

A letter to shareholders from Howard Woolcott – Director

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30th October 2008

Dear Shareholder,

Re: Property Fox No 1 Limited

You have recently been bombarded with material in relation to your shareholding in Property Fox No 1 Limited. I have been hesitant to add to this volume of reading but in speaking to a number of shareholders they have, almost without exception, asked for my personal view on the status of affairs, particularly as I am now the only director assured of remaining on the Board after the AGM.

Firstly I'd like to thank you for your support in re-electing me last year – the vote was overwhelmingly positive and I appreciate your faith in me.

The most recent requisitions by Pritchard and his associates in relation to the forthcoming AGM have left me shaking my head in disbelief, because we could now have the situation where Mr. Spann and Mrs. Stainton are removed from the Board and Messrs. Pritchard, Pirillo and Elkington are not elected either, leaving me as the only director. This will result in the Board being without a quorum and requiring the appointment of two additional directors, which will take time and cost more money; a ridiculous situation.

In various discussions with shareholders I have been surprised and disappointed that there is some concern that the information published by the Company is not factual. This is a very serious allegation and I am amazed that some parties would promote this.

The Board charged me with the responsibility for preparing the annual accounts because I am a Certified Practising Accountant and I have the experience to undertake this task.

Furthermore, I am not under any circumstance prepared to comprise my professional responsibilities as an accountant or a company director.

I can unequivocally confirm that all the properties were valued by independent registered valuers and detailed analysis of all the Company's assets was discussed with the Auditor. There were no material changes to the accounts I prepared and the Auditor's report was completed without qualification.

Prior to the preparation of the accounts the Board had considered a number of strategies with our advisers. One of these strategies was returning the Company's cash to you and ultimately selling all the properties to return the proceeds of those sales to you as well. In this event it is obvious that there would be no ongoing future business being contemplated and under those circumstances the auditor has a responsibility to make reference to this in the accounts. The only issue about the business being a going concern is if you, the shareholders, deem it appropriate to have the cash returned to you and ultimately for the business to cease trading.

The Board has provided you with the opportunity to vote this way if you wish at the AGM. The auditor made the relevant comment about this, as he is required to do, but he did not qualify the audit. A qualified audit report is a serious matter and has to be reported to ASIC and this of course was not the case. I have enough experience in business and as an accountant to know how unacceptable this situation would be and there was never any question of this being the case with Property Fox No 1 Limited.

I don't resile from the fact that the past performance of the company has been unsatisfactory but our focus over the past two years has been on making operations simpler, cutting costs and seeking investments that would quickly restore value to shareholders. Last year we sold home unit properties in Sydney and Brisbane and we are holding the proceeds of these sales in cash. As it turned out, given the current downturn in the property market, particularly western Sydney, these sales were the right decision.

Peter Spann has pushed us hard as Directors during the past year to come up with strategies and investments calling more than double the usual number of board meetings. We reviewed over 30 properties for sale and carefully considered all options but could not find an acceptable purchase that would restore shareholder value quickly. Again, as it has turned out, it has been the right decision not to make any purchases.

The Company is now very easy to understand as it has about half of its assets in cash, four home units in Sydney, 30% of 8 properties in Toowoomba and an investment in a joint venture that owns a waterfront property in Brisbane.

I am not intending to use this letter as a forum to discuss the merits or otherwise of the offer from Pritchard Equity Limited. I had my own views on the offer and notwithstanding that I could confidently support my view had I articulated that to you, prudence dictated that an independent expert report was obtained. The finding of the independent expert has recommended that the offer is not fair and not reasonable and I agree.

My own experience in property, as far as the Sydney market is concerned, is not inconsiderable. I recall after the October 1987 share crash that the Sydney property market was flat for a number of years. It didn't start to pick up until 1996, a period of 9 years.

History has a habit of repeating itself. In these circumstances I believe our recommendation to return the capital to you is the best option. Generally there are three places to put your hard earned money – shares, property and cash deposits. Given the current economic climate, the debate on uncertainties and continuing gloom from pundits, it seems a simple matter to decide how the assets of Property Fox No 1 Limited should be applied.

I am, quite frankly deeply disturbed by the actions of Messrs. Pritchard, Pirillo and Elkington over the last two years but I am encouraged by the significant number of shareholders who understand our actions, respect my position as a Director and CPA, and have supported me and my fellow Directors as we work in your best interests.

I am happy to speak to any shareholder about my views. I may not be immediately available to speak when you call but I promise I will always return your call. In a number of the calls I have already received shareholders have, naturally, been frustrated. I do understand, however, I cannot see how any other Board incumbents, given the small size of the Company and the nature of its assets, could have secured a significantly better result.

Please don't let any frustration with your investment and any embitterment cloud your judgment as to how you should direct the Board to proceed with the Company's assets. Unless you are prepared to stay in for the long haul, our recommendation is that we return the cash to you.

Finally, I urge you not to remove Peter Spann as a director and to re-elect Jodie Stainton as a director. Without Peter and Jodie on the board my task as a director will be impossible.

I look forward to meeting with you at the AGM.

Yours sincerely,



Howard Woolcott

PS

You have received a further letter from Steven Pritchard dated 24th October 2008. In this letter he has posed a number of questions to the Executive Directors, which I am happy to reply to here. The questions were as follows:

Question

1. Why don't you personally own any shares in Property Fox?
2. If the shares are really worth between 50 cents and 56 cents, as the independent expert says, why aren't you prepared to buy them on the market at their current price of 19 cents, using some of the directors fees we have paid you?

Answer

My answer to these two questions is simple. I have always been prepared to buy shares in the Company but on legal advice I have been advised that I should not proceed to purchase any shares to avoid any suggestion that there is a breach of the insider trading provisions of the Corporations Act.

Question

3. Why haven't you taken steps to remove the managing director, given the appalling results of the company over the last five years?

Answer

I agree with Peter Spann that the Company should be returning its surplus cash to the shareholders. This course of action has been unanimously agreed upon by all directors and it is important that Peter Spann stays in place as a director until the return of capital is completed.

Question

4. What steps have you put in place to ensure that Property Fox No. 1 Limited is not called upon to pay out Property Fox No. 2 Limited's share of the debt on the Toowoomba properties?

Answer

The loan to valuation ratio on the Toowoomba properties, based on the average of the two independent valuations we obtained this year, is only 44.8%. The properties are cash flow positive, we have an excellent relationship with the National Australia Bank Limited and there is no concern that the current facility will not be extended. The only reason I can think of as to why Mr. Pritchard has put this in a letter to all shareholders, rather than to me personally, is an attempt to cause further unnecessary concern. The concern is not warranted.

A final observation from a comment in Mr. Pritchard's letter. He says a person who made an investment of \$20,000 has seen the market value of that investment fall to only \$3,800. This figure is based upon one trade only and such a person will receive \$4,500 cash, if Shareholders approve the resolution on the buy-back of shares, and will still retain 55% of their shares which will be entitled to further distributions after the sale of the Company's properties. I urge you to consider the comment in a rational perspective.

This letter contains my personal views and does not constitute investment advice. Shareholders should consult their professional advisers if they seek investment advice in relation to how they should vote at the Annual General Meeting.