



Property Fox No 2 Limited ACN 108 076 295

2008 Annual Report

Contents

| | Page |
|---|-------------|
| Managing Director's Review | 1 |
| Directors' report | 3 |
| Auditor's Independence Declaration | 9 |
| Income statement | 10 |
| Balance sheet | 11 |
| Cash flow statement | 12 |
| Statement of changes in equity | 13 |
| Notes to the financial statements | 14 |
| Directors' declaration | 26 |
| Auditor's Report | 27 |
| Corporate Governance Statement | 29 |
| Shareholder Information | 32 |

Managing Director's Review

Dear Shareholders,

It is a pleasure to write to you as your Managing Director of Property Fox No. 2 Limited in a year where the company's position improved considerably.

Even considering the general dull climate in the Real Estate market PF2's investments are strategic in nature and in high demand and have all shown aggregate increases this year.

In order to better position the company for the future the Director's have worked on substantially decreasing operational costs including renegotiating the Manager's fee to just \$12,000PA. The net operating loss was reduced by \$217,766 (for 2007) to just \$31,123 (this financial year).

Despite the small net loss, the company is in a financially sound and economically favourable position.

Due to the nature of the company's principal business activity operating losses are inherent during years when the entity's business operations focus on acquisition and redevelopment of property for future revenue generating projects.

This has been the case with PF2. The business operations of the company have centred primarily on the acquisition and redevelopment of property hence it recorded a small net operating loss.

Property Fox No 2 Limited's real estate assets are sound with great future potential and comprise three holdings:

1. Acreage on the Brisbane River at Anstead.

The Company has a 5% holding in a joint venture with Fox Riverside No 2 Pty Ltd.

This block was acquired as a long term investment for its development potential. Current zoning allows the block to be subdivided into 9 parcels. Property values in the area are high and these blocks would be sought after, especially the river front blocks, however the potential upside would be at its highest if additional approval could be gained for subdivision into residential sized lots.

Considerable development has taken place in the area putting pressure on council to bring forward possible rezoning of the block. Even though PF2 only has a small holding in the Joint Venture the potential upside is strong in the medium to long term. The value of this land has increased during the year.

2. Joint Venture with Fox Riverside

The Company has an entitlement to 31.17% in Fox Riverside Pty Ltd a joint venture which owns land with a development approval to construct two prestige homes on the Brisbane River.

The joint venture has decided a better strategic approach is to sell the properties with the development approval in place. In line with the conservative view of valuers at the moment the valuation of the property obtained by Fox Riverside Pty Ltd this year was lower than we expected and accordingly the carrying value of the investment has been written down by \$91,301. The joint venture reported a profit of \$158,700 for the year following the sale of other property. So in aggregate PF2 is in front through this investment this year.

This is a very unique block of land that rarely comes up for sale in one of Brisbane's acknowledged most prestigious streets. It was purchased well during a brief lull in market

This is a very unique block of land that rarely comes up for sale in one of Brisbane's acknowledged most prestigious streets. It was purchased well during a brief lull in market activity. Considerable improvement to infrastructure and development has taken place in the area which has sparked renewed interest.

3. Residential property in Toowoomba.

The Company has a 50% interest in 8 contiguous properties comprising houses and flats in the central area of Toowoomba.

These properties are strategically positioned on the main thoroughfare through the city in a good location approximately 5kms from the city centre. They have extraordinary future upside and have the potential for multiple rezoning possibilities. While these possibilities are unlikely to be realised for a couple of years there is considerable potential upside in holding these properties for that time.

The properties were valued by two independent valuers in June 2008. There was a substantial difference between the two valuations but both showed an increase in the value of the properties. The average of the two valuations resulted in an increase in the value of the properties by \$326,130, the Company's share being \$163,065.

The next milestone for the Company will be the receipt of its proceeds from the sale of the joint venture property at Tennyson. This will provide substantial cash at which time the Board will consider further investment opportunities.

We believe that there are potential bargains to be had in the market that have good long term potential.

I really believe that the assets of the company are of a very high quality and, especially with the substantial reductions in costs the company is in a very strong position.

With the assets we are holding it is now a waiting game until such time as they can be taken to their highest and best use. The potential upside at this time is considerable and although it may be a little while until that is possible we believe it will be well worth the wait.

Thank you for your ongoing support throughout the year.

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 2008.

Directors

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

- Peter John Spann (Appointed 20 Feb 2004)
- Howard Woolcott (Appointed 30 Nov 2006)
- Jodie Stainton (Appointed 30 Nov 2006)

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 of, 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 2008 after providing for income tax amounted to \$(31,123) (2007:\$248,889 loss). 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 2008.

Review of Operations

A review of the Company's activities is detailed in the Managing Director's Review attached to this report.

Financial Position

The net assets of the Company as at 30 June 2008 are \$2,035,512 (2007:\$1,903,570).

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the Company during the year other than as described elsewhere in this directors' report.

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, with the exception that the remaining property held by the joint venture in Fox Riverside Pty Ltd is being marketed for sale in September 2008.

Directors' report continued

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 and Company Secretary

Peter John Spann - Executive Chairman and Managing Director

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 is currently a director of the following listed public companies:

- Property Fox No.1 Ltd (listed on the NSX)
- Fox Invest Ltd (listed on the ASX)

Howard Woolcott - Executive Director

Howard has an economics degree from The University of Sydney with majors in revenue law and accounting and is also a CPA.

His was a founder and past director of listed public company Tribeca Learning Limited, an RTO specialising in education services for the financial planning industry.

Howard is currently a director of the following listed public companies:

- Property Fox No.1 Ltd (listed on the NSX)
- Fox Invest Ltd (listed on the ASX)

Within the last three years, Howard was a director of the following listed public companies:

- Tribeca Learning Ltd

Jodie Stainton - Executive Director

Jodie Stainton began her property career as a Cadet Valuer while studying Property Economics at the Queensland University of Technology. She has worked in all facets of property including Residential and Commercial Sales and Property Management, specialising in prestige Real Estate.

Jodie joined the Freeman Fox group in 2004 to implement and develop the Property Management Division and is now the General Manager – Property Management for Bees Nees Inner City Realty, which is a boutique real estate agency specialising in Brisbane inner city properties. Jodie is a registered Real Estate Salesperson.

Directors' report continued

Andrew Whitten – Company Secretary

Andrew Whitten is an admitted solicitor with a specialty in Corporate Finance and Securities Law. Andrew is currently the company secretary of a number of publicly listed companies. He is a responsible officer of a Nominated Adviser, and has been involved in a number of corporate and investment transactions including IPO's on ASX and NSX, corporate reconstructions and reverse mergers. Mr Whitten's firm is currently Nominated Adviser to 7 companies, 5 of which are currently listed on NSX and 2 more which will be listed shortly. Mr Whitten holds the following professional qualifications Bachelor of Arts (Economics UNSW), Master of Laws and Legal Practice (Corporate Finance and Securities Law-UTS). Mr Whitten also holds a Graduate Diploma in Advanced Corporate Governance from the Institute of Chartered Secretaries.

Shareholdings held by Directors

| Directors | Balance 30/6/08 | Received as Remuneration | Options Exercised | Net Change Other (a) | Balance 30.6.08 |
|-----------------|--------------------|-----------------------------|----------------------|-------------------------|--------------------|
| Peter Spann * | 110,000 | - | - | - | 110,000 |
| Howard Woolcott | - | - | - | - | - |
| Jodie Stainton | - | - | - | - | - |
| Total | 110,000 | - | - | - | 110,000 |

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

Options held by Directors

| Directors | Balance as at 30.6.07 | Options Exercised | Net Change Other | Balance 30.6.08 | Total Vested 30.6.08 |
|-----------------|--------------------------|----------------------|------------------------|--------------------|----------------------------|
| Peter Spann | 300,000 | - | - | 300,000 | 300,000 |
| Howard Woolcott | - | - | - | - | - |
| Jodie Stainton | - | - | - | - | - |
| Total | 300,000 | - | - | 300,000 | - |

Remuneration Report (Audited)

This report details the nature and amount of remuneration for each key management person of Property Fox No.2 Limited.

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.

Principles of remuneration

The board policy is to remunerate non-executive directors at market rates for time, commitment, experience and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market price, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Directors Remuneration

Mr Spann, the Managing Director, does not receive a director's fee. Ms Stainton and Mr Woolcott receive monthly director fees as disclosed below pursuant to letters of appointment issued by the company. The remuneration is a fixed fee and is not based on the performance of the company.

Directors' report continued

Remuneration Report Continued (Audited)

All remuneration paid to directors and executives is valued at the cost to the Company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

Directors' (Key Management Personnel) remuneration

| 2008 Total Compensation | Directors' Fees \$ | Superannuation \$ | Options \$ | Total \$ |
|-------------------------|-----------------------|----------------------|---------------|-------------|
| Peter John Spann | - | - | - | - |
| Howard Woolcott | 13,200 | - | - | 13,200 |
| Jodie Stainton | 12,000 | - | - | 12,000 |
| | 25,200 | - | - | 25,200 |

| 2007 Total Compensation | Directors' Fees \$ | Superannuation \$ | Options \$ | Total \$ |
|-------------------------|-----------------------|----------------------|---------------|-------------|
| Peter John Spann | - | - | 203 | 203 |
| Howard Woolcott | 7,700 | - | - | 7,700 |
| Jodie Stainton | 7,000 | - | - | 7,000 |
| | 14,700 | - | 203 | 14,903 |

Other than related party transactions detailed in note 20 of the financial statements the directors are not entitled and do not receive superannuation contributions, cash bonus, non cash benefits or any other benefits besides those noted above.

Options granted as remuneration

Options are issued to directors as part of their remuneration. The options are not issued based on performance criteria, but are issued to increase goal congruence between, directors and shareholders.

The following share-based payment arrangements existed at 30 June 2008:

Options granted as remuneration

| | Vested No. | Granted No. | Grant Date | Exercise price \$ | First Exercise Date | Last Exercise Date |
|-------------|------------|-------------|---------------|----------------------|---------------------|--------------------|
| Peter Spann | 100,000 | 100,000 | 11 March 2005 | 1.05 | 01/01/2006 | 31/12/2008 |
| | 100,000 | 100,000 | 11 March 2005 | 1.10 | 01/01/2007 | 31/12/2008 |
| | 100,000 | 100,000 | 11 March 2005 | 1.15 | 01/01/2008 | 31/12/2008 |
| Total | 300,000 | 300,000 | | | | |

Meetings of Directors

During the period, 6 meetings of directors were held. Attendances by each director during the period were:

| | Eligible to attend | Attended |
|------------------|--------------------|----------|
| Peter John Spann | 6 | 6 |
| Howard Woolcott | 6 | 6 |
| Jodie Stainton | 6 | 6 |

The directors have formed an audit and risk committee. The committee met twice during the year.

Directors' report continued

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. The content of the insurance policy prohibits disclosure of the nature of the liability and the amount of the premium.

Options

At the date of this report, the unissued ordinary shares of Property Fox No.2 Limited under option are as follows

| | Vested No. | Granted No. | Grant Date | Exercise price \$ | First Exercise Date | Last Exercise Date |
|-------------|------------|-------------|---------------|----------------------|---------------------------|-----------------------|
| Peter Spann | 100,000 | 100,000 | 11 March 2005 | 1.05 | 01/01/2006 | 31/12/2008 |
| | 100,000 | 100,000 | 11 March 2005 | 1.10 | 01/01/2007 | 31/12/2008 |
| | 100,000 | 100,000 | 11 March 2005 | 1.15 | 01/01/2008 | 31/12/2008 |
| Total | 300,000 | 300,000 | | | | |

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.

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.

Non-audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2008:

| | |
|-------------------|----------|
| Taxation Services | \$1,158. |
|-------------------|----------|

Directors' report continued

Auditors' Independence Declaration

A copy of the independence declaration provided by the Company auditors in relation to the audit of the 30 June 2008 financial report is presented on page 9 and forms part of this Directors' Report.

Signed 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 12 September 2008

**AUDITOR'S INDEPENDENCE
DECLARATION****TO THE DIRECTORS OF
PROPERTY FOX NO 2 LIMITED**

Grant Thornton Queensland Partnership
ABN 13 131 589 059

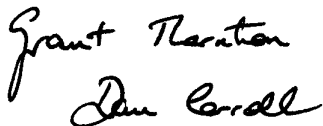
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In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Property Fox No 2 Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been:

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

GRANT THORNTON



Daniel J Carroll
Partner

Brisbane
Dated: 12 September 2008

Income statement

For the year ended 30 June 2008

| | Note | 2008 \$ | 2007 \$ |
|--|--------|------------|------------|
| Revenue from ordinary activities | 2 | 67,691 | 71,313 |
| Management fees | 20 (i) | (12,000) | (87,114) |
| Audit fees | 6 | (54,869) | (29,267) |
| Directors fees | | (25,200) | (25,678) |
| Finance costs | | (55,918) | (47,044) |
| NSX listing costs | | (6,675) | (29,563) |
| Property costs | | (35,840) | (30,311) |
| Other expenses from ordinary activities | | (67,012) | (38,345) |
| Share of net profit/(loss) of associates accounted for using the equity method | 10 | 158,700 | (32,880) |
| Profit / (loss) from ordinary activities before income tax expense | | (31,123) | (248,889) |
| Income tax (expense) / benefit relating to ordinary activities | 5 | - | - |
| Net profit / (loss) from ordinary activities after income tax | | (31,123) | (248,889) |
| Overall Operations: | | | |
| Basic earnings per share (cents per share) | 17 | (1.0) | (8.5) |
| Diluted earnings per share (cents per share) | | (1.0) | (7.7) |

Balance sheet

As at 30 June 2008

| | Note | 2008 \$ | 2007 \$ |
|---|------|------------------|------------------|
| Current assets | | | |
| Cash and cash equivalents | 7 | 97,983 | 81,914 |
| Trade and other receivables | 8 | - | 682 |
| Other current assets | 9 | 8,602 | 26,279 |
| Total current assets | | 106,585 | 108,875 |
| Non current assets | | | |
| Investments accounted for using the equity method | 10 | 1,299,522 | 1,390,823 |
| Property | 13 | 1,498,391 | 1,335,233 |
| Total non current assets | | 2,797,913 | 2,726,056 |
| Total assets | | 2,904,498 | 2,834,931 |
| Current liabilities | | | |
| Trade and other payables | 14 | 34,898 | 97,273 |
| Short term borrowings | 15 | 834,088 | 834,088 |
| Total current liabilities | | 868,986 | 931,361 |
| Total liabilities | | 868,986 | 931,361 |
| Net assets | | 2,035,512 | 1,903,570 |
| Equity | | | |
| Contributed equity | 16 | 2,642,220 | 2,642,220 |
| Reserves | | 180,555 | 17,490 |
| Retained profits/(accumulated losses) | | (787,263) | (756,140) |
| Total equity | | 2,035,512 | 1,903,570 |

Cash flow statement

For the period ended 30 June 2008

| | Note | 2008 \$ | 2007 \$ |
|--|------|------------|------------|
| Cash flow from operating activities | | | |
| (Payments) / capital returns for real property related investments | | 250,000 | (95,639) |
| Investment income | | 67,691 | 71,313 |
| Payments to suppliers, directors and director related entities | | (230,399) | (203,708) |
| Payments for borrowing costs | | (55,918) | (48,248) |
| Tax paid | | - | - |
| Net cash provided by / (used in) operating activities | 18 | 31,374 | (276,282) |
| Cash flow from financing activities | | | |
| Proceeds from the issue of shares | | - | 10,000 |
| Payment of costs relating to share issue | | - | (32,162) |
| (Payments to) / received from related entities | | (15,305) | 96,877 |
| Net cash provided by financing activities | | (15,305) | 74,715 |
| Net increase in cash held | | 16,069 | (201,567) |
| Cash at the beginning of the financial period | | 81,914 | 283,481 |
| Cash at the end of the financial period | 7 | 97,983 | 81,914 |

Statement of changes in equity

For the year ended 30 June 2008

| | Share Capital | | Retained Profits /(Accumulated Losses) | Options Reserve (a) | Asset Revaluation Reserve (b) | Total |
|--|---------------|----------|---|------------------------|----------------------------------|-----------|
| | A class | Ordinary | | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at 01 July 2006 | 2,664,282 | 100 | (507,251) | 17,287 | | 2,174,418 |
| Shares issued during the year | 10,000 | - | - | - | - | 10,000 |
| Equity raising costs relating to the prior year raising | (32,162) | - | - | - | - | (32,162) |
| Share based payments for directors | - | - | - | 203 | | 203 |
| Conversion to A class shares | 100 | (100) | - | - | - | - |
| Profit /(loss) attributable to members of parent entity | - | - | (248,889) | - | - | (248,889) |
| Sub total | 2,642,220 | - | (756,140) | 17,490 | - | 1,903,570 |
| Dividends paid or provided for | - | - | - | - | - | - |
| Balance at 30 June 2007 | 2,642,220 | - | (756,140) | 17,490 | - | 1,903,570 |
| Increase in revaluation reserve | - | - | - | - | 163,065 | 163,065 |
| Profit / (loss) attributable to members of parent entity | - | - | (31,123) | - | - | (31,123) |
| Sub total | 2,642,220 | - | (787,263) | 17,490 | 163,065 | 2,035,512 |
| Dividends paid or provided for | - | - | - | - | - | - |
| Balance at 30 June 2008 | 2,642,220 | - | (787,263) | 17,490 | 163,065 | 2,035,512 |

(a) Options Reserve

The options reserve records items recognised as expenses on valuation of the directors' share options.

(b) Asset Revaluation Reserve

The properties which the Company owns in Toowoomba were revalued by two valuers in June 2008 and the average of the two valuations was used to increase the value by \$326,130. The Company's 50% share of the property has therefore increased by \$163,065.

Notes to the financial statements

For the period ended 30 June 2008

1 Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. Property Fox No 2 Limited is a NSX listed public company incorporated and domiciled in Australia.

The financial report of Property Fox No 2 Limited complies with all International Financial Reporting Standards (IFRS) 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.

The financial statements have been authorised for issue by the Directors on 12th September 2008.

Basis of preparation

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial 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 on an accruals basis 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 income statement.

b. Property

Property is initially carried at cost and subsequently at fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers.

c. Cash

For the purposes of the cash flow statement, 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. Payables

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

1 Statement of significant accounting policies continued**e. 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 period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

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

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

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. Details of the economic entity's interests are shown in Note 11.

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.

1 Statement of significant accounting policies continued

k. New accounting standards and Australian Accounting Interpretations

- Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company to adopt in future accounting periods. A table of the relevant standards is set out below.

| AASB Amendment | Standards Affected | Outline of Amendment | Application date of Standard | Application date for the Company |
|---|---|--|------------------------------|----------------------------------|
| AASB 2007–3 Amendments to Australian Accounting Standards | AASB 5 Non-current Assets Held for Sale and Discontinued Operations | The disclosure requirements of AASB 114: Segment Reporting has been replaced due to the issuing of AASB 8: Segment Reporting in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the financial report, as the entity does not fall within the scope of AASB 8.65 | 1.1.2009 | 1.7.2009 |
| | AASB 6 Exploration for and Evaluation of Mineral | | | |
| | AASB 102 Inventories | | | |
| | AASB 107 Cash Flow Statements | | | |
| | AASB 119 Employee Benefits | | | |
| | AASB 127 Consolidated and Separate Financial Statements | | | |
| | AASB 134 Interim Financial Reporting | | | |
| | AASB 136 Impairment of Assets | | | |
| | AASB 1023 General Insurance Contracts | | | |
| AASB 8 Operating Segments | AASB 1038 Life Insurance Contracts | As above. | 1.1.2009 | 1.7.2009 |
| | AASB 114 Segment Reporting | | | |
| AASB 2007–6 Amendments to Australian Accounting Standards | AASB 1 First time adoption of AIFRS | The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as they already capitalise borrowing costs related to qualifying assets. | 1.1.2009 | 1.7.2009 |
| | AASB 107 Cash Flow Statements | | | |
| | AASB 111 Construction Contracts | | | |
| | AASB 116 Property, Plant and Equipment | | | |
| | AASB 138 Intangible Assets | | | |
| AASB 123 Borrowing Costs | AASB 123 Borrowing Costs | As above | 1.1.2009 | 1.7.2009 |
| AASB 2007–8 Amendments to Australian Accounting Standards | AASB 101 Presentation of Financial Statements | The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity. | 1.1.2009 | 1.7.2009 |
| AASB 101 | AASB 101 Presentation of Financial Statements | As above | 1.1.2009 | 1.7.2009 |

2 Profit / (loss) from ordinary activities

| | 2008 \$ | 2007 \$ |
|---|------------|------------|
| Operating revenue: | | |
| Rental income | 64,036 | 63,007 |
| Interest received from cash held in bank accounts | 3,655 | 8,306 |
| Total revenues from ordinary activities | 67,691 | 71,313 |

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

| | Note | 2008 \$ | 2007 \$ |
|--|------|------------|------------|
| a. The components of tax expense comprise: | | | |
| Current tax | | - | - |
| Deferred tax | 12 | - | - |
| | | - | - |

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% | (9,337) | (74,667) |
| Add: | | |
| Share of loss / (profit) of associate | (47,610) | 9,864 |
| Fines and penalties | - | 20 |
| Listing expenses | 2,003 | 8,869 |
| Directors option expense | - | 61 |
| Less: | | |
| Deductible capital raising costs | (21,670) | (21,270) |
| Borrowing costs | (695) | (533) |
| Future income tax benefit on tax loss not brought to account | 77,309 | 77,656 |
| Income tax expense/(refund) attributable to profit from ordinary activities before income tax | - | - |
| The applicable weighted average effective tax rates are as follows: | - | - |

6 Auditor's Remuneration

Remuneration of the auditor for :

- Audit or reviewing the financial reports
- Preparation of taxation return

| Note | 2008 \$ | 2007 \$ |
|------|---------------|---------------|
| 6a | 54,869 | 29,267 |
| | 1,158 | 1,465 |
| | <u>56,027</u> | <u>30,732</u> |

(a) The audit expenses in 2008 includes an accrual at 30 June 2008 and payments relating to the prior year. The total contacted amounts for the 2008 audit and half year review was \$30,800.

7 Cash & Cash Equivalents

Cash at bank

26,528

67,868

Term deposits

71,455

14,046

97,98381,914**8 Trade & Other Receivables**

Receivable from Property Fox No 1 Limited

-

682

-682

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.

9 Other Current Assets

Prepayments

9,286

15,894

Accrued rental revenue

(684)

10,385

8,60226,279

10 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 08 | 49* | 1,299,522 |

*The Company owns 49% of the issued capital but the shares are partly paid resulting in the Company being entitled to 31.17% of the net asset value.

| a. Movements during the period in equity accounted investment in Associated Companies | | 2008 | 2007 |
|--|---|-------------|-------------|
| | | \$ | \$ |
| | Balance at beginning of period | 1,390,823 | 1,331,064 |
| Add: | New investments /(capital returns) during the period | (250,000) | 92,630 |
| | Share of associated Company's profit (loss) from ordinary activities after income tax | 158,700 | (32,880) |
| | Balance at end of period | 1,299,522 | 1,390,823 |
| b. Accumulated losses attributable to associate: | | | |
| | Share of associate's profit (loss) from ordinary activities before income tax expense | 158,700 | (32,880) |
| | Share of associate's income tax expense | - | - |
| | Share of associate's profit (loss) from ordinary activities after income tax expense | 158,700 | (32,880) |
| | Share of accumulated losses at beginning of the period | (169,808) | (136,928) |
| | Share of accumulated losses at end of the period | (11,108) | (169,808) |
| c. Summarised presentation of aggregate assets, liabilities and performance of associate: | | | |
| | Current assets | 4,169,143 | 3,443 |
| | Non-current assets | - | 4,949,259 |
| | Total assets | 4,169,143 | 4,952,702 |
| | Current liabilities | - | - |
| | Non-current liabilities | - | - |
| | Total liabilities | - | - |
| | Net assets | 4,169,143 | 4,952,702 |
| | Net profit /(loss) from ordinary activities after income tax of associate | 509,144 | (67,101) |

11 Joint Venture

| | Note | 2008 \$ | 2007 \$ |
|--|------|------------------|------------------|
| 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 | 13 | 1,328,250 | 1,165,184 |
| Total share of assets employed | | <u>1,328,250</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 | 13 | 170,141 | 170,049 |
| Total share of assets employed | | <u>170,141</u> | <u>170,049</u> |

12 Tax

a. Assets

NON CURRENT

Deferred tax asset comprises :

| | | |
|--------------------------|----------|----------|
| Other | - | - |
| Carried forward tax loss | - | - |
| | <u>-</u> | <u>-</u> |

b. Liabilities

CURRENT

| | | |
|------------|---|---|
| Income Tax | - | - |
|------------|---|---|

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

| | | |
|------------------------|----------------|----------------|
| Temporary differences | 28,983 | 51,349 |
| Tax losses (operating) | 279,591 | 202,282 |
| | <u>308,574</u> | <u>253,631</u> |

13 Property

| | Note | 2008 \$ | 2007 \$ |
|--|------|------------|------------|
| - Real property held in a joint venture operation at cost | | 1,498,391 | 1,335,233 |
| 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 | | 1,335,233 | 1,322,939 |
| Revaluation Toowoomba properties | | 163,066 | - |
| Contribution in Anstead property | | 9,743 | 12,294 |
| Shares of costs in Anstead property | | (9,651) | - |
| Carrying amount at the end of period | | 1,498,391 | 1,335,233 |

Each of the properties in which the Company has an ownership interest were valued by independent valuers in June 2008.

14 Trade & Other Payables

| | | | |
|--|-------|--------|--------|
| Trade creditors | | 34,884 | 42,441 |
| Other creditors | | 14 | 14 |
| Payable to Property Fox No 1 Limited | 14(a) | - | 48,557 |
| Payable to Fox Riverside No 2 Unit Trust | 14(a) | - | 6,261 |
| | | 34,898 | 97,273 |

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

15 Short Term Borrowings

| | | | |
|----------------------------|------|---------|---------|
| Secured Liability | | | |
| - Commercial bill facility | 15a. | 743,750 | 743,750 |
| - Commercial bill facility | 15b. | 90,338 | 90,338 |
| | | 834,088 | 834,088 |

This facility for \$743,750 expires on the 28 February 2009 and the facility for \$90,338 expires in February 2011. 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 19.

The carrying amount of non current assets pledged as security:

| | | | |
|--|------|-----------|-----------|
| - First registered mortgage - Toowoomba properties | 15a. | 1,328,250 | 1,165,184 |
| - First registered mortgage - Anstead properties | 15b. | 170,141 | 170,049 |
| Total assets pledged as security | | 1,498,391 | 1,335,233 |

15a. The first registered mortgage provided to National Australia Bank is in respect of the Toowoomba properties only.

15b. The first registered mortgage provided to National Australia Bank is in respect of the Anstead properties only.

16 Contributed Equity

| | Note | 2008 \$ | 2007 \$ |
|--|------|------------------|------------------|
| 3,017,999 (2007: 3,017,999) fully paid A class shares | | 2,918,099 | 2,918,099 |
| Capital raising costs | | (275,879) | (275,879) |
| | | <u>2,642,220</u> | <u>2,642,220</u> |
| a. Movement of shares | | | |
| At beginning of the reporting period | | 3,017,999 | 2,907,999 |
| Shares issued during the year | | | |
| - 10,000 fully paid A class shares | | - | 10,000 |
| - 100,000 fully paid A class shares converted from 100 ordinary shares | | - | 100,000 |
| | | <u>3,017,999</u> | <u>3,017,999</u> |

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

"A" Class shares participate in 100% 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 the Directors' report.

c. Capital raising costs

The capital raising cost includes costs associated with issuing the prospectus and a dealer fee.

17 Earnings per Share

| | | |
|--|------------------|------------------|
| Earnings used in the calculation of earning per share and dilutive earnings per share is the net profit after tax. | (31,123) | (248,889) |
| Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS | 3,017,999 | 2,918,999 |
| Weighted average number of options outstanding | <u>300,000</u> | <u>300,000</u> |
| Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS | <u>3,317,999</u> | <u>3,218,999</u> |

18 Cash Flow Information

| | 2008 \$ | 2007 \$ |
|---|---------------|------------------|
| Reconciliation of Cash Flow from Operations with Profit from ordinary activities after Income Tax | | |
| Profit/(loss) from ordinary activities after income tax | (31,123) | (248,889) |
| Non cash director option expense | - | 203 |
| non cash movements in related party loan accounts | - | (96,878) |
| Changes in assets and liabilities: | | |
| (Increase)/decrease in receivables | 682 | 165,970 |
| (Increase)/decrease in investments | 91,300 | (59,758) |
| (Increase)/decrease in other assets | 17,677 | (12,294) |
| (Increase)/decrease in future income tax benefit | - | - |
| Increase/(decrease) in tax liabilities | - | - |
| Increase/(decrease) in payables | (47,162) | (24,636) |
| Cash flows from operations | <u>31,374</u> | <u>(276,282)</u> |

19 Financial Instruments

The company is exposed to a variety of financial risks including market risk (price risk and interest rate risk), credit risk and liquidity risk. The Board of the Company monitors these risk factors as part of regular reviews of financial performance and the portfolio.

a. Credit Risk

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 impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. None of these assets are overdue or considered to be impaired. At the reporting date, there were no material concentrations of credit risk.

The Company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date as summarised below:

| | 2008 | 2007 |
|---|---------------|---------------|
| Classes of financial assets – carrying amounts | | |
| Cash and cash equivalents | 97,983 | 81,914 |
| Trade and other receivables | - | 682 |
| | <u>97,983</u> | <u>82,596</u> |

b. Market risk

Market price risk is the risk that the value of the Company's property portfolio will fluctuate as a result of changes in market values. The Company aims to manage its risk in line with the investment mandate.

19 Financial Instruments continued**c. 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:

| 30 June 2007 | Weighted Average Interest Rate | Floating Interest Rate \$ | Non Interest Bearing \$ | Total \$ |
|--------------------------------------|--------------------------------------|---------------------------------|-------------------------------|----------------|
| Financial assets | | | | |
| Cash at bank | 4.4% | 67,868 | - | 67,868 |
| Term Deposit 1 | 3.25% | 14,046 | - | 14,046 |
| | | <u>81,914</u> | <u>-</u> | <u>81,914</u> |
| Financial liabilities | | | | |
| Commercial bill facility - Toowoomba | 6.64 % | 743,750 | - | 743,750 |
| Commercial bill facility – Anstead | 6.00% | 90,338 | - | 90,338 |
| Related party payables | - % | 54,818 | - | 54,818 |
| | | <u>888,906</u> | <u>-</u> | <u>888,906</u> |
| 30 June 2008 | Weighted Average Interest Rate | Floating Interest Rate \$ | Non Interest Bearing \$ | Total \$ |
| Financial assets | | | | |
| Cash at bank | 0.0% | 26,528 | - | 26,528 |
| Term Deposit 1 | 7.10% | 71,455 | - | 71,455 |
| | | <u>97,983</u> | <u>-</u> | <u>97,983</u> |
| Financial liabilities | | | | |
| Commercial bill facility - Toowoomba | 8.14 % | 743,750 | - | 743,750 |
| Commercial bill facility – Anstead | 6.00% | 90,338 | - | 90,338 |
| Related party payables | - % | - | - | - |
| | | <u>834,088</u> | <u>-</u> | <u>834,088</u> |

d. Fair value of property

Property is carried in the financial statements at fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers.

e. Capital Management Strategy

Management controls the capital of the group in order to maintain adequate working capital, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The Company's capital includes ordinary share capital, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the Company's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

20 Related Party Details

| | 2008 | 2007 |
|--|--------|--------|
| | \$ | \$ |
| <hr/> | | |
| Transactions between related parties are on normal commercial terms and conditions no more favourable than those otherwise available to other parties unless stated. | | |
| (i) Management Fee | | |
| Property Fox No 2 Limited paid an annual management fee to Fox Portfolio Pty Ltd, 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. Fox Portfolio Pty Ltd agreed to reduce its fee to \$12,000 per annum for the years ended June 08 and 09. | 12,000 | 87,114 |

21 Subsequent 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.

22 Company details

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

Level 21

Freeman Fox House

333 Ann Street

BRISBANE QLD 4000

Phone: 07 3031 9920

Directors' declaration

The directors of the Company declare that:

1. The financial statements and notes, as set out in pages 9 to 25, 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 2008 and of the performance for the year ended on that date of the Company.
2. The Chief Executive Officer has declared that:
 - a. The financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b. The financial statements and notes for the financial year comply with the Accounting Standards;
 - c. The financial statements and notes for the financial year give a true and fair view;
3. 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:



Peter John Spann - Director
Dated this 12 September 2008

INDEPENDENT AUDITOR'S REPORT**TO THE MEMBERS OF
PROPERTY FOX NO 2 LIMITED
ACN 108 076 295**

Grant Thornton Queensland Partnership
ABN 13 131 589 059

Ground Floor
102 Adelaide Street
Brisbane
Queensland 4000
GPO Box 1008
Brisbane
Queensland
4001

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F + 61 7 3222 0444
E info@gtqld.com.au
W www.grantthornton.com.au

Report on the financial report

We have audited the accompanying financial report of Property Fox No 2 Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other selected explanatory notes.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives ("Remuneration disclosures"), required by Accounting Standards AASB 124: Related Party Disclosures, under the heading "Remuneration report" on pages 4 to 5 of the Directors' report and not in the financial report. We have audited these remuneration disclosures.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the 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. In Note 1 the Directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards, which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we complied with applicable independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

- a the financial report of Property Fox No. 2 Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the Company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

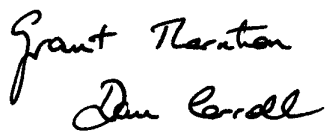
Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Property Fox No. 2 Limited for the year ended 30 June 2008, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON



Daniel J Carroll
Partner

Brisbane
12 September 2008

Corporate Governance Statement

In August 2002 the Australian Stock Exchange established a Corporate Governance Council (CGC) and in March 2003 the CGC put forward a number of best practice recommendations. The Company has adopted these recommendations, which have also been sanctioned by the NSX. Where the Company has not met the guidelines an explanation has been detailed.

The Directors of Property Fox No. 2 Limited strongly support the establishment and ongoing development of good corporate governance for the Company. The Company operates in accordance with the principles of good corporate governance as set out by the CGC and has adopted a series of corporate governance policies which seek to apply the principles to the extent relevant to the Company.

Below is a description of the Company's corporate governance practices which comply with the recommendations of the CGC unless otherwise stated.

Recommendation 1 – Lay solid foundations for management and oversight Role of the Board of Directors

The role of the Board is to build long term sustainable value for its shareholders, while respecting the interests of its stakeholders.

In order to fulfil this role, the Board is responsible for the overall corporate governance of the Company, including formulating its strategic direction, setting remuneration and monitoring the business objectives, and performance of Directors and Senior Executives. The Board relies on Senior Executives to assist it in approving and monitoring expenditure, ensuring the integrity of internal controls and management information systems and monitoring and approving financial and other reporting.

The Board has adopted a Charter which formalises its practices, and can be viewed on the website of Property Fox No. 2 Limited.

To assist in the execution of its responsibilities, the Board has established a number of Board Committees – further details are set out below.

Recommendation 2 – Structure the Board to add value Board Composition

The membership of the Board, its activities and composition are subject to periodic review. Directors are initially appointed by the Board and may be subject to re-election by shareholders at the next general meeting.

The Board is presently comprised of three members, all being executive directors. The NSX recommendation is for the majority of directors to be independent. This is not the case for Property Fox No. 2 Limited as each of the directors performs a role in the operation of the Company and it is not deemed financially beneficial to shareholders to employ other directors in a non-executive capacity.

Corporate Governance Statement continued

Recommendation 3 – Promote ethical and responsible decision making

The Board actively promotes ethical and responsible decision making.

Code of Conduct

The Board has adopted a Code of Conduct that applies to all Directors, management and employees of the Company as well as the Company's key service providers such as the Administration Manager. This Code addresses expectations for conduct in the following areas:

- ☐ security trading;
- ☐ communications;
- ☐ conflicts of interest;
- ☐ responsibility to suppliers and customers;
- ☐ laws and regulations;
- ☐ employment; and
- ☐ adherence to policies and procedures.

Share Trading Policy

Directors, management and key service providers must ensure that any trading in shares in the Company is undertaken within the framework set out in the Company's Share Trading Policy.

Recommendation 4 – Safeguard integrity in financial reporting

Audit, Risk and Compliance Committee

The Board has established an Audit, Risk and Compliance Committee, which provides assistance to the Board in fulfilling its corporate governance responsibilities in relation to the Company's financial reporting, internal controls structure, risk management systems and external audit functions. The Board has adopted a formal Charter for the Committee to assist in carrying out its duties. The members of the Audit, Risk and Compliance Committee are: Mr. Howard Woolcott – (Executive Director); Ms. Jodie Stainton – (Executive Director).

Financial Reporting

The Board relies on management to monitor the internal controls within the Company. Financial performance is monitored on a regular basis by management who report to the Board via the Managing Director, or at Board and Audit, Risk and Compliance Committee meetings.

Recommendation 5 – Make timely and balanced disclosure

The Board is committed to the promotion of investor confidence by providing full and timely information to all shareholders and market participants about the Company's activities and to comply with the continuous disclosure requirements contained in the Corporations Act 2001 and the NSX Listing Rules. The Company has policies to ensure that it meets its continuous disclosure obligations.

Recommendation 6 – Respect the rights of shareholders

The Board fully supports shareholder participation at general meetings and works to ensure that communications with shareholders are effective and clear. Information is communicated to shareholders via the Annual Report, disclosures and announcements made to the NSX, Notices and Explanatory Memorandum for the AGM, the AGM itself, occasional letters from the Chairman or the Managing Director, and the Property Fox No. 2 Limited website at www.propertyfoxno2.com.au.

Corporate Governance Statement continued

Recommendation 7 – Recognise and manage risk

Risk Management

The Board and management regularly review procedures in respect of compliance with, and the maintenance of, statutory, legal, ethical and environmental obligations.

Compliance

The Company has access to the Administration Manager's Compliance Manager, who is responsible for reporting to the Board on compliance issues, and recommending ways in which the Company may improve its systems and compliance monitoring.

Recommendation 8 – Encourage enhanced performance

Performance Review

The Board undertakes an annual review of the performance of management and Directors.

Education

All Directors and Senior Executives are encouraged to attend professional education courses relevant to their roles. Directors are given access to continuing professional education courses and development programs as requested and in consultation with the Chairman.

Independent Professional Advice and Access to Information

Each Director has the right to access all relevant information in respect of the Company and to make appropriate enquiries of senior management. Subject to prior consultation with the Chairman, Directors may seek independent professional advice from a suitably qualified advisor.

Recommendation 9 – Remunerate fairly and responsibly

The Executive Directors receive fees agreed on an annual basis by the Board and are remunerated from a maximum amount set by shareholders.

Remuneration Committee

As the Company is managed by its three executive directors it has not employed staff and therefore, it has not formed a remuneration committee. The Company has no employed staff as its routine administration is carried out under a service agreement with Fox Portfolio Pty Limited.

Recommendation 10 – Recognise the legitimate interests of stakeholders

The Board acknowledges the rights of stakeholders and has adopted a Code of Conduct (refer Principle 3) in line with the recommendations of this Recommendation 10.

All Property Fox No. 2 Limited Directors, officers, employees and contractors are encouraged to report any instance of unlawful, unethical or unfair or dishonest conduct involving a Property Fox No. 2 Limited officer, employee or contractor. Property Fox No. 2 Limited will protect employees who make such disclosures from reprisal or detrimental action following the disclosure.

Shareholder Information

For the period ended 30 June 2008

Share Capital

Property Fox No. 2 Limited has on issue 3,017,999 fully paid ordinary shares held by 187 holders as at 29 August 2008. All ordinary shares of the Company carry one vote per share.

Twenty Largest Shareholders

| Rank | Investor Name | Total Shares | % of Issued Capital |
|------|---|----------------|---------------------|
| 1 | Property Fox No. 1 Limited | 103,499 | 3.43% |
| 2 | Fox Portfolio Pty Ltd | 100,000 | 3.31% |
| 3 | Mr Trevor John O'Shea + Mrs Joanne Elsie O'Shea | 50,000 | 1.66% |
| 4 | Mr Ramon Charles William | 50,000 | 1.66% |
| 5 | Francis Stuart Albrecht + Ann Violet Albrecht | 40,000 | 1.33% |
| 6 | L & J Martin Pty Ltd | 40,000 | 1.33% |
| 7 | Judith Anne Martin | 40,000 | 1.33% |
| 8 | Peter Richards | 40,000 | 1.33% |
| 9 | Strategic Team Leadership Pty Ltd | 40,000 | 1.33% |
| 10 | Bekl Investments Pty Ltd | 35,000 | 1.16% |
| 11 | Foray Corporation Pty Ltd | 35,000 | 1.16% |
| 12 | Totlol Pty Ltd | 35,000 | 1.16% |
| 13 | Ann Albrecht | 30,000 | 0.99% |
| 14 | Better Fencing Products Pty Ltd | 30,000 | 0.99% |
| 15 | Karberg Nominees Pty Ltd | 30,000 | 0.99% |
| 16 | Rosemont (Caulfield) Pty Ltd | 30,000 | 0.99% |
| 17 | Peter Schaap + Pauline Shaap | 30,000 | 0.99% |
| 18 | Sinvest Pty Ltd | 30,000 | 0.99% |
| 19 | Rodney David Wilson + Bronwen Joan Wilson | 30,000 | 0.99% |
| 20 | Jerd Holdings Pty Ltd | 25,000 | 0.83% |
| | Total | 843,499 | 27.95% |

Distribution of Equity Securities

Analysis of number of shareholders by size of holding

| Range | No. of holders | Shares | % of Issued Capital |
|------------------|----------------|------------------|---------------------|
| 1 – 1,000 | 0 | 0 | 0.00% |
| 1,001 – 5,000 | 1 | 5,000 | 0.17% |
| 5,001 – 10,000 | 107 | 1,070,000 | 35.45% |
| 10,001 – 100,000 | 78 | 1,839,500 | 60.95% |
| 100,001 and over | 1 | 103,499 | 3.43% |
| Total | 187 | 3,017,999 | 100.00% |

Corporate Directory

| | |
|---|--|
| Directors | P Spann H Woolcott J Stainton |
| Company Secretary | A Whitten |
| Principal registered office in Australia | Level 21, Freeman Fox House 333 Ann Street Brisbane QLD 4000 (07) 3031 9920 |
| Share registry | Link Market Services Level 12, 680 George Street, Sydney NSW 2000 |
| Auditor | Grant Thornton Level 4, Grant Thornton House 102 Adelaide Street, Brisbane QLD 4000 |
| Solicitors | Whittens Lawyers and Consultants Suite 9, Level 5, 137-139 Bathurst Street Sydney NSW 2000 |
| Bankers | National Australia Bank Limited 180 Queen Street Brisbane QLD 4000 |
| Website address | www.propertyfoxno2.com.au |