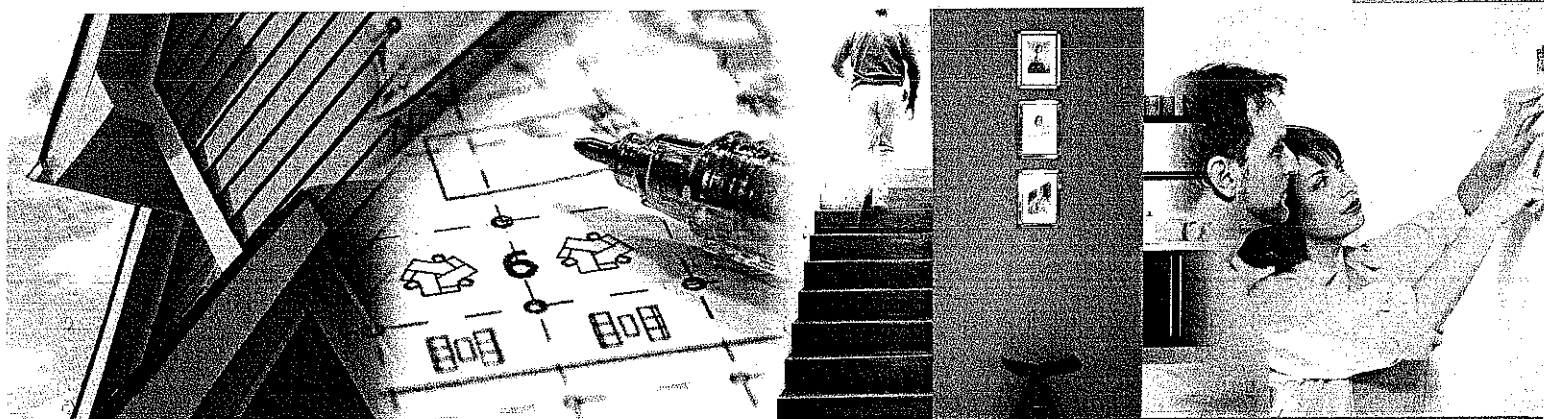




ACN 108 076 295

2006 ANNUAL REPORT



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Managing Director's Review

Hello,

It gives me great pleasure, on behalf of the Directors, to present the second Annual Report of Property Fox No. 2 Limited. During the year the Company issued its second prospectus, which raised a further \$812,999 increasing our paid up capital to \$2,664,282 after accounting for the cost of raising these funds.

The company made only one further investment during the year being a 5% holding in a Brisbane river front property at Anstead. This investment is a land banking opportunity so it is a medium to long term investment. A further investment of \$300,000 was made into Fox Riverside Pty Limited, which the Company formed with joint venture partners to develop premium properties on the Brisbane riverfront. Recent valuations of these properties show an increase in their original purchase price and the directors are confident further increases will accrue in the short term as the market appetite for river front homes increases unabated.

The Company made an operating loss for the year of \$236,625. This included \$66,584 attributable to the Company's share of the loss in the joint venture to develop the three Brisbane river front properties, which of course will not show a profit until the developments are completed and sold.

The Directors are moving ahead with the plan to list the Company on the Newcastle Stock Exchange. Shareholders will be asked to vote at the Annual General Meeting to change the Company's Constitution, which is a precondition to comply with the listing rules of the Exchange. The Directors consider this an important initiative as it will provide Shareholders with an exit mechanism if they ever decide to sell their shares in the Company.

Your support of the Company throughout the year is appreciated and I look forward to sharing with you in the Company's success in the future.

Sincerely,

A handwritten signature in black ink, appearing to read 'Peter Spann', with a stylized flourish at the end.

Peter Spann
Managing Director

Directors' report

Your directors present their report on the company for the financial 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 (Appointed 20/02/04)
- Peter John Conway (Appointed 20/02/04)
- Jo-Anne Oliveri (Appointed 20/02/04)

Directors have been in office since the incorporation of the company to the date of this report unless otherwise stated.

Principal activities

The principal activities of the company during the year were the acquisition and development, either directly or through a subsidiary, parcels of residential real estate in accordance with the real estate mandate of the company.

Operating Results

The net loss for the company for the year ended 30 June 2006 after providing for income tax amounted to (\$236,625) (2005:\$270,625 loss). The operating results for the year are consistent with the company's business plan.

Dividends Paid or Recommended

A dividend was not declared or paid during the year ended 30 June 2006.

Review of operations

The company was active in its pursuit of its principal activities during the year.

As you are aware, the company lodged a prospectus with the Australian Investments & Securities Commission on 17 June 2005. During the year the company issued 812,999 A class ordinary shares in the company. The purpose of the prospectus was to raise funds which were to be used by the company to invest in Fox Riverside Pty Ltd. Fox Riverside Pty Ltd in joint venture with Freeman Fox Investments Pty Ltd owns 3 waterfront properties located on the Brisbane river. The company owns 49% of the issued capital in Fox Riverside Pty Ltd. Fox Riverside intends to develop the properties for resale in the short term. The status of the Fox Riverside properties are as follows:

- King Arthur Ave Tennyson – residential property, development approval lodged with council for the construction of two houses.
- McConnell St Bulimba – residential property, not tenanted.
- Byron St Bulimba – commercial property partly tenanted.

During the year the company also took a 5% interest in two parcels of waterfront land located at Anstead Queensland. The land was purchased as tenants in common with Fox Riverside Unit Trust who own the remaining interest. It is intended that the land be held for development and/or resale in the long term.

The company has a 50% interest in a number of residential properties located in Toowoomba QLD. All properties are currently tenanted and are generating a rental income. The joint venture intends to apply to have the properties rezoned at a later stage.

Directors' report continued

Financial Position

The net assets of the company as at 30 June 2006 are \$2,174,418 (2005:\$1,638,697).

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the company occurred during the year:

- i. In accordance with the prospectus issued on 17 June 2005, the company issued 812,999 'A' class shares.
- ii. During the year the company took a 5% interest in land located in Anstead Queensland.

After Balance Date Events

At the date of this report, the directors are not aware of any other events that would have significant impact on the operations of the company.

Future Developments, Prospects and Business Strategies

Disclosure of information regarding the 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 company. Accordingly, this information has not been disclosed in this report.

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 business development over the past fifteen years, and has served on the boards and or advised a number of private and public companies

Prior to establishing the Freeman Fox group of companies, Peter had extensive roles in developing businesses to success.

His consultancy company SMAARTco has provided business plans for finance, business development and succession planning to in excess of 200 firms in 3 years, and his pharmacy consulting business is recognized by industry leaders as reshaping the future of retail pharmacy. Peter has published a number of books including 'Wealth Magic', a national bestseller, 'Business Power' and 'Marketing Genius'.

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.

Directors' report continued

Jo-Anne Oliveri - Non Executive Independent Director

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.

Company Secretaries

The names of company secretaries as at the end of the year are:

Peter John Spann

Executive Chairman / Managing Director
Company Secretary since March 2005

Peter's qualifications and experience have been listed in Directors table in this report

Grant Alan Rumball

Company Secretary
Appointed June 2005

Grant has a Bachelor of Economics degree, a MBA and a Graduate Diploma in Company Secretarial Practice. He is a Fellow of the Australian Society of Certified Practising Accountants and a member of both the Australian Institute of Company Directors and Chartered Secretaries of Australia.

He has over 25 years varied commercial experience, working as a manager for major chartered accounting firms to being the Chief Financial Officer and Company Secretary for ASX listed companies.

Directors' Emoluments

Pursuant to Australian Securities and Investments Commission Order 98/2395 dated 24 December 1998 information required to be included in the Director's report may be transferred to the financial report. Accordingly the information required to be disclosed in relation to Directors Emoluments has been transferred to Note 7 in the financial statements.

Directors' benefits

Directors' benefits are set out in Note 7 to the financial statements. No director since the end of the previous financial year has received or become entitled to receive a benefit (other than emoluments shown in the financial report or notes thereto) by reason of a contract made by the company or a related company with the director or with a firm which he is a member or with a company in which he has substantial financial interest.

Directors' report continued

Meetings of Directors

During the year, 2 meetings of directors were held. Attendances by each director during the year were:

	Eligible to attend	Attended
Peter John Spann	2	2
Peter John Conway	2	2
Jo-Anne Oliveri	2	0

The directors have formed an audit and risk committee and a remuneration committee. These committees have not met during the reporting year however the mandate of these committees has been addressed at the general director meetings.

Indemnifying Officers or Auditor

During the year the company provided an indemnity to directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company.

Options

The company's managing director was issued share options during the financial year ended 30 June 2005 and these are discussed further in note 7 to the financial accounts. No other share options were issued during the year.

Proceedings on Behalf of 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.

Adoption of Australian Equivalents to IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Note 2 to this report.

Environmental Issues

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Auditors' Independence Declaration

A copy of the independence declaration provided by the company's auditors in relation to the review of the 30 June 2006 financial report is presented on page 24 and forms part of this Director's Report.

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



Peter John Spann - Director

Dated this 2nd Day of October 2006

Income Statement

For the year ended 30 June 2006

		20.2.2004 To 30.6.2005	
	Note	2006 \$	\$
Revenue from ordinary activities	3	75,033	92,924
Management fees	21 (ii)	(67,926)	(57,171)
Loan guarantee fee		-	(109,705)
Purchase commission fee		-	(27,500)
Audit fees		(23,533)	(21,031)
Directors fees	7 (b)	(48,878)	(20,309)
Finance costs		(61,054)	(19,267)
Legal expenses		-	(26,598)
Other expenses from ordinary activities		(35,260)	(14,722)
Share of net loss of associates accounted for using the equity method	12	(66,584)	(70,344)
Profit / (loss) from ordinary activities before income tax expense		(228,202)	(273,722)
Income tax benefit relating to ordinary activities	6	(8,423)	3,097
Net profit / (loss) from ordinary activities after related income tax benefit		(236,625)	(270,625)
Overall Operations:			
Basic earnings per share (cents per share)		(7)	(13)
Diluted earnings per share (cents per share)		(7)	(13)

The accompanying notes form part of these financial statements

Balance Sheet

As at 30 June 2006

	Note	2006 \$	2005 \$
Current assets			
Cash and cash equivalents	9	283,481	23,791
Trade and other receivables	10	160,769	68,974
Other current assets	11	32,162	26,634
Total current assets		476,412	119,399
Non current assets			
Investments accounted for using the equity method	12	1,331,064	1,097,648
Property	15	1,322,939	1,165,184
Deferred tax assets	14	-	3,150
Total non current assets		2,654,003	2,265,982
Total assets		3,130,415	2,385,381
Current liabilities			
Trade and other payables	16	121,909	109,132
Current tax liabilities		-	54
Short term borrowings	17	834,088	637,494
Total current liabilities		955,997	746,684
Total liabilities		955,997	746,684
Net assets		2,174,418	1,638,697
Equity			
Contributed equity	18	2,664,382	1,905,813
Reserves		17,287	3,509
Retained profits/(accumulated losses)		(507,251)	(270,625)
Total equity		2,174,418	1,638,697

The accompanying notes form part of these financial statements

Statement of cash flows

For the year ended 30 June 2006

	Note	2006 \$	2005 \$
Cash flow from operating activities			
Payments for real property related investments		(300,000)	(2,333,175)
Investment income		75,033	87,654
Payments to suppliers, directors and director related entities		(168,952)	(202,728)
Payments for borrowing costs		(59,449)	(19,267)
Tax paid		(5,327)	
Net cash provided by / (used in) operating activities	19	(458,695)	(2,467,516)
Cash flow from financing activities			
Proceeds from the issue of shares		812,999	2,095,100
Advances from borrowings		196,594	637,494
Payment of costs relating to share issue		(54,430)	(189,287)
Payments to related entities		(236,777)	(52,000)
Net cash provided by financing activities		718,386	2,491,307
Net increase in cash held		259,690	23,791
Cash at the beginning of the financial year		23,791	-
Cash at the end of the financial year	9	283,481	23,791

The accompanying notes form part of these financial statements

Statement of changes in equity

For the year ended 30 June 2006

	Share Capital		Retained Profits	Options Reserve	Total
	Ordinary	A class			
Note	\$	\$	\$	\$	\$
Balance at 20.02.2004	-	-	-	-	-
Shares issued during the year	2,095,000	100	-	-	2,095,813
Equity raising costs	(189,287)	-	-	-	(189,287)
Share based payments to directors	-	-	-	3,509	3,509
Profit attributable to members of parent entity	-	-	(270,625)	-	(270,621)
Sub-total	1,905,713	100	(270,625)	3,509	1,638,701
Dividends paid or provided for	-	-	-	-	-
Balance at 30.06.2005	1,905,713	100	(270,625)	3,509	1,638,701
Balance at 1.7.2005	1,905,713	100	(270,625)	3,509	1,638,701
Shares issued during the year	812,999	-	-	-	812,999
Equity raising costs	(54,430)	-	-	-	(54,430)
Share based payments for directors	-	-	-	13,778	13,778
Profit attributable to members of parent entity	-	-	(236,625)	-	(236,625)
Sub total	2,664,282	100	(507,251)	17,287	2,174,418
Dividends paid or provided for	-	-	-	-	-
Balance at 30.6.2006	2,664,282	100	(507,251)	17,287	2,174,418

The accompanying notes form part of these financial statements

Notes to the financial statements

For the year ended 30 June 2006

1 Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. Property Fox No 2 Limited is an unlisted public company incorporated and domiciled in Australia.

This comparative period covers the period from incorporation 20 February 2004 to 30 June 2005.

The financial report of Property Fox No 2 Limited complies 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 company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of preparation

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report.

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

Property Fox No 2 Limited 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 Property Fox No 2 Limited 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 accounts are the first financial statements of Property Fox No 2 Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 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 financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting policies

a. Revenue recognition

The activity of the company is that of an investment company, returns being in the short term from rental and interest income and capital growth in the medium to long term. Rental income is recognised in accordance with generally accepted accounting principles. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Realised gains and losses arising from the disposal of assets are recognised in the statement of financial performance.

b. Property

Property is initially carried at cost.

It is the policy of the company to have an independent valuation every three years, with annual appraisals being made by the directors.

1 Statement of significant accounting policies continued**c. Cash**

For the purposes of the statement of cash flows, cash includes cash on hand and at call with banks or financial institutions, net of bank overdrafts; and investments in money market instruments with less than 30 days to maturity.

d. 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 recognised from 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 year 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.

f. Payables

Payables represent the principal amounts outstanding at balance date, plus where applicable, any accrued interest.

g. Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances, GST is recognised as part of the costs of acquisition of the asset or as part of an expense item. Receivables and payables in the statement of financial position are shown inclusive of GST.

h. Receivables

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and provision for doubtful accounts.

i. Investments in Associates

Investments in associates are recognised in the financial statements by applying the equity method of accounting.

j. Interests in Joint Ventures

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated statements of financial performance and financial position. Details of the economic entity's interests are shown in Note 13.

k. Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

2 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

	Note	Previous GAAP at 30.6.2005 \$	Adjustments on introduction of Australian equivalents to IFRS \$	Australian equivalents to IFRS at 30.6.2005 \$
Reconciliation of Equity at 30 June 2005				
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		23,791	-	23,791
Trade and other receivables		68,974	-	68,974
Other current assets		26,634	-	26,634
TOTAL CURRENT ASSETS		119,399	-	119,399
NON CURRENT ASSETS				
Investments accounted for using the equity method		1,097,648	-	1,097,648
Property		1,165,184	-	1,165,184
Deferred tax assets		3,150	-	3,150
TOTAL NON CURRENT ASSETS		2,265,982	-	2,265,982
TOTAL ASSETS		2,385,381	-	2,385,381
CURRENT LIABILITIES				
Trade and other payables		109,132	-	109,132
Current tax liabilities		54	-	54
Short term borrowings		637,494	-	637,494
TOTAL LIABILITIES		746,684	-	746,684
NET ASSETS		1,638,697	-	1,638,697
EQUITY				
Contributed equity		1,905,813	-	1,905,813
Reserves	2a	-	3,509	3,509
Accumulated losses	2a	(267,116)	(3,509)	(270,625)
TOTAL EQUITY		1,638,697	-	1,638,697

2 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

	Note	Previous GAAP	Effect of transition to Australian equivalents to IFRS	Australian equivalents to IFRS
Reconciliation of Profit or Loss for the full year to 30 June 2005				
Revenue		92,924	-	92,924
Management/Commission fees		(194,376)	-	(194,376)
Professional fees		(47,629)	-	(47,629)
Directors fees	2a	(16,800)	(3,509)	(20,309)
Finance costs		(19,267)	-	(19,267)
Other expenses		(14,725)	-	(14,725)
Share of net losses of associates		(70,344)	-	(70,344)
Profit before income tax		(270,213)	(3,509)	(273,722)
Income tax benefit/(expense)		3,097	-	3,097
Loss for the year		(267,116)	(3,509)	(270,625)

30.6.2005

Notes to the Reconciliations of Equity and Profit and Loss at 30 June 2005

\$

(a) Share based payments:

Directors' options reserve and expense amount

3,509

Total

3,509

3 Profit from ordinary activities

	2006 \$	2005 \$
Operating revenue:		
Rental income	65,453	28,524
Interest received from cash held in bank accounts	9,580	64,404
Total revenues from ordinary activities	75,033	92,928

4 Dividends

No dividends have been declared or paid for this financial year.

Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years.

- -

5 Segment information

The company operates an investment company acquiring and developing either directly or indirectly, parcels of residential real estate in accordance with the company's real estate mandate.

The company currently operates in one geographical segment being Queensland.

		2006	2005
		\$	\$
6 Income Tax Expense			
a. The components of tax expense comprise:			
Current tax		-	(53)
Deferred tax	14	(3,150)	3,150
Underprovision in prior year (withholding tax)		(5,273)	-
		<u>(8,423)</u>	<u>3,097</u>

The prima facie tax on profit from ordinary activities before tax is reconciled to the income tax as follows:

Prima facie tax payable on profit from ordinary activities before income tax at 30%		(68,461)	(82,117)
Add:			
Share of loss of associate		19,975	21,103
Refinance costs		2,486	-
Fines and penalties		20	81
Directors option expense		4,133	1,053
Legal fees		-	7,979
Less:			
Withholding tax credits		-	(5,273)
Deductible capital raising costs		(46,162)	(14,235)
Future income tax benefit on tax loss not brought to account		88,008	71,409
Income tax expense/(refund) attributable to profit from ordinary activities before income tax		-	-
The applicable weighted average effective tax rates are as follows:		-	-

7 Key management personnel compensation

AASB 124 Related Party Disclosures defines key management personnel as "persons having authority and responsibility for the planning, directing and controlling activities of the entity". The only persons that have this authority are the Directors of Property Fox No 2 Limited.

Directors

The following persons were directors of Property Fox No 2 Limited during the whole of the financial year and up to the date of this report:

Peter Spann

Peter Conway

Jo-Anne Oliveri

There are no other key management personnel within Property Fox No 2 Limited.

7 Key management personnel compensation continued**a. Key management compensation**

	Director's Fees	Non-Cash Benefits	Total
2006			
Total Compensation	35,100	13,778	48,878
2005			
Total Compensation	16,800	3,509	20,309

b. Directors' remuneration

2006 Total Compensation	Directors' Fees \$	Options \$	Total \$
Peter John Spann	-	13,778	13,778
Peter John Conway	23,100	-	23,100
Jo-Anne Oliveri	12,000	-	12,000
	35,100	13,778	48,878
2005 Total Compensation	Directors' Fees \$	Options \$	Total \$
Peter John Spann	-	3,509	3,509
Peter John Conway	8,400	-	8,400
Jo-Anne Oliveri	8,400	-	8,400
	16,800	3,509	20,309

Other than related party transactions detailed in note 21 the directors are not entitled and do not receive superannuation contributions, cash bonus, non cash benefits or any other benefits besides those noted above.

c. Options granted as remuneration

The following share-based payment arrangements existed at 30 June 2006:

On 11 March 2005, the following share options were granted to the directors as part of their remuneration:

Options	Exercise price \$	First Exercise Date
100,000	1.05	01/01/2006
100,000	1.10	01/01/2007
100,000	1.15	01/01/2008

The options are exercisable on or before 31 December 2008. At reporting date, these options have lapsed. The price was calculated by using a Black Scholes option pricing model applying the following inputs:

Weighted average exercise price	\$1.10
Weighted average life of the option	2.5 years
Underlying share price	\$0.655
Expected share price volatility	35%
Risk free interest rate	5.8%

7 Key management personnel compensation continued**d. Options held Directors**

Directors	Balance as at 30.6.05	Options Exercised	Net Change Other	Balance 30.6.06	Total Vested 30.6.06	Total Exercisable 30.6.06	Total Unexercisable 30.6.06
Peter Spann	300,000	-	-	300,000	-	300,000	300,000
Peter Conway	-	-	-	-	-	-	-
Jo-Anne Oliveri	-	-	-	-	-	-	-
Total	300,000	-	-	300,000	-	300,000	300,000

e. Shareholdings held by Directors

Directors	Allocated	Received as Remuneration	Options Exercised	Net Change Other	Balance 30.6.06
Peter Spann*	10,100	-	-	-	10,100
Peter Conway	-	-	-	-	-
Jo-Anne Oliveri	-	-	-	-	-
Total	10,100	-	-	-	10,100

* Peter Spann indirectly holds 100 ordinary shares through Fox Portfolio Pty Ltd and 10,000 A class shares indirectly through Freeman Fox Investments Pty Ltd.

f. Remuneration practices

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.

8 Auditor's Remuneration

Remuneration of the auditor for :

	Note	2006 \$	2005 \$
- Audit or reviewing the financial report		21,267	21,031
- Preparation of taxation return		2,266	-
		23,533	21,031

9 Cash & Cash Equivalents

Cash at bank		266,558	23,791
Term Deposits	9a	16,923	-
		283,481	23,791

a. The term deposits represents the company's interest in a term deposit held by National Australia as security against a commercial bills referred to in note 17.

10 Trade & Other Receivables

Receivable Fox Riverside Pty Ltd		142,638	67,638
Receivable Fox Riverside Pty Ltd & Freeman Fox Investments Pty Ltd		2,259	-
Receivable from Fox Riverside No 2 Unit Trust joint venture		6,964	-
Receivable from Property Fox No 1		4,543	-
Receivable from Freeman Fox Investments		3,029	-
Other debtors		1,336	1,336
		160,769	68,974

a. The receivables, excluding other debtors are from director related entities. The amounts are payable at call and no interest is charged on the balances.

11 Other Current Assets

	2006 \$	2005 \$
Prepayments	32,162	21,361
Withholding tax credits	-	5,273
	<u>32,162</u>	<u>26,634</u>

12 Investment in Associate

Interests are held in the following associated companies:

Name	Principal Activities	Balance Date	Ownership Interest %	Carrying Amount of Investment \$
Fox Riverside Pty Ltd	Property Development	30 June 06	49	1,331,064

a. Movements during the year in equity accounted investment in Associated Companies

	2006 \$	2005 \$
Balance at beginning of year	1,097,648	-
Add: New investments during the year	300,000	1,167,992
Share of associated company's profit (loss) from ordinary activities and extraordinary items after income tax	(66,584)	(70,344)
Balance at end of year	<u>1,331,064</u>	<u>1,097,648</u>

b. Accumulated losses attributable to associate:

Share of associate's loss from ordinary activities before income tax expense	(66,584)	(70,344)
Share of associate's income tax expense	-	-
Share of associate's loss from ordinary activities after income tax expense	(66,584)	(70,344)
Share of accumulated losses at beginning of the year	(70,344)	-
Share of accumulated losses at end of the year	<u>(136,928)</u>	<u>(70,344)</u>

c. Summarised presentation of aggregate assets, liabilities and performance of associate:

Current assets	225,005	6
Non-current assets	4,323,737	3,895,218
Total assets	<u>4,548,742</u>	<u>3,895,224</u>
Current liabilities	145,390	70,390
Non-current liabilities	-	-
Total liabilities	<u>145,390</u>	<u>70,390</u>
Net assets	<u>4,403,352</u>	<u>3,824,834</u>
Net loss from ordinary activities after income tax of associate	<u>(115,137)</u>	<u>(143,559)</u>

13 Joint Venture**a. Interest in Joint Venture Operations**

Property Fox No 2 Limited has a 50% interest in the output of a property development project in Toowoomba, a joint venture operation whose principal activity is property development.

The company's share of assets employed in the joint venture is:

Non-Current Assets

- real property at cost

Total share of assets employed

Note	2006	2005
	\$	\$
15	1,165,184	1,165,184
	<u>1,165,184</u>	<u>1,165,184</u>

b. Interest in Joint Venture Operations

Property Fox No 2 Limited, has a 5% interest in the output of a property development project in Anstead, a joint venture operation whose principal activity is property development.

The company's share of assets employed in the joint venture is:

Non-Current Assets

- real property at cost

Total share of assets employed

15	157,755	-
	<u>157,755</u>	<u>-</u>

14 Tax**a. Assets****NON CURRENT**

Deferred tax asset comprises :

Other

Carried forward tax loss

-	3,150
-	-
-	<u>3,150</u>

b. Liabilities**CURRENT**

Income Tax

-	54
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c. Reconciliations**i. Gross movements**

The overall movement in the deferred tax asset account is as follows:

Opening balance

(charge)/credit to income statement

Closing balance

	3,150	-
6	<u>(3,150)</u>	<u>3,150</u>
	-	3,150

Note	2006 \$	2005 \$
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14 Tax continued

ii. Deferred tax assets

The movement in the deferred tax asset for each temporary difference during the year is as follows:

Other	-	-
Opening balance	3,150	-
(Charge)/Credit to income statement	(3,150)	3,150
Closing balance	-	3,150

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1d occur

Temporary differences	-	-
Tax losses (operating)	159,417	71,409
	159,417	71,409

15 Property

- Real property held in a joint venture operation at cost

1,165,184	1,165,184
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Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

Balance at the beginning of year	1,165,184	-
Additions	157,755	1,165,184
Disposals	-	-
Depreciation expense	-	-
Carrying amount at the end of year	1,322,939	1,165,184

16 Trade & Other Payables

Trade creditors	12,818	73,083
Other creditors	14	20,411
Payable to Freeman Fox Investments Pty Ltd	10,678	7,549
Payable to Property Fox No 1 Limited	16,646	8,089
Payable to Fox Riverside No 2 Unit Trust	81,753	-
	121,909	109,132

a. The payables to the director related entities are payable on call and no interest is charged on the balances.

17 Short Term Borrowings

	Note	2006 \$	2005 \$
Secured Liability			
- Commercial bill facility	17a.	743,750	637,494
- Commercial bill facility	17b.	90,338	-
		<u>834,088</u>	<u>637,494</u>

This facility expires in January 2007. The bills mature at periods between one and six months, at the company's discretion. The rate of interest payable on the bills varies depending on the maturity dates refer note (20).

The carrying amount of non current assets pledged as security:

- First registered mortgage - Toowoomba properties	17a.	1,165,184	1,165,184
- First registered mortgage - Anstead properties	17b.	157,755	-
Total assets pledged as security		<u>1,322,939</u>	<u>1,165,184</u>

17a. The first registered mortgage provided to National Australia Bank is in respect of the Toowoomba properties only.

17b. The first registered mortgage provided to National Australia Bank is in respect of the Anstead properties only.

18 Contributed Equity

100 fully paid ordinary shares		100	100
2,907,999 (2005 2,095,000) fully paid A class shares	18 a.	2,907,999	2,095,000
Capital raising costs	18 b.	(243,717)	(189,287)
		<u>2,664,382</u>	<u>1,905,813</u>
a. Movement of shares			
At beginning of the reporting year		2,095,000	-
Shares issued during the year			
- 812,999 fully paid A class shares		812,999	2,095,000
		<u>2,907,999</u>	<u>2,095,000</u>

Ordinary shares participate in 25% of any dividends declared and 100% of the proceeds on winding up in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

A class shares participate in 75% of any dividends declared and 100% of the proceeds on winding up in proportion to the number of shares held. At shareholders meetings each A class share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

b. Options

The Company has 300,000 options on issue to the company's managing director. For information relating to the options refer to Note 7.

c. Capital raising costs

The capital raising cost includes costs associated with issuing the prospectus and a dealer fee. The dealer fee is detailed in Note 21(i).

19 Cash Flow Information

Reconciliation of Cash Flow from Operations with Profit from ordinary activities after Income Tax

	2006 \$	2005 \$
Profit/(loss) from ordinary activities after income tax	(236,625)	(267,116)
Non cash director option expense	13,778	3,509
non cash movements in related party loan accounts	236,776	-
Changes in assets and liabilities:		
(Increase)/decrease in receivables	(91,795)	(1,336)
(Increase)/decrease in investments	(391,171)	(2,262,832)
(Increase)/decrease in other assets	(5,528)	(26,634)
(Increase)/decrease in future income tax benefit	3,150	(3,150)
Increase/(decrease) in tax liabilities	(54)	54
Increase/(decrease) in payables	12,773	93,498
Cash flows from operations	(458,695)	(2,467,516)

20 Financial Instruments

Interest Rate Risk

The company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below:

	Weighted Average Interest Rate	Floating Interest Rate \$	Non Interest Bearing \$	Total \$
30 June 2005				
Financial assets				
Cash assets	4.4%	23,791	-	23,791
Related party receivables	- %	-	67,638	67,638
		23,791	67,638	91,429
Financial liabilities				
Commercial bill facility	5.8 %	637,494	-	637,494
Related party payables	- %	-	15,638	15,638
		637,494	15,638	653,132
30 June 2006				
Financial assets				
Cash at bank	4.4%	266,558	-	266,558
Term Deposit 1	3.25%	13,610	-	13,610
Term Deposit 2	5.4%	3,313	-	3,313
Related party receivables	- %	-	160,769	160,769
		283,481	160,769	444,250
Financial liabilities				
Commercial bill facility - Toowoomba	5.8 %	743,750	-	743,750
Commercial bill facility – Anstead	6.0%	90,338	-	90,338
Related party payables	- %	-	109,077	109,077
		834,088	109,077	943,165

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

2006	2005
\$	\$

21 Related Company Details

Transactions between related parties are on normal commercial terms and conditions no more favourable than those otherwise available to other parties unless stated.

(i)	Dealer Agreement		
	A 3% commission on the raising of funds, plus goods and services tax, was paid by Property Fox No 2 Limited to Freeman Fox Limited (formerly known as Freeman Fox Securities Limited). Up until 20 February 2006, Freeman Fox Limited was controlled by Mr Peter Conway. Refer to note 18c.	26,829	69,135
(ii)	Management Fee		
	Property Fox No 2 Limited paid an annual management fee to Fox Portfolio, a company controlled by Mr Peter Spann during the year. The management fee is an amount equal to: 3% (plus goods and services tax) of the paid up share capital of Property Fox No 2 Limited up to and including \$12,000,000; and 1.5% (plus goods and services tax) of the paid up share capital of Property Fox No 2 Limited above \$12,000,000. The management fee is calculated and paid monthly. This fee covers the provision of administration services to the company.	67,926	57,171
(iii)	Loan Guarantee Fee		
	Freeman Fox Investments Pty Ltd, a company controlled by Mr Peter Spann acted as guarantor of bank borrowings that Property Fox No 2 is a party to. In return for acting as guarantor Freeman Fox Investments Pty Ltd received a loan guarantee fee from Property Fox No 2.	-	109,705
(iv)	Commission		
	A 2.5% commission on the purchase price of the Toowoomba properties was paid by Property Fox No 2 Limited to Freeman Fox Property Pty Ltd, a company controlled by Mr Peter Spann. This commission was payment for acting as agent on the purchase of the properties.	-	27,500

22 Subsequent Events

The directors are not aware of any subsequent events post reporting date.

23 Contingent Liability

Property Fox No 2 Limited has a contractual obligation to pay Fox Riverside Pty Ltd \$4,957,012 should Fox Riverside Pty Ltd make a call on the full amount of the unpaid capital. The directors believe that this contingent liability will not materialise as:-

The Fox Riverside Pty Ltd shareholders agreement lists the terms that must be met for a call of unpaid capital. As Property Fox No 2 holds 49% of the issued capital it can significantly influence the approval of a call for unpaid capital being made.

24 Company details

The registered office and principal place of business of the company is:

Level 11
Waterfront Place
1 Eagle Street
BRISBANE QLD 4000

Directors' declaration

The directors of the company declare that:

1. The financial statements and notes, as set out in pages 1 to 22, are in accordance with the Corporations Act 2001:

- a. comply with Accounting Standards and the Corporations Regulations 2001; and
- b. give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the company.

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors:

A handwritten signature in black ink, appearing to read 'Peter John Spann', with a stylized flourish at the end.

Peter John Spann - Director

Dated this 2nd day of October 2006

Auditors' independence declaration

To the directors of Property Fox No 2 Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Property Fox No 2 Limited for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b. no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON QUEENSLAND PARTNERSHIP
 Chartered Accountants

Grant Thornton Queensland Partnership
DJ Carroll

DJ CARROLL
 Partner
 5th October 2006
 Brisbane

Independent audit report

To the members of Property Fox No 2 Limited

Scope

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Property Fox No 2 Limited (the company), for the year ended 30 June 2006.

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 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 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.

Independent audit report continued

To the members of Property Fox No 2 Limited continued

Independence

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

Audit Opinion

In our opinion, the financial report of Property Fox No 2 Limited is in accordance with:

- a. the Corporations Act 2001, including:
 - i. giving a true and fair view of the company's financial position as at 30 June 2006 and of its 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.

Inherent Uncertainty Regarding Payment of Uncalled Share Capital in Associate

Without qualification to the audit opinion expressed above, attention is drawn to the following matter. As indicated in Note 23 to the financial statements, Property Fox No 2 Limited has an obligation to pay uncalled share capital in an associate. A call has not yet been made on these shares. Should this call be made and the company has not raised sufficient funds to pay the call through either sourcing alternative funding, or a sell down of company assets, there would be significant uncertainty whether Property Fox No 2 would be able to continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

GRANT THORNTON QUEENSLAND PARTNERSHIP

Grant Thornton Queensland Partnership
Dan Carroll

DJ CARROLL
Partner
5th October 2006
Brisbane