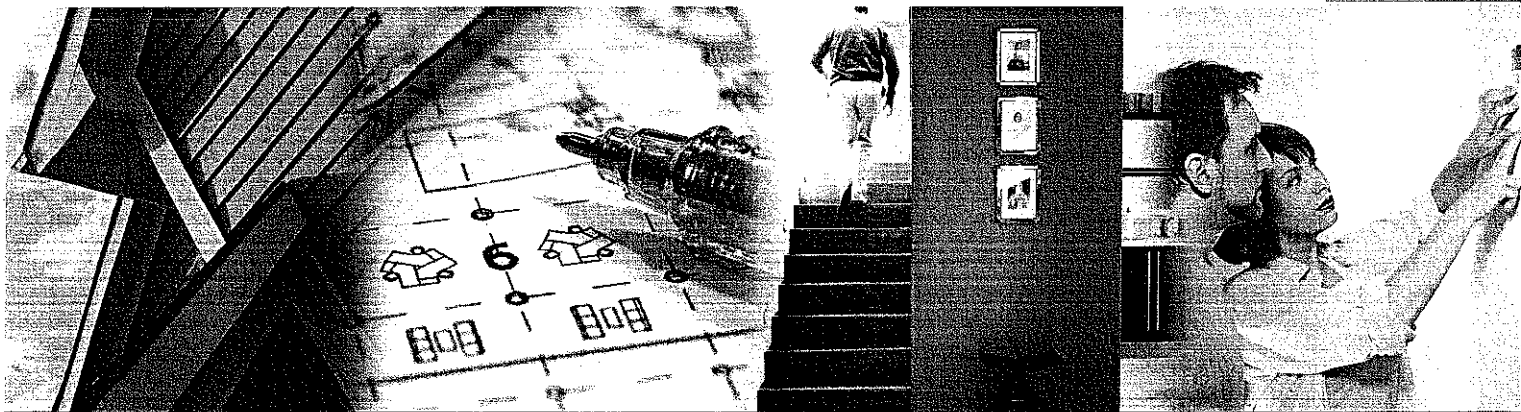


PROPERTY  FOX

NO. 2 LIMITED

ACN 108 076 295

2005 ANNUAL REPORT



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Managing Director's Review

Hello,

It gives me great pleasure, on behalf of the Directors, to present the first Annual Report of Property Fox No. 2 Limited. The Company was incorporated in February 2004 so this report covers the first sixteen months of its operation.

It has been a busy time for the Company. During the period it issued a prospectus, which raised \$2,095,000 and in conjunction with other companies it purchased a number of properties in Toowoomba. Additionally, the Company made a significant investment in Fox Riverside Pty Limited, which it formed with joint venture partners to develop premium properties on the Brisbane riverfront.

Your directors are confident that, notwithstanding the slowing pace of the property market over recent months, the jointly owned properties purchased by the Company and the investment it has made in Fox Riverside Pty Limited, will show strong capital growth for the future.

The operating loss for the period after tax was \$267,112. This was to be expected as we incurred significant start up costs for the Company and the primary intention is to realise wealth from the development of the property portfolio.

Expenses have been contained to a minimum and the Administration Manager, Fox Portfolio Pty Limited, keeps a careful watch over the Company's operations in all areas.

The Company has recently issued its second prospectus, the proceeds of which will be used to fund the development of the riverfront properties on the Brisbane River and continue executing the real estate mandate of the Company. Shareholders may call our office to receive a copy of this prospectus, which I commend to you.

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 first report on the company for the financial period commencing on incorporation of the company on 20 February 2004 and ended 30 June 2005.

Directors

The names of directors in office at any time during or since the end of the period 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 period 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 period ended 30 June 2005 after providing for income tax amounted to \$267,112. The operating results for the period are consistent with the company's business plan.

Dividends Paid or Recommended

A dividend was not declared or paid during the period ended 30 June 2005.

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 1 Limited and Freeman Fox Investments Pty Ltd purchased several residential properties in Toowoomba QLD. The company also acquired 49% of the issued capital of Fox Riverside Pty Ltd. Fox Riverside has a joint venture 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.

Financial Position

The net assets of the company as at 30 June 2005 are \$1,638,701.

Directors' report continued

Significant Changes in State of Affairs

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

- i. In accordance with the prospectus issued on 20 February 2004, the company issued 2,095,100 'A' class shares.
- ii. On 17 June 2005 the company lodged a prospectus with the Australian Securities & Investments Commission and issued the prospectus to existing shareholders in August 2005. The prospectus is for the offer of 15,000,000 fully paid 'A' class shares. The company intends to use the majority of the funds raised from issue of additional equity in the company to complete the payment of its shares in Fox Riverside Pty Ltd, which is developing the three waterfront properties discussed above. The remainder of funds raised will be used to implement the company's Real Estate Acquisition Mandate.

After Balance Date Events

As discussed above the company issued a prospectus in August 2005 to existing shareholders to raise funds for investment in Fox Riverside Pty Ltd and any remaining funds raised will be used to implement the company's real estate acquisition mandate. 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

Information on Directors 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.

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 6 in the financial statements.

Directors' benefits

Directors' benefits are set out in Note 6 to the financial statements. No director since the end of the previous financial period 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.

Meetings of Directors

During the period, 8 meetings of directors were held. Attendances by each director during the period were:

	Number eligible to attend	Number attended
Peter John Spann	8	8
Peter John Conway	8	8
Jo-Anne Oliveri	8	8

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

Indemnifying Officers or Auditor

During the period 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 period and these are discussed further in note 6 to the financial accounts. No other share options were issued during the period.

Directors' report continued

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.

Auditors' Independence Declaration

A copy of the independence declaration provided by the company's auditors in relation to the review of the 30 June 2005 financial report is presented on page 19 and forms part of this Director's Report.

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

A handwritten signature in black ink, appearing to read 'Peter John Spann', written in a cursive style.

Peter John Spann - Director

Dated this 19th day of October 2005

Statement of financial performance

For the period ended 30 June 2005

	Note	2005 \$
Revenue from ordinary activities	2	92,928
Management fees	21 (ii)	(57,171)
Loan guarantee fee	21 (iii)	(109,705)
Purchase commission fee	21 (iv)	(27,500)
Audit fees		(21,031)
Directors fees	6 (b)	(16,800)
Borrowing costs		(19,267)
Legal expenses		(26,598)
Other expenses from ordinary activities		(14,721)
Share of net loss of associates accounted for using the equity method	11	(70,344)
Profit / (loss) from ordinary activities before income tax expense		(270,209)
Income tax benefit relating to ordinary activities	5	3,097
Net profit / (loss) from ordinary activities after related income tax benefit		(267,112)

The accompanying notes form part of these financial statements

Statement of financial position

As at 30 June 2005

	Note	2005 \$
Current assets		
Cash assets	8	23,791
Receivables	9	68,974
Other assets	10	26,634
Total current assets		<u>119,399</u>
Non current assets		
Investment in associate	11	1,097,648
Deferred tax asset	13	3,150
Property	14	1,165,184
Total non current assets		<u>2,265,982</u>
Total assets		<u>2,385,381</u>
Current liabilities		
Payables	15	109,132
Current tax liabilities		54
Total current liabilities		<u>109,186</u>
Non Current liabilities		
Interest bearing liabilities	16	637,494
Total current liabilities		<u>637,494</u>
Total liabilities		<u>746,680</u>
Net assets		<u>1,638,701</u>
Equity		
Contributed equity	17	1,905,813
Retained profits/(accumulated losses)	18	(267,112)
Total equity		<u>1,638,701</u>

Statement of cash flows

For the period ended 30 June 2005

	Note	2005 \$
Cash flow from operating activities		
Payments for real property related investments		(2,333,175)
Investment income		87,654
Payments to suppliers, directors and director related entities		(202,728)
Payments for borrowing costs		(19,267)
Net cash provided by / (used in) operating activities	19	(2,467,516)
Cash flow from financing activities		
Proceeds from the issue of shares		2,095,100
Advances from borrowings		637,494
Payment of costs relating to share issue		(189,287)
Payments to related entities		(52,000)
Net cash provided by financing activities		2,491,307
Net increase in cash held		23,791
Cash at the beginning of the financial period		-
Cash at the end of the financial period	8	23,791

Notes to the financial statements

For the period ended 30 June 2005

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 company was incorporated on 20 February 2004 and this is the first financial report of the company, which covers the period from the date of incorporation to 30 June 2005.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values, except where stated, or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. Fair value means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

a. Revenue recognition

The activity of the company is that of an investment company, returns being in the form of rental and interest income. 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.

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.

1 Statement of significant accounting policies continued**d. International financial reporting standards (IFRS)**

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year.

The company's management, along with its external consultants, are assessing the significance of these changes and preparing for their implementation. An IFRS committee has been established to oversee and manage the company's transition to IFRS. We will seek to keep stakeholders informed as to the impact of these new standards as they are finalised.

The company's management are of the opinion that the key material differences in the company's accounting policies on conversion to AIFRS are as follows.

Income Tax

Currently, the company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 112: Income Taxes, the entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

Share based payments

Under AASB 2 Share-based Payment, from 20 February 2004, the company is required to recognise an expense for those options that were issued to directors but that had not vested by 1 July 2005.

e. Income tax

Income tax has been brought to account using a method of tax-effect accounting whereby income tax expense for the period is calculated on the accounting profit after adjusting for items, which as a result of their treatment under income tax legislation, create permanent differences between that profit and taxable income. The tax effect of timing differences which arise from the recognition in the accounts of items of revenue and expenses in the periods different from those in which they are assessable or allowable for income tax purposes, are represented in the statement of financial position as "future income tax benefits" or "provision for deferred tax", as the case may be, at current tax rates.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit. The Directors are of the opinion that current year tax losses will be able to be utilised against taxable incomes of future years, and that sufficient future profits will be generated in order for the losses to 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.

1 Statement of significant accounting policies continued**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 12.

2 Profit from ordinary activities

	2005
	\$
Operating revenue:	
Rental income	28,524
Interest received from cash held in bank accounts	64,404
Total revenues from ordinary activities	<u>92,928</u>

3 Dividends

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

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.

4 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.

5 Income Tax Expense

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

Prima facie tax payable/(benefit) on profit from ordinary activities before income tax at 30%	(81,063)
Add / (less) tax effect off:	
Share of loss of associate	21,103
Accruals	2,400
Legal fees	7,979
Fines and penalties	81
Deductible capital raising costs	(14,235)
Withholding tax credits	(5,273)
Future income tax benefit on tax loss not brought to account	65,911
Income tax expense/(benefit) attributable to profit from ordinary activities before income tax	<u>(3,097)</u>

6 Directors' Remuneration**a. Directors in office at any time during the period are:**

Peter John Spann
 Peter John Conway
 Jo-Anne Oliveri

b Directors' Remuneration

	Directors' Fees \$	Options \$	Total \$
Peter John Spann	-	62,461	62,461
Peter John Conway	8,800	-	8,800
Jo-Anne Oliveri	8,000	-	8,000
	16,800	62,461	79,261

Other than related party transactions detailed in note 22, the directors are not entitled and do not receive superannuation contributions, cash bonus, non cash benefits or any other benefits besides those noted above.

The options granted to directors during the period have not been expensed in the statement of Financial Position. The options have been independently costed by way of a Black Scholes model.

c. Remuneration granted as Options

	Vested No.	Granted Number	Grant Date	Value per Option at Grant Date \$	Exercise Price \$	First Exercise Date	Last Exercise Date
Directors							
Peter Spann	-	100,000	11/03/2005	22,108	1.00	1/01/2006	31/12/2008
Peter Spann	-	100,000	11/03/2005	20,792	1.05	1/01/2007	31/12/2008
Peter Spann	-	100,000	11/03/2005	19,561	1.10	1/01/2008	31/12/2008
	-	300,000					

d. Number of Options held by Directors

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

e. Number of Shares held by Directors

	Allocated	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30.6.05
Directors					
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.

7 Auditors Remuneration

	Note	2005
		\$
Remuneration of the auditor for :		
- Audit or reviewing the financial report		<u>21,031</u>

8 Cash Assets

Cash at bank		<u>23,791</u>
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9 Receivables

Receivable Fox Riverside Pty Ltd	9a.	67,638
Other debtors		<u>1,336</u>
		<u>68,974</u>

a. The receivable from Fox Riverside Pty Ltd, an associate company as per note 11 and also a director related entity, is payable on call and no interest is charged on the balance.

10 Other Assets

Prepayments		21,361
Withholding tax credits		<u>5,273</u>
		<u>26,634</u>

11 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 05	49	1,097,648

a. Movements during the period in equity accounted investment in Associated Companies	2005
	\$
Balance at beginning of period	-
Add: New investments during the period	1,167,992
Share of associated company's profit (loss) from ordinary activities and extraordinary items after income tax	<u>(70,344)</u>
Balance at end of period	<u>1,097,648</u>
b. Accumulated losses attributable to associate:	
Share of associate's loss from ordinary activities before income tax expense	(70,344)
Share of associate's income tax expense	-
Share of associate's loss from ordinary activities after income tax expense	<u>(70,344)</u>
Share of accumulated losses at beginning of the period	-
Share of accumulated losses at end of the period	<u>(70,344)</u>

11 Investment in Associate continued

	Note	2005
		\$
c. Summarised presentation of aggregate assets, liabilities and performance of associate:		
Current assets		6
Non-current assets		3,895,218
Total assets		3,895,224
Current liabilities		70,390
Non-current liabilities		-
Total liabilities		70,390
Net assets		3,824,834
Net loss from ordinary activities after income tax of associate		(143,559)

12 Joint Ventures**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	14	1,165,184
Total share of assets employed		1,165,184

13 Deferred Tax Assets

Future income tax benefit		3,150
a. the future income tax benefit is made up of the following estimated tax benefits:		
- tax losses		-
- timing difference		3,150

14 Property

- Real property held in a joint venture operation at cost	12	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 period

Balance at the beginning of period		-
Additions		1,165,184
Disposals		-
Depreciation expense		-
Carrying amount at the end of period		1,165,184

15 Payables

	Note	2005 \$
Trade creditors		73,083
Other creditors		20,411
Payable to Freeman Fox Investments Pty Ltd	15 a.	7,549
Payable to Property Fox No 1 Limited	15 a.	8,089
		<u>109,132</u>

a. The payables to Property Fox No 1 Limited and Freeman Fox Investments Pty Ltd, director related entities are payable on call and no interest is charged on the balances.

16 Interest Bearing Liabilities**Secured Liability**

- Commercial bill facility		<u>637,494</u>
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This facility expires in January 2007. The bills mature at periods between one and six months, at the client's discretion. The rate of interest payable on the bills varies depending on the maturity dates.

The carrying amount of non current assets pledged as security:

- First registered mortgage - Toowoomba properties	14	<u>1,165,184</u>
Total assets pledged as security		<u>1,165,184</u>

17 Contributed Equity

100 fully paid ordinary shares		100
2,095,000 fully paid A class shares	17 a.	2,095,000
Capital raising costs	17 c.	<u>(189,287)</u>
		<u>1,905,813</u>

a. Movement of shares

At beginning of reporting period

Shares issued during the period

- 100 fully paid ordinary shares	100
- 2,095,000 fully paid A class shares	<u>2,095,000</u>
	<u>2,095,100</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 issued share options to the company's managing director during the period. For information relating to these options refer to Note 6.

17 Contributed Equity continued**c. Capital raising costs**

The capital raising cost includes costs associated with issuing the prospectus and a dealer fee. The prospectus issued on 20 February 2004 detailed indicative prospectus costs of \$99,000. The actual cost was \$120,152 including GST, plus a dealer fee of \$69,135 as detailed in note 21(i).

18 Accumulated Losses

	2005
	\$
Accumulated losses at the beginning of the financial period	-
Net loss attributable to members of the company	(267,112)
Accumulated losses at the end of the financial period	<u>(267,112)</u>

19 Cash Flow Information

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

Profit/(loss) from ordinary activities after income tax	(267,116)
Changes in assets and liabilities:	
(Increase)/decrease in receivables	(1,336)
(Increase)/decrease in investments	(2,262,832)
(Increase)/decrease in other assets	(26,634)
(Increase)/decrease in future income tax benefit	(3,150)
Increase/(decrease) in tax liabilities	54
Increase/(decrease) in payables	93,498
Cash flows from operations	<u>(2,467,516)</u>

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 \$
Financial assets				
Cash assets	4.4%	23,371	-	23,371
Receivable from Fox Riverside Pty Ltd	- %	-	67,638	67,638
		<u>23,371</u>	<u>67,638</u>	<u>91,009</u>
Financial liabilities				
Commercial bill facility	5.8 %	637,494	-	637,494
Payable to Freeman Fox Investments Pty Ltd	- %	-	7,549	7,549
Payable to Property Fox No 1 Limited	- %	-	8,089	8,089
		<u>637,494</u>	<u>15,638</u>	<u>653,132</u>

20 Financial Instruments continued

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.

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.

2005

\$

(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 Securities Limited, a company controlled by Mr Peter Conway during the period. Refer to note 17c.

69,135

(ii) Management Fee

Property Fox No 2 Limited paid an annual management fee to Freeman Fox Pty Ltd an associate of Freeman Fox Securities, a company controlled by Mr Peter Spann during the period. 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.

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

On 17 June 2005 the company lodged a prospectus with the Australian Securities & Investments Commission and issued the prospectus to existing shareholders in August 2005. The prospectus is for the offer of 15,000,000 fully paid A class shares.

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 company intends to use the majority of the funds raised from issue of additional equity in the company through the prospectus referred to in note 22, to complete the payment of its shares in Fox Riverside Pty Ltd, which is developing three waterfront properties. The remainder of funds raised (if any) will be used to implement the company's real estate acquisition mandate.

As the level of funds to be raised via the prospectus is uncertain at the date of this report, the directors are also exploring alternative avenues, including debt funding and potential sell down of company assets to fund any call, should a call be made. The directors have every confidence that the company will be able to meet a call obligation, if and when, it is received.

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 17, 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 2005 and of the performance for the period 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 Spann', with a stylized flourish at the end.

Peter John Spann - Director

Dated this 19th day of October 2005

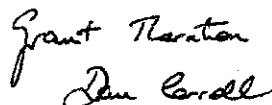
Auditors' independence declaration

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 period ended 30 June 2005, 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
Chartered Accountants



DJ CARROLL
Partner
19th October 2005
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 statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Property Fox No 2 Limited (the company), for the period ended 30 June 2005.

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

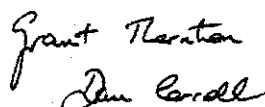
In our opinion, the financial report of Property Fox No 2 Limited is in accordance with:

- a. the Corporations Act 2001, including:
 - i. giving a true and fair view of the company's financial position as at 30 June 2005 and of its performance for the period 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 22 and 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. A prospectus has been issued to raise funds to cover this call. Should this call be made and the company has not raised sufficient funds to pay the call through either the prospectus, via other sources of 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



DJ CARROLL
Partner
19 October 2005
Brisbane