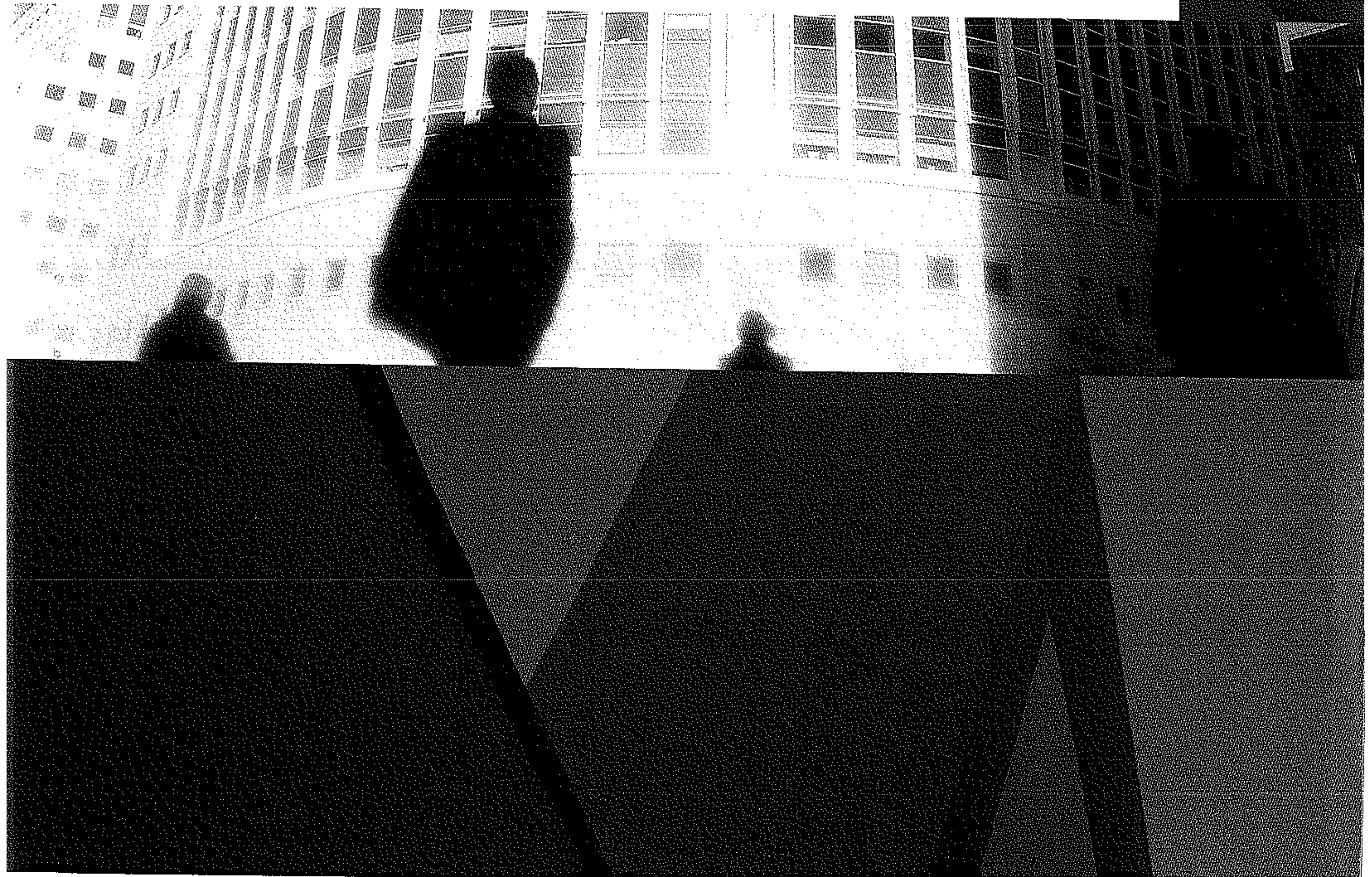
PROPERTY FOX

NO. 1 LIMITED

ACN 101 816 353

2006
ANNUAL REPORT



MANAGING DIRECTOR'S REVIEW

Hello

Firstly, let me thank you all for being shareholders. This is our fourth annual report and we have just completed our third full year of trading.

Our property holdings are summarised below:

Address	State	Type of property
38 Vine St. Fairfield	NSW	4 home units in a block of 12
20 Hardy St. Fairfield	NSW	Block of 6 home units
67 Cardigan St. Guildford	NSW	5 home units in a block of 8
26 Toorak Road Hamilton	QLD	Block of 4 home units
Healy & Ruthven Streets Toowoomba*	QLD	8 contiguous properties comprising houses and flats

*** The company holds 30% of these properties as a tenant in common with Property Fox No 2 Limited (50%) & Freeman Fox Investments Pty Limited (20%)**

In addition to the properties listed above, the company owns 2% of the issued capital of Fox Riverside Pty Limited, which is undertaking development of 3 properties located on the Brisbane River.

The New South Wales properties are located in the South Western areas of Fairfield and Holroyd, locations like many others in Sydney that have shown falls in prices of 20% since 2003. Accordingly we have had to write down the carrying value of these properties in our accounts by a further $572,000 this year.

In contrast, the value of the properties we own in Queensland have increased with an estimated improvement by $200,000 for the property at Hamilton and a modest increase in the Toowoomba values.

During the year the conversion of the Hardy Street property to strata title was completed, which makes it more marketable. Work is continuing on conversion of the Vine Street and Cardigan Street properties to strata title.

As a number of shareholders have expressed an interest in selling their shares, we are presenting an opportunity at the AGM to change the company's Constitution as a prelude to listing the company on the Newcastle Stock Exchange. If the change in the Constitution is approved by shareholders, we can expect to complete the listing by early next year.

The directors will continue to review any sale opportunity for the Sydney properties and if this occurs will be seeking to reinvest the sale proceeds into the markets that are currently seeing growth.

In an effort to move the company forward we are continuing to look for opportunities.

I look forward to meeting you again at our annual General Meeting.

Peter Spann
Managing Director

DIRECTORS' REPORT

Your directors present their report on the company for the year ended 30 June 2006.

Directors
The names of directors in office at any time during or since the end of the year are:

Peter John Spann	Chairman and the founder of the Freeman Fox group of companies, aged 40, joined the board 26 August 2002 at date of incorporation of the company.
Peter John Conway	Secretary, and master stockbroker, aged 57, joined the board 26 August 2002 at date of incorporation of the company.
Jo-Anne Maree Oliveri	Licenced real estate agent, aged 45, joined the Board on 12 November 2004.

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal activities
The principal activity of the company during the financial year ended 30 June 2006 was the acquisition, development and re-sale, either directly or through wholly owned subsidiaries, of parcels of developed residential real estate in accordance with the Real Estate Acquisition Mandate and Real Estate Resale Mandate of the Company.

Operating result
The consolidated loss of the economic entity after providing for income tax amounted to $849,140 (2005: Loss of $647,188).

Dividends paid or recommended
The Board has not made a recommendation to issue any final dividend payment for the year ended 30 June 2006.

Review of operations
The company was active in its pursuit of its principal activities during the period. The company, in a joint venture with Property Fox No 2 Limited and Freeman Fox Investments Pty Ltd purchased several residential properties in Toowoomba QLD. The company has a 30% ownership interest in these properties. The company also acquired 2% of the issued capital of Fox Riverside Pty Ltd. Fox Riverside has a development agreement with Freeman Fox Investments Pty Ltd, in which Fox Riverside has a 97.5% interest. The joint venture purchased three Brisbane waterfront properties during the period with a view to redevelopment of the sites into luxury homes in the short term.

Significant changes in state of affairs
There were no significant changes in the state of affairs of the economic entity during the year other than as described elsewhere in this director's report.

Significant after balance date events
At the date of this report, the Directors are not aware of any events that would have a significant impact on the operations of the company.

Likely future developments and expected results
Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

DIRECTORS' REPORT (Continued)

Information on Directors

Peter John Spann – Executive Director, Managing Director, Company Secretary

Peter is the founder of the Freeman Fox group of companies and is a well known public speaker and presenter of investment seminars. Peter has had a wealth of experience in real estate investments over the past ten years, having purchased and sold, either directly or through related entities, many investment properties.

Peter has been featured in numerous magazine, television and newspaper articles, including a cover story in the March 2001 edition of 'Australian Property Investor' magazine.

Prior to establishing the Freeman Fox group of companies, Peter had a career in marketing, and worked as a marketing consultant for Fullife Pty Limited, Smaartco Pty Limited, and Results Corporation Pty Limited.

Peter John Conway - Non Executive Independent Director

Peter commenced his career in 1967 as a share clerk and today is a current Affiliate of the Australian Stock Exchange.

Peter has been head of retail stockbroking for Salomon Smith Barney, a Founding Member Director of E*Trade Australia, Board Member and Chief Operating Officer of ANZ Securities, Board Member of Ord Minnett Group Limited, and Operations Manager of Were stockbroking. Peter is a master stockbroker of the Securities and Derivatives Industry Association. Peter has also been a lecturer of the Securities Institute of Australia, and other related forums.

Jo-Anne Oliveri - Non Executive Independent

Jo-Anne commenced her career in the real estate industry in 1995 and is a fully accredited licensed real estate agent. She has gained the reputation as Brisbane's executive leasing specialist, consistently achieving high returns on prestigious property. In 2002 she was elected to the REIQ Property Management Chapter in 2002 and served on the committee for two years. She was also on the Property Chapter Committee for the Leading Agents of Australia and has been a guest presenter at their annual conferences. She has also been a guest presenter at several industry forums including Australasian Best Practice Property Management Conference Sydney and Far North Queensland Property Management Expo 2003.

She has been recognised by her industry peers on several occasions and in 2003 was presented with the REIQ Property Manager of The Year Award for Excellence

Directors Emoluments

The emoluments of each Director are as follows:

	Director's Fees	
Parent Entity - Directors	**2006**	**2005**
Peter John Conway	14,300	15,300
Brian Oliver Boardman	-	4,400
Jo-Anne Oliveri	13,000	8,000
Total	**27,300**	**27,700**

Meetings of directors

During the financial year, meetings of directors were held. Attendances were:

	Directors meetings	
Directors	**eligible to attend**	**attended**
Peter John Spann	2	2
Peter John Conway	2	2
Jo-Anne Oliveri	2	0

DIRECTORS' REPORT (Continued)

Auditor's independence declaration

The Auditors Independence Declaration for the year ended 30 June 2006 has been received and can be found on page 5 of the financial report.

Indemnification of officers and auditors

The company has not, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

During the financial year, the company sought insurance cover in respect of insuring the directors of the company (as named above), and all executive officers of the company and of any related body corporate, against a liability incurred as such director, secretary or executive officer, to the extent permitted by the Corporations Act 2001. At the date of this report, the Directors are still seeking such insurance.

Interest of directors

At the date of this report, directors held directly or indirectly, the following interests in the company:

Name of director	Nature of interest
Peter John Spann	Fox Portfolio Pty Limited, in which he is a director and indirect shareholder, holds 1,250,000 ordinary shares in Property Fox No 1 Limited.

Options

No options in the share capital of this Company have been granted at the date of this report.

Proceedings on behalf of the company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Signed in accordance with a resolution of the Board of Directors:

Peter John Spann
Director

Dated this 6th day of October 2006

PKF

Chartered Accountants
& Business Advisers

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To the Directors of Property Fox No 1 Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2006, there have been:

i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

PKF
Chartered Accountants & Business Advisers

Grant Saxon
Partner

Sydney, 6 October 2006

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INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	30 June 2006 Economic Entity $	30 June 2006 Parent Entity $	30 June 2005 Economic Entity $	30 June 2005 Parent Entity $
Continuing operations					
Revenue					
– sale of properties		560,939	560,939	-	-
Cost of sales					
– sale of properties		(545,043)	(545,043)	-	-
Gross profit		15,896	15,896	-	-
Interest revenue		19,783	19,783	22,178	22,178
Dividend received		-	-	-	51,954
Rental income		224,139	224,139	151,121	151,121
Management fees		(123,074)	(123,074)	(110,982)	(110,982)
Write down of Inventory		(572,065)	(572,065)	(272,148)	(272,148)
Directors fees		(27,200)	(27,200)	(27,700)	(27,700)
Commission		-	-	(34,180)	(34,180)
Professional fees		(101,412)	(101,412)	(75,352)	(75,352)
Guarantee fees		-	-	(65,823)	(65,823)
Interest expense		(166,673)	(166,673)	(81,193)	(81,193)
Rates and taxes		(73,628)	(73,628)	(54,211)	(54,212)
Other expenses		(67,390)	(67,390)	(45,542)	(45,541)
Loss before income tax expense/(benefit)		(871,624)	(871,624)	593,832	541,878
Income tax expense/(benefit)	5	(22,484)	(22,484)	53,355	53,355
Loss after related income tax benefit		(849,140)	(849,140)	(647,187)	(595,233)
(Profit)/ Loss attributable to outside equity interest		-	-	-	-
Loss attributable to members of the parent entity		(849,140)	(849,140)	(647,187)	(595,233)
Basic earnings per share (cents per share)	22	(14)		(10)	
Diluted earnings per share (cents per share)	22	(14)		(10)	

The above consolidated Income Statement is to be read in conjunction with the attached notes

BALANCE SHEET
AS AT 30 JUNE 2006

	Note	30 June 2006 Economic Entity $	30 June 2006 Parent Entity $	30 June 2005 Economic Entity $	30 June 2005 Parent Entity $
CURRENT ASSETS					
Cash and cash equivalents		197,376	197,376	94,716	94,716
Trade and other receivables	8	151,113	151,113	132,464	128,091
Inventories	9	4,534,105	4,534,105	5,651,212	5,651,212
Current tax asset	10	-	-	-	38,515
TOTAL CURRENT ASSETS		4,882,594	4,882,594	5,878,392	5,912,534
NON-CURRENT ASSETS					
Financial Assets	11	353,499	358,055	151,400	157,956
TOTAL NON-CURRENT ASSETS		353,499	358,055	151,400	157,956
TOTAL ASSETS		5,236,093	5,240,649	6,029,792	6,070,490
CURRENT LIABILITIES					
Trade and other payables	13	51,738	56,718	61,148	105,413
Borrowings	15	1,832,500	1,832,500	1,762,506	1,762,506
Tax liabilities	14	-	-	5,143	-
TOTAL CURRENT LIABILITIES		1,884,238	1,889,218	1,828,797	1,867,919
TOTAL LIABILITIES		1,884,238	1,889,218	1,828,797	1,867,919
NET ASSETS		3,351,855	3,351,431	4,200,995	4,202,571
EQUITY					
Issued capital	17	4,730,350	4,730,350	4,730,350	4,730,350
Accumulated losses		(1,378,919)	(1,378,919)	(529,779)	(529,779)
Parent equity interest		3,351,431	3,351,431	4,200,571	4,200,571
Minority equity interest	18	424	-	424	-
TOTAL EQUITY		3,351,855	3,351,431	4,200,995	4,200,571

The above Balance Sheet is to be read in conjunction with the attached notes

STATEMENT OF CHANGES IN OWNERS EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	Issued Capital	Retained profits	Minority Interest	Total
	$	$	$	$
Economic Entity				
Balance at 1 July 2004	4,730,350	117,408	50,340	4,898,098
Loss attributable to members of Parent entity.	-	(647,187)	-	(647,187)
Net loss attributable to minority shareholder	-	-	(49,916)	(49,916)
Balance at 30 June 2005	4,730,350	(529,779)	424	4,200,995
Loss attributable to members of Parent entity.	-	(849,140)	-	(849,140)
Balance at 30 June 2006	4,730,350	(1,378,919)	424	3,351,855

	Issued Capital	Retained profits	Minority Interest	Total
	$	$	$	$
Parent Entity				
Balance at 1 July 2004	4,730,350	65,454	-	4,795,804
Loss attributable to members of Parent entity.	-	(595,233)	-	(595,233)
Balance at 30 June 2005	4,730,350	(529,779)	-	4,200,571
Loss attributable to members of Parent entity.	-	(849,140)	-	(849,140)
Balance at 30 June 2006	4,730,350	(1,378,919)	-	3,351,431

The above statement of changes in equity is to be read in conjunction with the attached notes.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2006

		30 June 2006		30 June 2005	
	Note	Economic Entity $	Parent Entity $	Economic Entity $	Parent Entity $
Cash flows from operating activities					
Cash received from customers		772,066	751,791	190,227	150,215
Payments to suppliers		(402,114)	(386,982)	(2,982,506)	(2,996,089)
Interest paid		(166,673)	(166,673)	(81,193)	(81,193)
Interest received		19,783	19,783	22,178	22,178
Dividends received		-	-	-	51,594
Income tax refunded		17,341	22,484	-	-
Net cash provided by/(used in) operating activities	24(b)	240,403	240,403	(2,851,294)	(2,853,295)
Cash flows from investing activities					
Payment for investments		(202,099)	(202,099)	(151,400)	(151,400)
Loans from/(to) Director related parties		(5,638)	(5,638)	1,080	3,081
Net cash provided by / (used in) investing activities		(207,737)	(207,737)	(150,320)	(148,319)
Cash flows from financing activities					
Proceeds from borrowings		69,994	69,994	1,762,506	1,762,506
Net cash provided by / (used in) financing activities		69,994	69,994	1,762,506	1,762,506
Net increase / (decrease) in cash held		102,660	102,660	(1,239,108)	(1,239,108)
Cash at the beginning of the financial period		94,716	97,716	1,333,824	1,333,824
Cash at the end of the financial period	24(a)	197,376	197,376	94,716	94,716

The above statement of cashflows is to be read in conjunction with the attached notes

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of Property Fox No. 1 Limited and controlled entities, and Property Fox No. 1 Limited as an individual parent entity. Property Fox No.1 Limited is a public company incorporated and domiciled in Australia.

The financial report of Property Fox No 1 Limited and controlled entities, and Property Fox No 1 Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the parent entity in the preparation of the financial report. The accounting policies have been consistently applied.

Basis of Preparation

First time adoption of Australian Equivalents to International Reporting Standards

Property Fox No 1 Limited and controlled entities, and Property Fox No 1 Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.
In accordance with the requirements of AASB 1: First- time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Property Fox No 1 Limited prepared in accordance with Australian Equivalents to IFRS.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 26 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets and financial liabilities for which the fair value basis of accounting has been applied.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following Australian Accounting Standards have been issued or amended and are applicable to the parent entity but not yet effective. They have not been adopted in the preparation of the financial statements at reporting date.

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application Date of standard*	Application date for Group
2005-1	AASB 139: Financial Instruments: Recognition and Measurement	No change to accounting policy required. Therefore no impact.	1-Jan-2006	1-Jul-2006
2005-5	AASB 1: First-time adoption of AIFRS, AASB 139: Financial Instruments: Recognition and Measurement	No change to accounting policy required. Therefore no impact.	1-Jan-2006	1-Jul-2006
2005-6	AASB 3: Business Combinations	No change to accounting policy required. Therefore no impact.	1-Jan-2006	1-Jul-2006
2005-10	AASB 132: Financial Instruments: Disclosure and Presentation, AASB 101: Presentation of Financial Statements, AASB 114: Segment Reporting, AASB 117: Leases, AASB 133: Earnings per Share, AASB 139: Financial Instruments: Recognition and Measurement, AASB 1: First-time adoption of AIFRS, AASB 4: Insurance Contracts, AASB 1023: General Insurance Contracts and AASB 1038: Life Insurance Contracts	No change to accounting policy required. Therefore no impact.	1-Jan-2007	1-Jul-2007
New standard	AASB 7: Financial Instruments: Disclosures	No change to accounting policy required. Therefore no impact.	1-Jan-2007	1-Jul-2007

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Principles of Consolidation

The consolidated financial report combines the financial reports of Property Fox No.1 Limited and all of its controlled entities. A controlled entity is any entity controlled by Property Fox No.1 Limited. Control exists where Property Fox No.1 Limited has the power to control the financial and operating policies of another entity so that the other entity operates with Property Fox No.1 Limited to achieve the objectives of Property Fox No.1 Limited. A list of controlled entities is contained in Note 16 to the financial report. All controlled entities have a June Financial year end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.
Minority interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the Tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognized for the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

c) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

1) Revenue from re-sale of real estate is recognised on exchange of funds with purchaser.

2) Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

3) Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial Instruments

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the firms intention to these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included ain the above categories. Available-for-sale financial assets are refaced at fair value. Unrealised gains or losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost comprising original debt less principal payments and amortisation.

Put and Call Options

Acquisitions may, at the discretion of Directors, be effected by way of put and call options entered into with sellers. Where such put and call options are entered into, the company brings to account an asset and liability relating to the acquisition when the control of the asset vests in the company upon completion of the contract.

e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities , which are disclosed as operating cash flows.

f) Inventories - Properties Held for Resale

Properties acquired for resale is recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition. Properties held for development and re-sale is valued at the lower of costs and net realisable value. Cost includes the cost of acquisition, development, foreign currency movements, borrowing costs and holding costs until completion of development. Borrowing costs, foreign currency movements and holding charges incurred after development are expensed. Profits are brought to account on settlement. Properties acquired under Company title are reflected as Inventory

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the assets fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

h) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised group's share of post-acquisition reserves of its associates.

i) Interest in Joint Venture

The economic entity's share of the assets, liabilities, revenues and expenses of joint venture operations is included in the respective items of the consolidated financial statements. Details of the economic entity's interests are shown in Note 12.

The economic entity's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

j) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown with-in short term borrowings in current liabilities on the balance sheet.

k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

l) Comparative figures

When required by the Accounting Standards, comparative figures haver been adjusted to conform to changes in presentation for the current financial year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2: CHANGE IN ACCOUNTING POLICY

Inventory consists of investment in properties held for resale. The company has changed its accounting policy in relation to the recognition of investments in properties held under company title with effect from 1 July 2004. Previously, the full carrying value of properties held under company title was reflected in the consolidated entity accounts and a corresponding minority interest brought to account. The Directors have now elected to reflect only the parent entity's ownership interest in the investment in the underlying shares of company title properties as inventory. This provides more relevant information and more accurately reflects the investment in company title properties at reporting date.

The change has been effected by restating the prior year comparatives and by making corresponding adjustments to each line by line item in the Income Statement and Balance Sheet as follows:

Consolidated entity

Income statement	Previously Stated 2005 $	Adjustment 2005 $	Restated 2005 $
Loss before income tax	(785,979)	138,792	(647,187)
Basic earnings per Share (cents) *	(10)	-	(10)
Diluted earnings per Share (cents) *	(10)	-	(10)
Balance Sheet			
Inventory	6,085,942	(434,730)	5,651,212
Outside equity Interest	(138,369)	138,791	424

* The change does not impact the net loss after income attributable to members of the parent entity and hence basic and diluted earnings per share remain unadjusted

Parent entity

Income statement	Previously Stated 2005 $	Adjustment 2005 $	Restated 2005 $
Loss after income tax	(361,915)	233,318	(595,233)
Balance Sheet			
Inventory	2,404,147	3,247,065	5,651,212
Receivables	3,574,767	(3,472,619)	102,148

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	30 June 2006		30 June 2005	
	Economic Entity $	Parent Entity $	Economic Entity $	Parent Entity $
NOTE 3: REVENUE				
Property resale revenue	560,938	560,938	-	-
Interest received from cash held in bank accounts	19,783	19,783	22,178	22,178
Other income	224,139	188,228	151,121	132,215
Total revenues	804,860	768,949	173,299	154,393

NOTE 4: LOSS FOR THE YEAR

a) Expenses				
Cost of sales	545,042	545,042	-	-
Finance cost	166,673	162,507	81,193	81,193
Inventory write down	572,065	572,065	272,148	272,148
Guarantee fee to related party	-	-	65,823	65,823
	1,283,780	1,279,614	419,164	419,164

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 5: INCOME TAX

	30 June 2006 Economic Entity	30 June 2006 Parent Entity	30 June 2005 Economic Entity	30 June 2005 Parent Entity
	$	$	$	$
The components of income tax expense comprises				
Deferred tax asset written off	-	-	53,355	53,355
Over provision in prior years	(22,484)	(22,484)	-	-
	(22,484)	(22,484)	53,355	53,355
The prima facie tax on loss before income tax is reconciled to the income tax as follows :				
Prima facie tax payable on loss before income tax at 30% (2005: 30 %)	(261,487)	(261,487)	(178,150)	(162,563)
Permanent differences	3,732	3,732	507	507
	(257,755)	(257,755)	(177,643)	(162,056)
Income tax benefits not brought to account	257,755	257,755	177,643	162,056
Future Income tax benefits written off	-	-	53,355	53,355
Over provision of income tax in prior year	(22,484)	(22,484)	-	-
Income tax expense attributable to operating loss	(22,484)	(22,484)	53,355	53,355
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur				
Temporary differences	278,419	278,419	135,516	135,516
Tax losses (operating)	213,914	213,914	101,399	101,399
	492,333	492,333	236,915	236,915

NOTE 6: AUDITORS' REMUNERATION

	30 June 2006 Economic Entity	30 June 2006 Parent Entity	30 June 2005 Economic Entity	30 June 2005 Parent Entity
Remuneration of the auditors of the company:				
- auditor of the company for audit and review	32,000	32,000	21,500	21,500
- auditor of the company for other services	36,722	36,722	25,880	25,880
	68,722	68,722	47,380	47,380

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 7: REMUNERATION OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES

(a) Key Management Persons

Names and positions held of key management personnel in office at anytime during the financial year are:

Directors

Peter John Spann	Managing Director – Executive
Peter John Conway	Director – Non-Executive
Jo-Anne Oliveri	Director – Non-Executive

Specified Executives

Other than Directors, there were no executive officers employed by the company during the period.

(b) Key Management Personnel Compensation

Directors	Salary and Fees $	Primary- Short term Superannuation Contributions $	Non-Cash Benefits $	Post Employment $	Equity $	Other $	Total $
2006							
Peter J Spann	-	-	-	-	-	-	-
Peter J Conway	14,300	-	-	-	-	-	14,300
Jo-Anne Oliveri	13,000	-	-	-	-	-	13,000
	27,300	-	-	-	-	-	27,300
2005							
Peter J Spann	-	-	-	-	-	-	-
Peter J Conway	15,300	-	-	-	-	-	15,300
Brian O Boardman	4,400	-	-	-	-	-	4,400
Jo-Anne Oliveri	8,000	-	-	-	-	-	8,000
	27,700	-	-	-	-	-	27,700

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contract for service between the company and specified directors are on a continuing basis the terms of which are not expected to change in the immediate future.

(c) Key Management Personnel Compensation

The company does not grant any bonuses or share options to key management personnel.

(d) Shareholdings
Number of shares held by Directors (indirectly and directly)

	Balance 1/7/05	Consolidation of Shares	Received as Remuneration	Options Exercised	Net Change Other	Balance 30/6/06
Peter J Spann *	1,250,000	-	-	-	-	1,250,000

* Peter J Spann indirectly holds 1,250,000 ordinary shares through Fox Portfolio Pty Limited.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 8: TRADE AND OTHER RECEIVABLES

	30 June 2006		30 June 2005	
	Economic Entity	Parent Entity	Economic Entity	Parent Entity
	$	$	$	$
Receivables	19,732	19,732	6,721	2,348
Non-trade receivables from:				
- Director related entities	114,735	114,735	114,902	114,902
- Other related parties	16,646	16,646	10,841	10,841
	151,113	151,113	132,464	128,091

NOTE 9: INVENTORY

Properties – at cost	1,859,105	1,859,105	4,381,170	4,381,170
Properties – at net realisable value	2,675,000	2,675,000	1,270,042	1,270,042
	4,534,105	4,534,105	5,651,212	5,651,212

NOTE 10 CURRENT TAX ASSETS

Overpayment of income tax	-	-	-	38,515

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Note	30 June 2006 Economic Entity	30 June 2006 Parent Entity	30 June 2005 Economic Entity	30 June 2005 Parent Entity
		$	$	$	$
NOTE 11: OTHER FINANCIAL ASSETS					
NON-CURRENT					
Available for sale financial assets					
Unlisted investments – at cost:					
- Shares in controlled entities	16	-	4,556	-	6,556
- Shares in other related parties					
(a) Property Fox No2 Limited		103,499	103,499	-	-
(b) Fox Riverside Pty Limited		250,000	250,000	151,400	151,400
		353,499	358,055	151,400	157,956

(a) Represent investment in "A" class shares of Property Fox No2 Limited, a company in which Mr Peter Spann is a director. The shares have no fixed maturity date or coupon rate.

(b) Represent investment in "A" class shares of Fox Riverside Pty Limited, a company in which Mr Peter Spann is a director. The shares have no fixed maturity date or coupon rate.

The directors have estimated the fair value of the shares in other related entities as not materially different from the cost t of the investments.

	30 June 2006 Economic Entity	30 June 2006 Parent Entity	30 June 2005 Economic Entity	30 June 2005 Parent Entity
	$	$	$	$
NOTE 12 JOINT VENTURES				
Interest in Joint Venture Operations				
Property Fox No 1 Pty Ltd has a 30% interest in Property Fox No 1, Property Fox No 2 and Freemen Fox Investments Ltd Joint Venture, whose principal activity is the acquisition, development and re-sale of properties.				
The share of assets employed in the Joint Venture is				
Current Assets				
Inventory – at cost	699,111	699,111	699,111	699,111
Total Current Assets	699,111	699,111	699,111	699,111
Total Assets	699,111	699,111	699,111	699,111

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	30 June 2006		30 June 2005	
	Economic Entity $	Parent Entity $	Economic Entity $	Parent Entity $
NOTE 13: TRADE AND OTHER PAYABLES				
Unsecured				
Trade accounts payable	17,251	17,251	34,395	48,953
Other creditors and accruals	34,487	39,467	21,807	51,514
Non trade accounts payable:				
- Director related entity	-	-	4,946	4,946
	51,738	56,718	61,148	105,413
NOTE 14 CURRENT TAX LIABILITIES				
Provision for income tax	-	-	5,143	-
	-	-	5,143	-
NOTE 15 BORROWINGS				
CURRENT				
Commercial bill facilities- Secured	1,832,500	1,832,500	1,762,506	1,762,506
	1,832,500	1,832,500	1,762,506	1,762,506

The commercial bill facility expires on 28 February 2007 ($1,380,000) and 30 June 2007 ($452,500). These facilities are rolling facilities with a maturity period of one month. The rate of interest payable on the bills varies depending on the maturity dates.

The facilities are secured by registered first mortgages over certain properties held as inventories of the parent entity. Also refer to Note 20.

NOTE 16: CONTROLLED ENTITIES

	Country of Incorporation	Percentage of Shares Held
67 Cardigan Street Guildford Pty Limited	Australia	62.5
14 Park Road Pty Limited	Australia	51
20 Hardy Street Fairfield Pty Limited	Australia	100
38 Vine Street Fairfield Pty Limited	Australia	100
15 Todd Street Pty Limited	Australia	100

The above entities do not trade, other than to act as holding entities for company titled properties

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	30 June 2006		30 June 2005	
	Economic Entity	Parent Entity	Economic Entity	Parent Entity
	$	$	$	$
NOTE 17: ISSUED CAPITAL				
5,000,000 fully paid class A shares	4,730,250	4,730,250	4,730,250	4,730,250
1,250,000 fully paid ordinary shares	100	100	100	100
	4,730,350	4,730,350	4,730,350	4,730,350
Movement in share capital				
(a) Class A shares				
Balance at the beginning of the financial year	4,730,250	4,730,250	4,730,250	4,730,250
Balance at the end of the financial year	4,730,250	4,730,250	4,730,250	4,730,250

Class A shares have the right to collectively receive 75% of all dividends declared by the company and to collectively receive 100% of any share capital re-paid upon winding up of the company. Class A shares have the right to vote at all meetings of members of the company with each share entitling its holder to one vote

(b) Ordinary shares				
Balance at the beginning of the financial year	100	100	100	100
Balance at the end of the financial year	100	100	100	100

Ordinary shares have the right to collectively receive 25% of all dividends declared by the company. Ordinary shares have no entitlement to participate in a distribution of capital upon a winding up of the company or to otherwise receive payments by way of return of capital. Ordinary shares have the right to vote at all meetings of members of the company with each share entitling its holder to one vote.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	30 June 2006		30 June 2005	
	Economic Entity	Parent Entity	Economic Entity	Parent Entity
	$	$	$	$
NOTE 18: MINORITY EQUITY INTERESTS IN CONTROLLED ENTITIES				
Share Capital	424	-	424	-
	424	-	424	-

NOTE 19: EXPENDITURE COMMITMENTS

(a) Capital Expenditure commitments

There were no capital expenditure commitments as at 30 June 2006.

(b) Finance lease and hire purchase commitments

There were no finance lease or hire purchase commitments as at 30 June 2006.

(c) Operating lease commitments

There were no operating lease commitments as at 30 June 2006.

NOTE 20: CONTINGENT LIABILITIES

As disclosed in Note 12, the company has a 30 percent interest in a joint venture with Property Fox No 2 Limited and Freeman Fox Investments Pty Limited.

As part of this joint venture, the company has entered into an agreement with Property Fox No 2 Limited to assist in the funding of the acquisition of the joint venture property situated in Toowoomba, Queensland. The total amount payable at 30 June 2006 under the joint loan agreement was $ 1,190,000 and a liability of $ 452,500 being the company's share of the joint loan has been recorded and is included in Borrowings – Secured in Note 15.

Under the terms of the loan facility, should Property Fox No 2 Limited be unable to meet its obligations under the loan facility agreement, the company will be liable for the full amount of the loan outstanding. The loan is secured by a first mortgage against the joint venture property which has a total carrying value of $2,330,368 at 30 June 2006.

The Directors are not aware of any other contingent liabilities as at 30 June 2006.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	30 June 2006		30 June 2005	
	Economic Entity $	Parent Entity $	Economic Entity $	Parent Entity $
NOTE 21: RELATED PARTY TRANSACTIONS				
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.				
Transactions with key management personnel				
Fox Portfolio Pty Limited, a company controlled by Mr Peter Spann, provides Property Fox No.1 with management and administration support for an annual fee of 2 percent of the paid up capital of the company, plus goods and services tax.	110,000	110,000	110,000	110,000
A 2.5 % commission on the purchase price of the Toowoomba properties was paid by Property Fox No 1 Limited to Freeman Fox Investments Pty Limited, a company controlled by Mr Peter Spann. This commission was payment for acting as agent on the purchase of the properties.	-	-	16,500	16,500
Freeman Fox Investments Pty Limited, a company controlled by Mr Peter Spann acted as guarantor of bank borrowings that Property Fox No 1 Limited is a party to. In return for acting as guarantor, Freeman Fox Investments Pty Limited received a loan guarantee fee from Property Fox No 1 Limited.	-	-	65,823	65,823
Property Fox No.1 Limited provided an unsecured interest bearing loan of $135,000 to Freeman Fox Property Pty Limited, a company controlled by Mr Peter Spann, during the year. The loan is repayable on 28 September 2006 and bears interest at the aggregate of the Base Rate on the first drawdown date plus a margin of 1.5% per annum, not exceeding 6.5% per annum. This loan remains outstanding at 30 June 2006.	114,735	114,735	114,902	114,902
Interest charged on above loan during the year was	7,516	7,516	6,348	6,348
Amount owing to Property Fox No 2 Limited a company in which Mr Perter Spann is a director	13,610	13,610	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Economic Entity	
	2006	**2005**
	$	**$**
NOTE 22: EARNINGS PER SHARE		
Basic earnings per share (cents per share)	(14)	(10)
Diluted earnings per share (cents per share)	(14)	(10)
Net loss used in calculating basic and diluted EPS	(849,140)	(647,188)
Weighted average number of shares outstanding during the year used in calculation of basic and diluted EPS	6,250,000	6,250,000

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 23: FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate (%)	Floating Interest Rate ($)	Fixed Interest Rate ($)	Non-Interest Bearing ($)	Total ($)
2006					
Financial Assets:					
Cash	2.80	197,376	-	-	197,316
Receivables (< 1 year)	6.5	-	114,735	36,378	151,113
		197,376	114,735	36,378	348,429
Financial Liabilities					
Trade and sundry Payables	-	-	-	51,738	51,738
Bank Bill Facility (< 1 year)	5.89-6.23	-	1,832,500	-	1,832,500
		-	1,832,500	51,738	1,884,238
2005					
Financial Assets:					
Cash	3.6	94,716	-	-	94,716
Receivables	6.5	-	114,902	17,562	132,464
		94,716	114,902	17,562	227,180
Financial Liabilities					
Trade and sundry payables	-	-	-	105,413	105,413
Bank Bill Facility (< 1 year)	6.2	-	1,762,506	-	1,762,506
		-	1,762,506	105,413	1,867,919

(b) Credit Risk

Due to the nature of real estate transactions on property settlement, the Directors are of the opinion that credit risk associated with the sale of real estate will be minimal, and that no provision for doubtful debts will be warranted.

(c) Receivable in foreign currency

The Company has had no transactions in any foreign currency.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	30 June 2006		30 June 2005	
	Economic Entity $	Parent Entity $	Economic Entity $	Parent Entity $
NOTE 24: CASH FLOW INFORMATION				
(a) Reconciliation of cash				
For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments with terms of less than 90 days, net of outstanding bank overdrafts. Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:				
Cash held in bank accounts	197,376	197,376	94,716	94,716
(b) Reconciliation of net cash used in operating activities to net profit after income tax				
Operating loss after income tax	(849,140)	(849,140)	(647,187)	(595,233)
Add / (less)non-cash items				
Write down of inventory	572,065	572,065	272,418	272,418
Changes in net assets and liabilities:				
(Increase)/decrease in receivables and prepayments	(13,011)	(17,383)	39,106	(1,266)
(Increase)/decrease in Inventory	545,042	545,042	(2,630,785)	(2,630,785)
(Increase)/decrease in deferred tax assets	-	-	53,355	53,355
Increase in current tax asset	-	38,515	-	-
Increase in current tax liability	(5,143)	-	-	-
Increase/(decrease) in payables	(9,410)	(48,696)	61,799	48,216
Net cash provided by/(used in) operating activities	240,403	240,403	(2,851,294)	(2,853,295)

NOTE 25: EVENTS SUBSEQUENT TO REPORTING DATE

There were no events subsequent to reporting date on which to bring into account in the 30 June 2006 financial report.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 26: FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For all periods up to and including the year ended 30 June 2005, the company prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the company is required to prepare in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the company has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in Note 1. In preparing these financial statements, the company has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1: First time adoption of AIFRS.

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Exemptions applied

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Group has taken the following exemptions:

- Comparative information for financial instruments is prepared in accordance with AGAAP and the company and group have adopted AASB 132: Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005.
- AASB 3 Business Combinations has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before 1 July 2004.

The impacts of adopting AIFRS on the total equity and profit after tax as reported under previous Australian Generally Accepted Accounting Principles ("AGAAP") are presented below.

i) Reconciliation of total equity as presented under previous AGAAP to that under AIFRS

	Economic Entity		Parent Entity	
	30 June 2005	1 July 2004	30 June 2005	1 July 2004
	$	$	$	$
Total equity under AGAAP	4,200,955	4,898,098	4,200,571	4,795,804
Total equity under AIFRS	4,200,955	4,898,098	4,200,571	4,795,804

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 26: FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

ii) Reconciliation of profit before tax under previous AGAAP to that under AIFRS

	Economic Entity	Parent Entity
	30 June 2005	30 June 2005
	$	$
Loss after tax as previously reported	(647,187)	(559,233)
Loss after tax under AIFRS	(647,187)	(559,233)

The transition between previous AGAAP to AIFRS has no impact on the reported financial performance of the consolidated entity and its financial position.

NOTE 27: ECONOMIC DEPENDENCY

The consolidated entity is not economically dependent upon any third parties.

NOTE 28: SEGMENT INFORMATION

The consolidated entity operates in the property industry acquiring, developing and selling parcels of developed residential real estate.

The consolidated entity operates in one geographical segment being Australia.

NOTE 29: COMPANY DETAILS

Property Fox No.1 Limited is a public company, incorporated and operating in Australia.

Registered Office
Level 11
Waterfront Place
1 Eagle Street
Brisbane QLD 4000
Tel: (07) 3031 9999

Principal Place of Business
Level 11
Waterfront Place
1 Eagle Street
Brisbane QLD 4000

DIRECTOR'S DECLARATION

In the opinion of the Directors:

(a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including;

i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

ii) complying with Accounting Standards and Corporation Regulation 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors:

Peter John Spann
Director

Dated this 6th day of October 2006.

PKF

Chartered Accountants
& Business Advisers

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PROPERTY FOX NO. 1 LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, notes to the financial statements and the directors' declaration for both Property Fox No. 1 Limited (the company) and the consolidated entity for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes the responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:
examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PROPERTY FOX NO. 1 LIMITED (continued)

Audit opinion

In our opinion, the financial report of Property Fox No. 1 Limited is in accordance with:

(a) The Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

PKF

Grant Saxon
Partner

Sydney, 6 October 2006.