Property Fox No 2 Limited
Consolidated Group
2010 Annual Report

Contents

Chairman's Letter

Dear Shareholders,

I must say I feel very excited to be writing to you this year with good news for a change.

I feel we reached a watershed this year by consolidating the assets of both Property Fox No. 1 and 2 and by making a significant advance with plans to develop our properties in Toowoomba.

Managing Director Ben Doyle and I worked on a concept for the site with local architects for a new style of development for Toowoomba that showcases lifestyle and urban living.

These plans were exceptionally well received by the local Council who I believe saw it as a showcase development for the city's new urban plan. The Council made some positive suggestions, which will enhance the development and we have taken those suggestions on board and amended the development application.

We are now working with them to obtain approval to construct over 70 individual residential units, shops, and offices. An artist's impression of the development is featured on the front cover of this annual report. It is truly an exciting project and a great opportunity for us all.

Development approval for this project will significantly increase the value of the site and we are now seeking a joint venture partner to be responsible for construction.

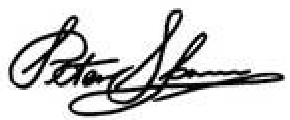
It will be necessary to expend further monies on professional fees to bring the Toowoomba project to reality and the Group will therefore be seeking to raise further capital this year to fund this and other similar projects, which are under review.

Also, we have now had the benefit of a full year with Ben Doyle as our Managing Director and during this period he made excellent progress with the conversion of the Vine Street units to strata title.

Success in obtaining development approval for the Toowoomba site will go a long way to building shareholder value. Additionally, we expect to receive approval of the strata plan for the Vine Street units shortly. At the time of writing this letter we have offers for the purchase of three units at very good market prices subject to strata approval being received so this will improve our cash position as well allowing us to commence looking for new development projects.

In summary, I really think we have turned the corner and your board is looking forward to a very successful future that will counter the lean period of recent years. I thank you for your continued support.

Sincerely,



Peter Spann
Chairman

Managing Director's Review

Dear Shareholders,

It is a pleasure to write to you with my first review as your Managing Director of Property Fox No. 2 Limited. Our focus this year has been on consolidating the position of the Company, which we have done through two major initiatives.

Firstly, we completed the full takeover of Property Fox No 1 Limited "PF No 1" through an issue of scrip and cash and I welcome their shareholders to our Company. The purpose of the takeover was to gain total control of the development site we own in Toowoomba, in which PF No 1 owned 30%, and to increase the size of our asset base. It is very important that we grow the size of our assets so that we reduce the management cost per dollar of assets owned. Although we gained control of PF No 1's assets, we did not absorb any additional running costs. This is because we completely eliminated its costs of expensive overhead such as audit, accounting, registry, legal, secretarial and listing fees, amongst other items, as these expenses obviously do not need to be duplicated in a consolidated entity.

Secondly, we put in place this year a number of strategic items to significantly improve the value of our development site in Toowoomba. We secured an option over a property adjoining our land, which has provided for a more valuable outcome from the amalgamated sites and we have drafted a very attractive plan for its overall development. The proposed development has been favourably received by Toowoomba Council and we are moving forward to complete the plans and obtain development approval. When this is obtained, we believe the site will be considerably more valuable.

As a result of our takeover of PF No 1, we now own four units in a company title building in Sydney. We have been working closely with the owners of the building on its conversion to strata title. Conversion of the title is expected shortly and this should significantly increase the value of our four units.

These actions to consolidate our position have used a considerable amount of the Company's cash this year. We also completed the acquisition of the 20% of Toowoomba owned by Freeman Fox Investments Pty Limited, for which we paid cash and did not use additional borrowings.

Also, this year is the first time you will see a fully consolidated financial picture with PF No 1. As a result, the consolidated net loss for the Company for the year ended 30 June 2010 after providing for income tax amounted to $574,061 (2009:$463,113 loss).

The costs of operating a listed public company are high and our Company is no exception despite the fact that Fox Portfolio Pty Ltd, a Company owned by our Chairman Mr. Peter Spann, has been conducting the management affairs for both the Company and PF No 1 for a reduced fee of $12,000 per annum each. Fox Portfolio Pty Ltd is unable to continue subsidising the originally agreed fees and it was not reasonable for us to expect this would continue. During the three year period that reduced fees have been paid the combined saving for both the Company and PF No 1 was well over $450,000 incl. GST. The Board has negotiated the termination of both agreements and sought independent expert advice on the value of the contracts, which had many years to run. Based on the value advised in the independent expert reports that were obtained, termination payments significantly below the values detailed in the reports have been accepted by Fox Portfolio Pty Ltd being $120,000 for the Company's contract and $200,000 for the PF No 1 contract. Fox Portfolio Pty Ltd has agreed to reinvest these monies into the Company as part of a forthcoming rights issue to shareholders, so this will be cash neutral overall to our cash holdings.

The Board then sought three quotes to replace the Administration and Management contracts previously in place with Fox Portfolio Pty Ltd and the lowest of these quotes was from Woolcott Corporate Development Pty Limited, a company associated with Howard Woolcott, an executive director of the Company. The contract is not a long term one and is for a period of three years only. The fee payable under the contract is $82,500 per annum plus GST, which will provide an overall saving of more than $175,000 per annum had the Fox Portfolio Pty Ltd contracts reverted to their original conditions.

Managing Director's Review continued

The Board believes that it now has in place arrangements that will enable the Company to operate efficiently at a minimal cost. However, it is essential that the Company continues to expand its asset base with properties that it can develop and sell on at a profit. This will provide the cash necessary to return value to shareholders through dividend payments and capital growth. To enable the Company to fulfil this objective it is necessary that it raises more capital. In the first instance monies raised will be used in the development of our Toowoomba properties and then to buy and develop others. You will shortly be receiving a Rights Issue prospectus through which we intend to raise the capital needed to achieve this objective. I urge you to consider the offer carefully and look forward to your continuing support.

Sincerely,

Ben Doyle
Managing Director

Directors' report

Your directors present their report on Property Fox No 2 Limited Consolidated Entity ("Group") for the financial year ended 30 June 2010.

Directors

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

- Peter John Spann
- Howard Woolcott
- Peter Conway (Appointed 24 April 2009)
- Benjamin Doyle (Appointed 24 April 2009)

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

Principal Activities

The principal activities of the Group during the year 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 Group.

Operating Results

The net loss for the Group for the year ended 30 June 2010 after providing for income tax amounted to $574,061 (2009:$463,113 loss). The Group incurred increased expenses for share registry charges of $86,063 and legal fees of $60,852 which related to the takeover of Property Fox No 1 Limited.

Dividends Paid or Recommended

A dividend was not declared or paid during the year ended 30 June 2010.

Review of Operations

A review of the Group's activities is detailed in the Chairman's Review attached to this report.

Financial Position

The net assets of the Group as at 30 June 2010 are $2,504,086 (2009: $1,669,149).

Significant Changes in State of Affairs

The most significant change in the state of affairs of the Group during the year was its takeover of Property Fox No 1 Limited. There were no additional significant changes, other than as described elsewhere in this Directors' Report.

After Balance Date Events

The directors are not aware of any events that would have significant impact on the operations of the Group other than as disclosed in Note 23 of the financial statements.

Future Developments, Prospects and Business Strategies

Disclosure of information regarding the likely developments in the operations of the Group in future financial years and the expected results of those operations has been commented upon in the Chairman's Letter and the Managing Director's Review

Directors' report continued

Information on Directors and Company Secretary

Peter John Spann - Executive Director, Chairman, Company Secretary

Peter is the founder of the Freeman Fox group of companies and is a well known public speaker and presenter of investment seminars. Peter has had a wealth of experience in real estate investments over the past ten years, having purchased and sold, either directly or through related entities, many investment properties. Peter has been featured in numerous magazine, television and newspaper articles, including a cover story in the March 2001 edition of 'Australian Property Investor' magazine.

Prior to establishing the Freeman Fox group of companies, Peter had a career in marketing, and worked as a marketing consultant for Fullife Pty Limited, Smaartco Pty Limited, and Results Corporation Pty Limited. He holds degrees in Marketing and Psychology (B.Bus, and B.A. Behavioural Sciences), a Diploma of Financial Planning and is an Accredited Options Dealer with the ASX.

Peter is also a director of Excela Limited, a company listed on the Australian Securities Exchange as well as being a director of many other unlisted companies.

Benjamin Doyle – Managing Director

Mr Doyle is a director of the Fiducia Property Group, www.fiducia.com.au and a licensed real estate agent in NSW. In the past three years he has developed and sold over $50 million dollars worth of real estate.

He has significant experience in the acquisition, renovation, design and marketing of property. In 2008 his company gained a finalist award from the Real Estate Institute of NSW for Project Marketing. Ben is also the Managing Director of THINK Property Management which is a Boutique property management company with a focus on investors and development management of rentals. He is not on the board of any other listed entities.

Howard Woolcott - Executive Director

Howard has an economics degree from The University of Sydney and is a Certified Practising Accountant. He is Chairman of the Group's Audit and Risk Committee.

He was a founder and past director of listed public company, Tribeca Learning Limited, an industry leader in accredited financial services education, professional development and compliance solutions for the financial planning industry. Tribeca was subsequently bought by Kaplan Professional.

Howard is the Managing Director of Woolcott Corporate Development Pty Ltd, which provides management and strategic advice to businesses. He is also a director of Excela Limited listed on the Australian Securities Exchange.

Peter Conway – Non Executive Director

Peter has been involved in the stockbroking industry for approximately 40 years working in the operational, managerial and administration areas of stockbroking. Peter has served as a Director of Etrade Australia, ANZ Securities Limited, Ord Minnett Group Limited as well as holding the positions as Operations Manager of Were Stockbroking and Head of Retail Stockbroking at Salomon Smith Barney. Peter is a Member of the Australian Securities Exchange and a Member of the Securities and Derivatives Association of Australia at the Level of Master Stockbroker.

Peter is a member of the Group's Audit and Risk Committee. He is not on the board of any other listed entities.

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 a number of listed NSX companies. 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 and is an affiliate of that Institute. Mr Whitten is also a Public Notary.

Directors' report continued

Shareholdings held by Directors

Directors	Balance 30/6/09 *	Received as Remuneration	Options Exercised	Net Change Other (a)	Balance 30.6.10
Peter Spann*	110,000	-	-	-	110,000
Howard Woolcott	-	-	-	-	-
Peter Conway	-	-	-	-	-
Benjamin Doyle	-	-	-	-	-
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.

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. It is presently set at $12,000 per annum for each director.

Directors' remuneration

Mr. Spann, the Chairman, does not receive a director's fee. Messrs Woolcott, Conway and Doyle receive monthly director fees as disclosed below pursuant to letters of appointment issued by the Group. Formal contracts are not issued. The remuneration is a fixed fee and is not based on the performance of the Group.

All remuneration paid to directors and executives is valued at the cost to the Group and expensed.

Directors' (Key Management Personnel) remuneration

2010 Total Compensation	Directors' Fees $	Superannuation	Options $	Total $
Peter John Spann	-	-	-	-
Howard Woolcott *	20,900	-	-	20,900
Peter Conway	13,200	-	-	13,200
Benjamin Doyle	13,200	-	-	13,200
	47,300	-	-	47,300

* Howard Woolcott received $7,700 in director's fees from Property Fox No 1 Limited and $13,200 from Property Fox No 2 Limited.

Directors' report continued

2009 Total Compensation	Directors' Fees $	Superannuation $	Options $	Total $
Peter John Spann	-	-	-	-
Howard Woolcott	12,200	-	-	12,200
Jodie Stainton (until 24 April 2009)	10,000	-	-	10,000
Peter Conway (from 24 April 2009)	2,453	-	-	2,453
Benjamin Doyle (from 24 April 2009)	2,453	-	-	2,453
	27,106	-	-	27,106

Note: Director fees in the tables above include GST

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.

Meetings of Directors

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

	Eligible to attend	Attended
Peter John Spann	8	8
Howard Woolcott	8	8
Peter Conway	8	8
Benjamin Doyle	8	8

Meetings of Audit & Risk Committee

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

	Eligible to attend	Attended
Howard Woolcott	2	2
Peter Conway	2	2

Indemnifying Officers and Auditors

During the year the Group 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 Group, other than conduct involving a wilful breach of duty in relation to the Group. The content of the insurance policy prohibits disclosure of the nature of the liability and the amount of the premium. The Group did not provide an indemnity to the auditors.

Proceedings on Behalf of the Group

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

Environmental Issues

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

Directors' report continued

Non-audit Services

The board of directors, in accordance with advice from the audit and risk 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 2010:

Taxation compliance services - $1,920

Auditors' Independence Declaration

A copy of the independence declaration provided by the Group auditors in accordance with s307c of the Corporations Act 2001 in relation to the audit of the 30 June 2010 financial report is presented on page 13 and forms part of this Directors' Report.

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

Benjamin Doyle – Managing Director

Dated this13th day of September 2010

Corporate Governance Statement

The Group's corporate governance framework has been formulated in light of the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in 2007 (ASX Recommendations). The Group's framework largely complies with these recommendations. Consistent with the Group's approach to sound corporate governance, opportunities for improvement are regularly considered.

Day-to-day management of the affairs of the Group are delegated by the Board to the Managing Director and the Directors. The Directors are responsible to shareholders for the performance of the Group and their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed. The main processes that the directors of the Group use in doing so are set out in this statement.

Principle 1: Lay solid foundations for management and oversight

The Directors must act in the best interest of the Group and in general are responsible for, and have the authority to determine, all matters relating to the policies, management and operations of the Group.

Specific responsibilities of the Board include;

- Protecting the reputation of the Group
- Appointment and removal of the Managing Director and any senior executives
- Ensuring appropriate resources are available to senior management
- Providing strategic direction for the Group's corporate strategy

Day to day management of the Group and implementation of Board policies and strategies has been formally delegated to the Managing Director and Executive Directors. It is responsibility of the Board to oversee the activities of management in carrying out delegated tasks.

The Group's executive management comprises the Chairman (Peter Spann), Benjamin Doyle (Managing Director) and Howard Woolcott who is an Executive director.

Howard Woolcott has assumed the role normally performed by a Group's Chief Financial Officer and the Company Secretary is Andrew Whitten.

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The board ensures that executive reward satisfies the following criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- transparency
- capital management

The remuneration structure for directors, secretaries and any senior managers is based on the following factors:

- experience of the individual concerned
- the overall performance of the market in which the Group operates
- the overall performance of the Group

Performance of senior executives is constantly reviewed by the Board as part of the ordinary course of meetings of the Directors.

There have been no departures from Principle 1 during the year ending 30 June 2010.

Corporate Governance Statement continued

Principle 2: Structure the board to add value

- The skills, experience and expertise relevant to the position of director and period of office held by each director is disclosed within the Directors' Report of the Group's Annual Report.
- Presently the board consists of 3 executive directors and 1 non-executive director.
- With the prior approval of the Chairman, each director has the right to seek independent legal and other professional advice at the consolidated entity's expense concerning any aspect of the Group's operations or undertaking in order to fulfill their duties and responsibilities as directors.
- The Group does not presently have a nomination committee. Due to the size and nature of the activities of the Group, the nomination of new directors is conducted by the board by way of ongoing review and discussion in relation to experience deficiencies that may exist within the existing board structure.
- The performance of the board is reviewed as part of the ordinary course of meetings of the directors.

There have been the following departures from Principle 2 during the year ending 30 June 2010:

Recommendation 2.1 - As at the date of this report, only one of the directors is a non-executive independent director and therefore this does not form a majority of the board. This departure arises from the small size and nature of operations of the Group.

Recommendation 2.2 and 2.3 – The Chairman is not an independent director. The reason for this is that due to the small size and nature of the activities of the Group, it is necessary for him to assume an executive role.

Recommendation 2.4 – Due to the size of the Group, the Board has not yet established a nomination committee.

Principle 3: Promote ethical and responsible decision making

As part of the Board's commitment to the highest standard of conduct, the Group adopts a code of conduct to guide management in carrying out their duties and responsibilities as follows.

All directors and consultants of the Group have the following duties:

- To act honestly, fairly and without prejudice in all commercial dealings and to conduct business with professional courtesy and integrity
- To use the powers of their office for a proper purpose and in the best interest of the Group
- To comply with letter and spirit of the law and with the principles of this Code
- Not to knowingly make any misleading statements to any person or to be a party to any improper practice in relation to dealings with or by the Group
- To ensure that the Group's resources and property are used properly and
- Not to disclose information or documents relating to the Group or its business, other than as required by law, not to make any unauthorised public comment on the Group's affairs and not to misuse any information about the Group or its associates.

The board endeavours to ensure that the directors, officers of the Group act with integrity and observe the highest standards of behaviour and business ethics in relation to their corporate activities.

Specifically, that directors and officers must:

- Comply with the law
- Act in the best interests of the Group

Corporate Governance Statement continued

- Be responsible and accountable for their actions, and
- Observe the ethical principles of fairness, honesty and truthfulness, including disclosure of potential conflicts.

The Group's policy regarding directors and officers trading in its securities is set by the board of directors. The policy restricts directors and officers from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.

The Group has set the following windows for trading in the Group's securities by the directors and officers, being between one and twenty one days following:

- The release to the National Stock Exchange of the Group's preliminary full year financial statements
- The release to the National Stock Exchange of the Group's half year financial statements
- The date on which the Group holds its annual general meeting

There have been no departures from Principle 3 during the year ending 30 June 2010.

Principle 4: Safeguard integrity in financial reporting

The Board has established an Audit and Risk Committee, which provides assistance to the Board in fulfilling its corporate governance responsibilities in relation to the Group'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 Committee are: Mr. Howard Woolcott BEc (Syd.) CPA – (Executive Director) and Mr. Peter Conway – (Non-executive Director).

The Audit and Risk Committee met twice during the year.

There has been one departure from Principle 4 during the year ending 30 June 2010:

Recommendation 4.2 – The Audit and Risk Committee consists only of one executive director and one non-executive independent director and therefore it does not have a majority of independent directors. Also, it has only two members but it is chaired by a director who is not chair of the board.

The reason for this departure is due to the small size of the Group.

Principle 5: Make timely and balanced disclosure

There have been the following departures from Principle 5 during the year ending 30 June 2010:

Recommendations 5.1 – Due to the size and nature of the Group, the Board does not have written policies on disclosure. However the Group has the following principles in place:

- The Group will not endorse reports on its operations prepared by third parties.
- The Group will not respond to speculation and rumour except as required by the NSX.
- The Managing Director and Company Secretary have been appointed as the persons responsible for communications with the NSX.
- The Board is responsible for ensuring the compliance with the continuous disclosure requirements in the NSX listing rules and overseeing and co-ordinating information disclosure to the NSX.
- All material will be lodged as soon as practicable with the NSX.
- No undisclosed price sensitive information will be disclosed in any analyst meeting.

Corporate Governance Statement continued

Principle 6: Respect the rights of shareholders

The Board and the Company Secretary are responsible for the communications strategy to promote effective communications with shareholders and encourage effective participation at general meeting. The Group adheres to best practice in its preparation of Notices of Meetings to ensure all shareholders are fully informed. Due to the size of the Group, all communications are prepared and administered in-house.

The Group actively encourages communications with their shareholders and have made available all forms of contact; phone, email, facsimile and post details on their website at www.propertyfoxno2.com.au should any shareholder have a query.

The Group's Half and Full Year Reports are a significant means of communicating to shareholders the Group's activities, operations and performance over the past financial year. In accordance with the Group's disclosure principles, these are publicly available on the NSX website.

There have been no departures from Principle 6 during the year ending 30 June 2010.

Principle 7: Recognise and manage risk

The Board is responsible for oversight of the Group's management's system of internal controls. The Board constantly monitors the operation and financial aspects of Group activities and considers the recommendations and advice of external auditors and other external advisers on the operations and financial risks that face the Group.

The Board ensures that recommendations made by the external auditors and other external advisers are investigated and, where considered necessary, appropriate action is taken to ensure that the Group has an appropriate internal control environment in place to manage the key risks identified.

In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties and the employment and training of suitably qualified and experienced personnel.

The Group obtains statements from its Managing Director and Chairman of the Audit Committee that:

- the Group's financial reports present a true and fair view in all material respects, of the Group's financial condition and operational results are in accordance with the relevant accounting standards. Furthermore, the board of directors does, in its role, state to shareholders in the Group's accounts that they are true and fair, in all material respects
- the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements policies adopted by the board
- the Group's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

There have been no departures from Principle 7 during the year ending 30 June 2010. The Board believes the Group's risk management and internal compliance and control procedures are operating efficiently and effectively in all material aspects appropriate for a Company of Property Fox No 2 Limited's size and nature. The Board will continue to monitor this aspect of the Group closely, and will cause to be developed a comprehensive Risk Management Process and Policy document, additional to the material outlined above.

Principle 8: Remunerate fairly and responsible

The Group does not have any scheme for retirement benefits, other than statutory superannuation, for any directors.

Further information on director's and executive's remuneration, including principles used to determine remuneration, is set out in the director's report under the heading "Remuneration Report".

There have been the following departures from Principle 8 during the year ending 30 June 2010:

Recommendations 8.1– Due to the size and nature of the Group, the Board has not yet established a remuneration committee. As a result, the functions ordinarily undertaken by a remuneration committee are undertaken by the Board.

Grant Thornton

AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF PROPERTY FOX NO 2 LIMITED

Grant Thornton Audit Pty Ltd
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In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Property Fox No 2 Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

1 No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

2 No contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M S Bell
Director - Audit & Assurance

Brisbane, Dated 13 September 2010

Statement of comprehensive income

For the year ended 30 June 2010

	Note	2010 $	2009 $
Revenue	2	182,363	89,116
Management fees	20(i)	(70,325)	(12,000)
Audit fees	6	(44,239)	(36,547)
Directors fees		(47,300)	(27,106)
Finance costs		(85,297)	(48,402)
Professional fees		(233,456)	(173,450)
Property costs		(92,655)	(19,693)
Other expenses		(96,130)	(89,075)
Fair value adjustment on consolidation	22	(17,937)	-
Share of net loss of associates accounted for using the equity method	9(a)	(58,066)	(145,956)
Profit / (loss) before income tax expense		(563,042)	(463,113)
Income tax (expense) / benefit	5	(11,019)	-
Net profit / (loss)		(574,061)	(463,113)
Other comprehensive income – property revaluation		-	96,750
Total comprehensive income/(loss)		(574,061)	(366,363)
Overall Operations:			
Basic and diluted loss per share (cents per share)	17	(12.8)	(15.3)

Statement of financial position
As at 30 June 2010

	Note	2010 $	2009 $
Current assets			
Cash and cash equivalents	7	50,797	793,287
Other current assets	8	20,391	95,469
Total current assets		71,188	888,756
Non current assets			
Investments accounted for using the equity method	9	-	62,616
Property	12	3,794,467	1,609,233
Total non current assets		3,794,467	1,671,849
Total assets		3,865,655	2,560,605
Current liabilities			
Trade and other payables	13	81,231	57,368
Short term borrowings	14	90,338	-
Total current liabilities		171,569	57,368
Non current liabilities			
Long term borrowings	15	1,190,000	834,088
Total non current liabilities		1,190,000	834,088
Total liabilities		1,361,569	891,456
Net assets		2,504,086	1,669,149
Equity			
Contributed equity	16	4,068,708	2,659,710
Reserves		259,815	259,815
Retained profits/(accumulated losses)		(1,824,437)	(1,250,376)
Total equity		2,504,086	1,669,149

Statement of cash flows
For the year ended 30 June 2010

	Note	2010 $	2009 $
Cash flow from operating activities			
(Payments) / receipts (for)/from real property related investments		(660,234)	1,090,950
Investment income		182,363	89,116
Payments to suppliers, directors and director related entities		(490,007)	(359,426)
Payments for financing costs		(85,297)	(48,402)
Tax paid		(11,019)	-
Net cash provided by / (used in) operating activities	18	(1,064,194)	772,238
			-
Cash flow from investing activities			
Payment for subsidiary, net cash acquired		232,751	-
		232,751	-
Cash flow from financing activities			
(Payments to) / received from related entities		88,953	(76,934)
Net cash provided by financing activities		88,953	(76,934)
Net increase in cash and cash equivalents held		(742,490)	695,304
Cash and cash equivalents at the beginning of the financial year		793,287	97,983
Cash and cash equivalents at the end of the financial year	7	50,797	793,287

Statement of changes in equity

For the year ended 30 June 2010

	Share Capital	Accumulated Losses	Options Reserve (a)	Asset Revaluation Reserve	Total
	$	$	$	$	$
Balance at 01 July 2008	2,642,220	(787,263)	17,490	163,065	2,035,512
Comprehensive income/(loss)	-	(463,113)	-	96,750	(366,363)
Directors' options reserve transferred to share capital on expiration of options	17,490	-	(17,490)	-	-
Sub total	2,659,710	(1,250,376)	-	259,815	1,669,149
Dividends paid or provided for	-	-	-	-	-
Balance at 30 June 2009	**2,659,710**	**(1,250,376)**	**-**	**259,815**	**1,669,149**
Comprehensive income/(loss)	-	(574,061)	-	-	(574,061)
Equity issued for Property Fox No 1 Ltd acquisition	1,480,633	-	-	-	1,480,633
Purchase of non-controlling interest in Property Fox No 1 Ltd	(17,466)	-	-	-	(17,466)
Consolidation of Property Fox No 1 Ltd	(54,169)	-	-	-	(54,169)
Sub total	4,068,708	(1,824,437)	-	259,815	2,504,086
Dividends paid or provided for	-	-	-	-	-
Balance at 30 June 2010	**4,068,708**	**(1,824,437)**	**-**	**259,815**	**2,504,086**

(a) Options Reserve

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

There are currently no directors' options on issue.

Notes to the financial statements
For the year ended 30 June 2010

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.

The financial statements cover Property Fox No 2 Limited and its controlled entity as a consolidated entity ("Group"). 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 Group 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 13th September 2010.

Basis of preparation

The following is a summary of the material accounting policies adopted by the Group 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 Group 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 whenever the directors determine that a material movement may have occurred, 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 balance sheet 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 Group's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the balance sheet and income statement. Details of the Group's interests are shown in Note 10.

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.

k. **Capital management strategy**

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

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group'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.

1 Statement of significant accounting policies (continued)

k. Capital management strategy (continued)

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. As noted previously the Directors will undertake a capital raising activity in the short term

l. Adoption of New and Revised Accounting Standards

During the current year the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Property Fox No 2 Limited.

AASB 3: Business Combinations

In March 2008 the Australian Accounting Standards Board revised AASB 3 and as a result, some aspects of business combination accounting have changed. The changes apply only to business combinations which occur from 1 July 2009. The following is an overview of the key changes and the impact on the Group's financial statements in relation to the acquisition of an additional ownership interest in Property Fox No 1 Ltd.

Business combinations achieved in stages — The revised AASB 3 requires that where a business combination is achieved in stages, any previously held equity interest is to be remeasured to fair value and the resulting gain or loss, being the difference between fair value and historical cost, is to be recognised in the statement of comprehensive income. The previous version of AASB 3 accounted for each exchange transaction separately, using cost and fair value information at the date of each exchange to determine the amount of any goodwill associated with the acquisition. It was therefore possible to compare the cost of each individual investment with the fair value of identifiable net assets acquired at each step.

On acquisition of the additional ownership interest in Property Fox No 1 Ltd, a fair value loss of $17,937 on the pre-existing equity holding was recognised in the statement of comprehensive income.

AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

Disclosure impact

Terminology changes — The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity — The revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income — The revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income.

Other comprehensive income — The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

1 Statement of significant accounting policies (continued)

m. **New accounting standards for application in future periods**

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The company has decided against early adoption of these standards. A discussion of those future requirements which impact on the company follows:

- AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

  These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

- AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

  This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group at this stage.

The company does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the company's financial statements.

2 Profit from ordinary activities

	2010 $	2009 $
Operating revenue:		
Rental income	140,320	67,100
Interest received	22,888	22,016
Miscellaneous income	19,155	-
Total revenues from ordinary activities	182,363	89,116

3 Dividends

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

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

4 Segment Information

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

	Note	2010 $	2009 $
5 Income Tax Expense			
a. The components of tax expense comprise:			
Current tax		-	-
Under provision in respect of prior years (franking deficits)		11,019	
Deferred tax	11	-	-
		11,019	-
The prima facie tax on profit/ (loss) from ordinary activities before tax is reconciled to the income tax as follows:			
Prima facie tax payable on profit / (loss) from ordinary activities before income tax at 30%		(168,913)	(138,934)
Add:			
Share of loss / (profit) of associate		17,420	43,786
Legal and consultants fees		68,539	53,855
Less:			
Other deductible amounts		(22,365)	(22,365)
Under provision in respect of prior years (franking deficits)		11,019	-
Future income tax benefit on tax loss not brought to account		94,300	63,658
Income tax expense/(refund) attributable to profit from ordinary activities before income tax		11,019	-
The applicable weighted average effective tax rates are as follows:		2%	-%

6 Auditor's Remuneration

		2010 $	2009 $
Remuneration of the auditor for :			
- Audit or reviewing the financial reports		30,819	36,547
- Preparation of taxation return		1,920	-
Remuneration of other auditors of subsidiaries for:			
- Audit or reviewing the financial reports		11,500	-
		44,239	36,547

7 Cash & Cash Equivalents

		2010 $	2009 $
Cash at bank		50,797	13,749
Short term deposits		-	779,538
		50,797	793,287

8 Other Current Assets

	Note	2010 $	2009 $
Prepayments		20,391	12,740
Unsecured interest bearing loan to Fox Riverside No 2 Unit Trust		-	76,934
Receivable from Property Fox No 1 Ltd (director related entity)	8(a)	-	3,477
Receivable from Freeman Fox Investments Ltd (director related entity)	8(a)	-	2,318
		20,391	95,469

a. These receivables arose as a result of Property Fox No 2 Ltd paying expense on behalf of the joint venture partners in the ordinary course of business of the joint venture.

9 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 10	-%	-

Fox Riverside Pty Ltd was wound down during the year.

		Note	2010 $	2009 $
a.	**Movements during the year in equity accounted investment in Associated Companies**			
	Balance at beginning of year		62,616	1,299,522
Add:	New investments / (capital returns) during the year		(4,550)	(1,090,950)
	Share of associated Group's profit / (loss) from ordinary activities after income tax		(58,066)	(145,956)
	Balance at end of year		-	62,616
b.	**Accumulated losses attributable to associate:**			
	Share of associate's (loss)/ profit from ordinary activities before income tax expense		(58,066)	(145,956)
	Share of associate's income tax expense		-	-
	Share of associate's loss from ordinary activities after income tax expense		(58,066)	(145,956)
	Share of accumulated losses at beginning of the year		(157,064)	(11,108)
	Share of accumulated losses at end of the year		(215,130)	(157,064)
c.	**Summarised presentation of aggregate assets, liabilities and performance of associate:**			
	Current assets		-	200,885
	Non-current assets		-	-
	Total assets		-	200,885
	Current liabilities		-	-
	Non-current liabilities		-	-
	Total liabilities		-	-
	Net assets		-	200,885
	Net (loss)/profit from ordinary activities after income tax of associate		-	(464,844)

10 Joint Venture

a. 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 Group's share of assets employed in the joint venture is:

	Note	2010 $	2009 $
Non-Current Assets			
- real property at valuation	12	184,536	184,233

	Note	2010 $	2009 $

11 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		-	-
Tax losses (operating)		384,275	278,956
		384,275	278,956

12 Property

Real property at valuation		3,696,917	1,609,233
Capitalised development costs		97,550	-
		3,794,467	1,609,233

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 year			
Balance at the beginning of year		1,609,233	1,498,391
Additions		562,684	14,092
Additions through acquisition of Property Fox No 1 Ltd		1,525,000	-
Revaluation increments		-	96,750
Capitalised development costs		97,550	-
Carrying amount at the end of year		3,794,467	1,609,233

Each of the properties in which the Group has an ownership interest was valued by independent valuers in June and July 2009.

13 Trade & Other Payables

Trade creditors	13(a)	81,231	47,705
Other creditors		-	9,663
		81,231	57,368

a. Trade creditors include:

- $3,473 payable to Woolcott Corporate Development Pty Ltd (related entity) in relation to services provided to the Group
- $5,747 payable to Whitens Lawyers and Consultants (related entity) in relation to services provided to the Group
- $4,400 payable in respect of director fees

	Note	2010 $	2009 $

14 Short Term Borrowings

Secured Liability			
- Commercial bill facility	14a.	90,338	-
		90,338	90,338

This facility expires in February 2011. The bills mature at periods between one and three months, at the Group'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 - Anstead properties	14b.	184,536	184,233
Total assets pledged as security		184,536	184,233

14a. This facility was shown as a long term borrowing in 2009 as the facility had more than 12 months to run until maturity.

14b. The first registered mortgage is provided to National Australia Bank

15 Long Term Borrowings

Secured Liability			
- Commercial bill facility		1,190,000	834,088
		1,190,000	743,750

This facility expires in February 2012. The bills mature at periods between one and three months, at the Group'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.	2,965,930	1,425,000
Total assets pledged as security		2,965,930	1,425,000

15a. The first registered mortgage is provided to National Australia Bank.

	2010 $	2009 $

16 Contributed Equity

5,980,620 (2009 3,017,999) fully paid A class shares	4,068,708	2,659,710
a. Movement of shares		
At beginning of the reporting year	3,017,999	3,017,999
Shares issued during the year	2,962,621	-
	5,980,620	3,017,999

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Group 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.

17 Earnings/(loss) per Share

Earnings used in the calculation of earnings per share and dilutive earnings per share is the net profit after tax.	(574,061)	(463,113)
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	4,480,994	3,017,999

18 Cash Flow Information

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

Profit/(loss) from ordinary activities after income tax	(574,061)	(463,113)
Non cash equity and fair value adjustments	76,004	(14,092)
Changes in assets and liabilities:		
(Increase)/decrease in receivables	75,078	-
(Increase)/decrease in investments	62,616	1,236,906
(Increase)/decrease in property	(727,695)	-
(Increase)/decrease in other assets	-	(9,933)
Increase/(decrease) in payables	23,864	22,470
Cash flows from operations	(1,064,194)	772,238

Acquisition of entity

During the year a further 82% ownership interest in Property Fox No 1 Ltd was acquired. Refer note 22 for further details.

Consideration

Cash	66,836
Equity (2,962,221 ordinary shares issued at 49.95 cents)	1,479,994
Total purchase consideration	**1,546,830**
Cash consideration	66,836
Cash assumed through transaction	(299,587)
Cash inflow	**232,751**

19 Financial Instruments

The Group 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 Group monitors these risk factors as part of regular reviews of financial performance and the portfolio.

Financial Risk Management Policies

The Audit and Risk Committee (ARC) has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The ARC monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counter party credit risk, currency risk, financing risk and interest rate risk. The ARC met twice during the year and minutes of the ARC are reviewed by the Board.

The ARC's overall risk management strategy seeks to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of credit risk policies and future cash flow requirements.

a. Credit risk

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

	2010 $	2009 $
Classes of financial assets – carrying amounts		
Cash and cash equivalents	50,797	793,287
Other current assets (unsecured loan)	-	76,934
	50,797	870,221

The Group has no significant concentration of credit risk with any single counter party or group of counter parties.

Credit risk related to balances with banks and other financial institutions is managed by the ARC in accordance with approved Board policy. Surplus funds are only invested with Australian major financial institutions.

b. Market risk

Market price risk is the risk that the value of the Group's property portfolio will fluctuate as a result of changes in market values. The Group aims to manage its risk in line with the investment mandate and ensures that valuations are undertaken on a regular basis. The Group ensures that none of its property investments are highly geared and in general avoids borrowing more than 65% of any property's market value.

c. Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

Interest rate risk is managed using a mix of capped and floating rate debt. At 30 June 2010 the bill facility of $1,190,000 relating to the Toowoomba properties was on a floating rate basis and the bill facility of $1,806,750 relating to the Anstead joint venture property was on a capped interest rate of 6%.

19 Financial Instruments (continued)

The Group'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 2009

Financial assets				
Cash at bank	0.00%		13,749	13,749
Term Deposit	3.70%	779,538	-	779,538
Unsecured loan to Fox Riverside No 2 Unit Trust	10.00%	76,934	-	76,934
		856,472	13,749	870,221
Financial liabilities				
Commercial bill facility - Toowoomba	7.31%	743,750	-	743,750
Commercial bill facility – Anstead	6.73%	90,338	-	90,338
		834,088	-	834,088
30 June 2010				
Financial assets				
Cash at bank	0.00%	-	50,797	50,797
		-	50,797	50,797
Financial liabilities				
Commercial bill facility - Toowoomba	8.28%	1,190,000	-	1,190,000
Commercial bill facility – Anstead	8.79%	90,338	-	90,338
		1,280,338	-	1,280,338

d. Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities
- maintaining a reputable credit profile

- managing credit risk related to financial assets
- investing only in surplus cash with major financial institutions
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

The Group's policy is to ensure that the majority of its borrowings for real estate investment should mature beyond 12 months at all times.

The bill facility used to purchase the Toowoomba properties expires in February 2012 and the bill facility used to purchase the Anstead property, in which the Group has a joint venture partnership, expires in February 2011.

The Group has no debt which has been initially borrowed on a short term (less than 12 months) basis.

e. 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

f. Sensitivity Analysis

The following tables illustrate sensitivities to the Group's exposures to changes in interest rates and property prices. The tables indicate the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

19 Financial Instruments (continued)

At 30 June 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, the Group's post tax profit/loss and equity would have been affected as follows:

	Net Loss for Group and Higher / (Lower) 30 June		Equity for Group and Higher / (Lower) 30 June	
	2010	2009	2010	2009
	$	$	$	$
Cash and cash equivalents				
+ 1% (100 basis points)	-	5,719	-	5,719
- 1% (100 basis points)	-	(5,719)	-	(5,719)
Borrowings				
+ 1% (100 basis points)	(12,803)	(8,341)	(12,803)	(8,341)
- 1% (100 basis points)	12,803	8,341	12,803	8,341

At 30 June 2010, if property prices had moved, as illustrated in the table below, with all other variables held constant, the Group's post tax profit/loss and equity would have been affected as follows:

	Net Loss for Group and Higher / (Lower) 30 June		Equity for Group and Higher / (Lower) 30 June	
	2010	2009	2010	2009
	$	$	$	$
Toowoomba properties (at 50% ownership in 2009 and 100% ownership in 2010)				
Adjustments are made through asset revaluation reserve account				
+ 10%	-	-	285,000	142,500
- 10%	-	-	(285,000)	(142,500)
Anstead JV (at 5% ownership)				
Adjustments are made through the Profit & Loss account				
+ 10%	18,453	18,423	18,453	18,423
- 10%	(18,453)	(18,423)	(18,453)	(18,423)

20 Related Party Details

	2010 $	2009 $
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.		
Property Fox No 1 Limited also paid an annual management fee to Fox Portfolio Pty Ltd.		
The management fees are calculated and paid monthly. These fees cover the provision of administration services to the Group. Fox Portfolio Pty Ltd agreed to reduce its fees to $12,000 per annum for each company for the years ended June 08, 09 and 10 and the fees for the current period represent $19,000.		
The balance of $51,325 was paid to Woolcott Corporate Development Pty Ltd, a company associated with Howard Woolcott, for consulting fees related to the Company's takeover of Property Fox No 1 Limited.	70,325	12,000
(ii) **Legal fees**		
Property Fox No 2 Limited paid legal and consulting fees to Whittens Lawyers and Consultants a related entity of the Secretary Andrew Whitten.	103,332	96,700

21 Property Fox No 2 Limited Company Information

	2010 $	2009 $
Current Assets	21,603	888,756
Total Assets	3,815,575	2,560,605
Current Liabilities	263,324	57,368
Total Liabilities	1,097,412	891,456
Net Assets	**2,718,163**	**1,669,149**
Issued Capital	4,140,343	2,659,710
(Loss) for the year	(431,619)	(463,113)
Asset Revaluation Reserve	259,815	259,815
Accumulated losses	(1,250,376)	(787,263)
Total Equity	**2,718,163**	**1,669,149**

Refer to note 22c for details relating to deed of cross guarantee with its wholly owned subsidiary Property Fox No 1 Limited

22 Controlled Entities

a. Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)	
		2010	2009
Subsidiaries of Property Fox No 2 Limited			
Property Fox No 1 Limited	Australia	100	7.53

b. Acquisition of Controlled Entities

The parent entity acquired, in stages, Property Fox No 1 Limited and achieved control on 30 November 2009. Prior to control being achieved the investment was equity accounted. Details of the acquisition at acquisition date are as follows:

Consideration Paid

Cash	46,316
Equity (2,084,220 ordinary shares issued at 49.95 cents)	1,041,068
Total purchase consideration	1,087,384

Net Assets Acquired

Fair values of assets and liabilities acquired at acquisition date:

Cash	299,587
Trade and other receivables	62,733
Property	1,586,028
Financial assets	65,100
Payables	(25,555)
Financial liabilities	(446,250)
Less non-controlling interest	(454,259)
	1,087,384
Goodwill on consolidation	-

On 13th May 2010 the parent entity had acquired 91.01% interest of Property Fox No 1 Limited "A" Class shares and therefore moved to compulsory acquisition for the remaining 8.99%, which was achieved on 29th June 2010. Additionally, on 29th June 2010 the parent entity acquired 1,250,000 Ordinary shares of Property Fox No 1 Limited thereby attaining control of all its issued capital.

The purchase of the non-controlling interest has resulted in $17,466 being recorded as a reduction in equity as a transaction with owners in their capacity as owners. This amount represents the difference between the non controlling interest and the fair value of the consideration paid.

22 Controlled Entities (continued)

The total consideration paid to acquire Property Fox No 1 Limited includes 2,962,621 "A" Class shares at $0.4998 each issued to the vendors of Property Fox No 1 Limited. The fair value of the shares has been determined based on an independent expert report stating the price paid was fair and reasonable at the date of acquisition.

The Group previously held a 49% equity interest in Property Fox No 1 Limited prior to the acquisition date. Upon remeasuring that equity interest to fair value, a loss of $17,937 has been recognised. This loss has been recognised in the Fair value adjustment on initial consolidation within the statement of comprehensive income.

The directors believe the receivables are fully recoverable and no provision for impairment is required.

Revenue of Property Fox No 1 Limited included in the consolidated revenue of the Group since the acquisition date on 30 November 2010 amounted to $60,418. The loss of Property Fox No 1 Limited included in consolidated loss of the Group since the acquisition date amounted to $104,453.

Had the results of Property Fox No 1 Limited been consolidated from 1 July 2009, revenue of the consolidated group would have been $228,466 and consolidated loss would have been $660,126 for the year ended 30 June 2010.

Included within Professional Fees in the statement of comprehensive income are acquisition related costs totalling $133,091. The costs include advisory, legal, accounting and other professional fees.

c. **Deed of Cross Guarantee**

A deed of cross guarantee between the Company and Property Fox No 1 Limited was enacted during the financial year and relief was obtained from preparing financial statements for Property Fox No 1 Limited under ASIC Class Order 98/1418. Under the deed, Property Fox No 2 Limited guarantees to support the liabilities and obligations of Property Fox No 1 Limited. Property Fox No 1 Limited is the only party to the Deed of Cross Guarantee and is a member of the Closed Group. The Statement of Financial Position and Income Statement presented in the Financial Statements reflect that of the closed group.

23 Subsequent Events

The Group has entered into short term loans with Barbary Coast Investments Pty Ltd and Newton Holdings Pty Ltd totalling the sum of $250,000. These entities are associated with Andrew Whitten, the Group's Company Secretary.

The Group has signed an agreement with Fiducia Estate Agents Pty Ltd, a company associated with Managing Director Mr. Benjamin Doyle, to provide Mr. Doyle's services as managing director for a period of 1 year from 1 August 2010 at a fee of $55,000 per annum plus GST.

The Group has signed an agreement with Woolcott Corporate Development Pty Ltd, a company associated with Executive Director Mr. Howard Woolcott, to manage the Group's administrative and financial affairs for a period of 3 years from 1 July 2010 at a fee of $82,500 per annum plus GST.

24 Commitments and Contingencies

The Group has signed an underwriting agreement with Fox Riverside No 2 Pty Ltd as trustee for the Fox Riverside No 2 Unit Trust to underwrite the issue of units in the trust totalling $260,000. At the date of this report the maximum liability under this agreement had fallen to $162,500. Fox Riverside No 2 Unit Trust owns land as a tenant in common with the Company at Anstead Queensland. The Group will receive a fee of $15,600 in respect of its underwriting commitment.

Other than this underwriting commitment, the Group did not have any commitments or contingent liabilities at year end.

25 Company details

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

Level 21

Freeman Fox House

333 Ann Street

BRISBANE QLD 4000

Directors' declaration

The directors of the Company declare that:

1. The financial statements and notes, as set out in pages 14 to 32, are in accordance with the Corporations Act 2001:

    a. comply with Accounting Standards and the Corporations Regulations 2001; and

    b. include an explicit statement in the notes to the financial statements that the financial statements comply with International Financial Reporting Standards (IFRS); and

    c. give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the Group.

2. The Managing Director has declared that:

    a. The financial records of the Group 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 Group will be able to pay its debts as and when they become due and payable.

The company and a wholly-owned subsidiary, Property Fox No 1 Ltd, have entered into a deed of cross guarantee under which the company and its subsidiary guarantee the debts of each other.

At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed

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

Benjamin Doyle – Managing Director

Dated this 13th day of September 2010.

Grant Thornton

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PROPERTY FOX NO 2 LIMITED

Grant Thornton Audit Pty Ltd
ABN 91 130 913 594
ACN 130 913 594

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Report on the financial report

We have audited the accompanying financial report of Property Fox No 2 Limited (the "Company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

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 are 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. The directors also state, in the notes to the financial report, 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 whether the financial report is free from 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 circumstances, 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 have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion
In our opinion,:

1 The financial report of Property Fox No 2 Limited is in accordance with the Corporations Act 2001, including:

   a giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2010 and of it's performance for the year ended on that date; and

   b complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

2 The financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. 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 on the remuneration report

In our opinion, the Remuneration Report of Property Fox No 2 Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M S Bell
Director – Audit & Assurance

Brisbane, Dated 13 September 2010

Shareholder Information at 31 July 2010

Share Capital

Property Fox No. 2 Limited has on issue 5,980,620 fully paid "A" Class shares held by 330 holders as at 31 July 2010. All "A" Class shares of the Company carry one vote per share.

Twenty Largest Shareholders

Rank	Investor Name	Total Shares	% of Issued Capital
1	Excela Limited	371,820	6.22%
2	Property Fox No. 1 Limited *	183,601	3.07%
3	Property Fox No. 1 Limited **	103,499	1.73%
4	Fox Portfolio Pty Ltd	100,000	1.67%
5	Peter Schaap & Pauline Schaap	90,000	1.50%
6	C & AC Pty Ltd	64,800	1.08%
7	Damien Negus	54,000	0.90%
8	D.W. Searle & R. A. Searle	54,000	0.90%
9	Mr Trevor John O'Shea + Mrs Joanne Elsie O'Shea	50,000	0.84%
10	Mr Ramon Charles William	50,000	0.84%
11	Melcrag Pty Ltd	43,200	0.72%
12	Francis Stuart Albrecht + Ann Violet Albrecht	40,000	0.67%
13	L & J Martin Pty Ltd	40,000	0.67%
14	Judith Anne Martin	40,000	0.67%
15	Peter Richards	40,000	0.67%
16	Strategic Team Leadership Pty Ltd	40,000	0.67%
17	Eltone Pty Ltd	36,000	0.60%
18	Fetterun Pty Ltd	36,000	0.60%
19	C. & S. Fiskerstrand	36,000	0.60%
20	Jadhill Pty Ltd	36,000	0.60%
	Total	**1,508,920**	**25.22%**

* Held on trust for ex Property Fox No 1 Limited shareholders following compulsory acquisition

** Shares to be eliminated following acquisition of 100% issued capital in Property Fox No 1 Limited

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	3	15,000	0.25%
5,001 – 10,000	107	1,051,600	17.58%
10,001 – 50,000	212	3,892,300	65.08%
50,001 – 100,000	5	362,800	6.07%
100,001 and over	3	658,920	11.02%
Total	**330**	**5,980,620**	**100.00%**

Corporate Directory

Directors	Peter Spann Benjamin Doyle Howard Woolcott Peter Conway
Company Secretary	Andrew 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