



Property Fox No 2 Limited

Interim financial report

Half year ended 31 December 2006

Contents

	Page
Directors' report	1
Auditor's independence declaration	2
Income statement	3
Balance sheet	4
Statement of changes in equity	5
Cash flow statement	6
Notes to the financial statements	7
Directors' declaration	10
Independent review report	11

Directors' report

Your directors submit the financial report of the economic entity for the half year ended 31 December 2006.

Directors

The names of directors who held office during or since the end of the half year:

- Peter John Spann
- Jodie Morris (appointed 30/11/06)
- Howard Woolcott (appointed 30/11/06)
- Peter John Conway (resigned 30/11/06)
- Jo-Anne Oliveri (resigned 30/11/06)

Directors have been in office 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 real estate in accordance with the real estate mandate of the company.

Review of Operations

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

The net loss for the company for the half year ended 31 December 2006 before income tax amounted to \$230,684 (half year ended 2005: \$196,651). The operating results for the half year are consistent with the company's business plan.

Auditor's Declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 2 for the half year ended 31 December 2006.

This report is signed in accordance with a resolution of the Board of Directors.

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



Peter John Spann

Director

Dated this 23rd day of February 2007

Auditor's independence declaration

To the Directors of Property Fox No.2 Limited

I declare that, to the best of my knowledge and belief, during the half year ended 31 December 2006 there have been:

- (a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review, and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON QUEENSLAND PARTNERSHIP
 Chartered Accountants

Grant Thornton Queensland Partnership
DJ Carroll

D J CARROLL
 Partner

23rd February 2007
 Brisbane

Income statement

For the half year ended 31 December 2006

	31.12.2006	31.12.2005
	\$	\$
Revenue	35,712	36,163
Management fees	(43,430)	(31,444)
Professional fees	(29,488)	(16,586)
Directors remuneration expense	(13,640)	(23,609)
Property expenses	(21,889)	(13,057)
Finance costs	(23,940)	(21,266)
Other expenses	(961)	(10,892)
Share of net losses of associates	(133,048)	(115,960)
Profit before income tax	(230,684)	(196,651)
Income tax expense	-	(8,423)
Profit for the period	(230,684)	(205,074)
Overall Operations:		
Basic earnings per share (cents per share)	(7.64)	(9.79)
Diluted earnings per share (cents per share)	(7.64)	(9.79)

The accompanying notes form part of these financial statements.

Balance sheet

As at 31 December 2006

	31.12.2006 \$	30.6.2006 \$
CURRENT ASSETS		
Cash and cash equivalents	207,197	283,481
Trade and other receivables	60,085	160,769
Other current assets	12,538	32,162
TOTAL CURRENT ASSETS	279,820	476,412
NON CURRENT ASSETS		
Investments accounted for using the equity method	1,248,016	1,331,064
Property	1,322,939	1,322,939
Deferred tax assets	-	-
Other non current assets	-	-
TOTAL NON CURRENT ASSETS	2,570,955	2,654,003
TOTAL ASSETS	2,850,776	3,130,415
CURRENT LIABILITIES		
Trade and other payables	95,102	121,909
Current tax liabilities	-	-
Short term borrowings	834,088	834,088
Other current liabilities	-	-
TOTAL LIABILITIES	929,190	955,997
NET ASSETS	1,921,586	2,174,418
EQUITY		
Issued capital	2,642,220	2,664,382
Reserves	17,301	17,287
Retained earnings	(737,935)	(507,251)
TOTAL EQUITY	1,921,586	2,174,418

The accompanying notes form part of these financial statements.

Statement of changes in equity

For the half year ended 31 December 2006

	Share Capital		Retained	Options	Total
	A class	Ordinary	Profits	Reserve	
	\$		\$	\$	\$
Balance at 1.7.2005	1,905,713	100	(270,621)	3,509	1,638,701
Share based payments for directors	-	-	-	2,309	2,309
		-			
Profit / (loss) attributable to members	-		(205,070)	-	(205,070)
Sub total	1,905,813	100	(475,691)	5,818	1,435,940
Dividends paid or provided for	-	-	-	-	-
Balance at 31.12.2005	1,905,813	100	(475,691)	5,818	1,435,940
Balance at 1.7.2006	2,664,282	100	(507,251)	17,287	2,174,418
Shares issued	10,000	-	-	-	10,000
Capital raising costs expensed	(32,162)	-	-	-	(32,162)
A class shares converted into ordinary shares (a)	100	(100)	-	-	-
Share based payments for directors	-	-	-	14	14
		-			
Profit / (loss) attributable to members	-		(230,684)	-	(230,684)
Sub total	2,642,220	-	(737,935)	17,301	1,921,586
Dividends paid or provided for	-	-	-	-	-
Balance at 31.12.2006	2,642,220	-	(737,935)	17,301	1,921,586

(a) To facilitate and expedite a simpler and more cost effective listing process for Property Fox No 2 Limited on the NSX it was agreed at the annual general meeting in November 2006 that the 100 ordinary shares were converted into fully paid A class shares at the rate of 1,000 fully paid A class shares for every 1 ordinary class share. The holder of the 100 ordinary shares was Fox Portfolio Pty Limited a company associated with one of the directors, Mr Peter Spann.

During the review period fully paid A class shares issued have increased by 110,000. Total issued A class shares at 31 December 2006 is 3,017,999.

The accompanying notes form part of these financial statements.

Cash flow statement

For the half year ended 31 December 2006

	31.12.2006	31.12.2005
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from property	31,917	33,045
Payments to suppliers and directors	(48,056)	(70,466)
Payments for investment in Associates	-	-
Interest paid	(23,940)	(21,266)
Interest received	3,795	3,119
Net cash provided by (used in) operating activities	(36,284)	(55,568)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in associate	(50,000)	(50,000)
Net cash provided by (used in) investing activities	(50,000)	(50,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings provided to related entities	-	-
Proceeds for share applications	10,000	300,000
Payments for NSX listing	-	-
Receipts from borrowings	-	100,006
Net cash provided by (used in) financing activities	10,000	400,006
Net increase in cash held	(76,285)	294,438
Cash at 1 July 2006	283,481	23,791
Cash at 31 December 2006	207,197	318,229

The accompanying notes form part of these financial statements.

Notes to the financial statements

For the half year ended 31 December 2006

Note 1: Basis of Preparation

The half year financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2006 and any public announcements made by Property Fox No 2 Limited during the half year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

The half year report does not include full disclosures of the type normally included in an annual financial report.

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.

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.

Note 1: Basis of Preparation continued**e. Payables**

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

f. 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.

g. 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.

h. Investments in Associates

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

i. 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.

j. 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.

	31.12.2006	31.12.2005
	\$	\$
Note 2: Profit from ordinary activities		
Operating revenue:		
Rental income	31,917	33,044
Interest received	3,795	3,119
	<u>35,712</u>	<u>36,163</u>

Note 3: 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.

Note 4: Contingent Liabilities

Property Fox No 2 Limited has a contractual obligation to pay Fox Riverside Pty Ltd \$4,907,112 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.

Note 5: Events Subsequent to Reporting Date

Subsequent to the reporting date the Directors are continuing with the process to list the company on the National Stock Exchange. It is expected the company will be listed on the 28th February 2007.

Directors' declaration

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 3-9:

a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and

b. give a true and fair view of the company's financial position as at 31 December 2006 and of its performance for the half year ended on that date.

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.



Director

Peter John Spann

Dated this 23rd day of February 2007

Independent review report

To the members of Property Fox No 2 Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Property Fox No 2 Limited (Company), which comprises the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, notes to the financial statements and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagement ASRE 2410: Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the company's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Property Fox No 2 Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent review report continued

To the members of Property Fox No 2 Limited

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Property Fox No 2 Limited on 23rd February 2007, would be in the same terms if provided to the directors as at the date of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Property Fox No 2 Limited is not in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the company's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Inherent Uncertainty Regarding Payment of Uncalled Share Capital in Associate

Without qualification to the review opinion expressed above, attention is drawn to the following matter. As indicated in Note 4 to the financial report, 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
 Chartered Accountants

Grant Thornton Queensland Partnership
D J Carroll

D J CARROLL
 Partner

28th February 2007
 Brisbane