Property Fox No 2 Limited

2011 Annual Report

Contents

Managing Director's Review

Dear Shareholders,

It is a pleasure to write to you with my second review as your Managing Director of Property Fox No. 2 Limited. Our initiatives this year have focussed on further work to complete the development application on our properties at Toowoomba and to ensure we consolidated the savings in operating expense following the takeover of Property Fox No 1 Limited.

We spent a further $241,000 on the Toowoomba project, which included fees in respect of architecture, structural, engineering and traffic management requirements and $52,965 being the Toowoomba Regional Council's development application fee. In accordance with current accounting standards all these expenses have been capitalised.

The development application has been lodged with Council and we have addressed a number of queries arising from the plan we submitted. It is difficult to estimate the timing for approval of the application but we believe we should be able to meet all of Council's requirements and are hopeful we will have an approval by the end of this calendar year. There is no doubt the site will have a significantly enhanced value with a development approval and we will stay focussed on delivering the best possible outcome for this project.

The properties at Toowoomba were partly financed by a loan from National Australia Bank Limited "NAB". This loan is due for repayment in February 2012 and the Group is in negotiation with NAB to extend the loan for a period of 18 months beyond the due date.

Following the takeover of Property Fox No 1 Limited last year we made substantial savings in the operating costs of the business. Professional fees were reduced by $163,760 and other costs by $19,000.

The operating loss of $543,370 was impacted by two non recurring expenses. The first of these is a write down of $45,000 in the investment we have in a joint venture with Fox Riverside No 2 Pty Ltd, which owns riverfront land at Anstead, a suburb of Brisbane. In conjunction with Fox Riverside No 2 Pty Ltd we purchased this land as a long term land banking opportunity with a view to holding it until a possible rezoning could have taken place. However, within the last 6 months events changed our view on the value of this investment. Brisbane City Council sought the views of local residents and has developed a Neighbourhood Plan that clearly has the intention of restricting development. In the latest update published by Brisbane City Council they state a number of key comments including "a desire to retain the open, semi-rural character of the area." In January, Brisbane suffered catastrophic flooding along the banks of the Brisbane River and although the affect on our land at Anstead was minimal the marketability for river front properties slumped dramatically. In May of this year the joint venture received an offer to purchase the land from Brisbane City Council and it was decided this was an opportune time to quit the investment. The purchase price was $90,000 more than the original purchase price of the land, the write down of $45,000 being Property Fox No 2 Limited's share of the cost of holding the investment over the past 6 years.

The other significant expense this year was the fee we paid to Fox Portfolio Pty Ltd for the termination of its management agreements with the Group companies. Details of these transactions were included in my review last year but the transaction was not concluded until the current financial year. Cancellation of these agreements has saved the Group significant fees had they not been terminated at this time.

In December 2010 we completed the conversion of the units we owned at Vine Street in Fairfield Sydney to strata title. We immediately sold our 4 units and made a book profit of $244,000.

As you know we gave shareholders the opportunity to add to their investments through a rights issue and I thank those of you who took up your rights for that support. The offer raised $457,000 including $320,000 underwritten by Fox Portfolio Pty Ltd.

The Board is looking at ways we can raise more funding to proceed with additional projects and has factored a further capital input of $500,000 into our cash flow forecast this year. We have other development projects in our sights but clearly need to raise additional capital to enable us to engage in these ventures. This year we will be undertaking further fund raising activities and will keep shareholders advised of initiatives relating to this.

So, in summary, although it may not be reflected in the accounts Property Fox No 2 Limited has made great progress this year and our Toowoomba Development is a lynch pin of our future plans. We look forward to reporting to you again soon with the progress on the Toowoomba development.

Your board is looking forward to a successful year and thanks you for 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 2011.

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
- Benjamin Doyle

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 2011 after providing for income tax amounted to $543,370 (2010 $574,061 loss). The Group incurred two major expenses that did not appear last year being a write down of $45,000 in the investment in the joint venture with Fox Riverside No 2 Pty. Limited and a payment of $320,000 to terminate the original administration agreements to manage both Property Fox No 1 Limited and Property Fox No 2 Limited.

From its inception the Group intended that investments would be of a long term nature and may include land banking projects. The investment in the joint venture at Anstead was such an investment and was sold subsequent to balance date.

Consequently the losses of the Group have generally related to holding costs and the result this year is consistent with past years. The principal long term investment has been the properties at Toowoomba and the work on development of this project over the past year should now start to pay off in the form of a substantial increase in its value, provided the development application is approved. At this stage the Board has no reason to believe the project, as submitted to Toowoomba Regional Council, will not be approved.

Dividends Paid or Recommended

A dividend was not declared or paid during the year ended 30 June 2011.

Review of Operations

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

Financial Position

The net assets of the Group as at 30 June 2011 are $2,346,597 (2010: $2,504,086).

Significant Changes in State of Affairs

The most significant change in the state of affairs of the Group during the year was the increased investment in the plan to redevelop the Group's properties in Toowoomba. 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 other events that would have significant impact on the operations of the Group, other than as disclosed in note 22 on page 29.

Directors' report continued

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 Managing Director's Review.

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.

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 and Member of the Australian Institute of Company Directors. He is Chairman of the Company'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.

Directors' report continued

Peter Conway – Non Executive Director

Peter has spent over 40 years in the stockbroking industry working in the operational, managerial, administration and compliance areas of stockbrokers. He has held senior positions within some of Australia's most prestigious firms:

Ord Minnett Securities – Head of Operations, Director and Board Member
ANZ Securities – Chief Operating Officer, Director and Board Member
County NatWest (now Salomon Smith Barney) – Head of Retail Stockbroking
Were Stockbroking – Operations Manager
Etrade Australia - Founding Director
National Australia Bank Online Trading – Founding Non - Executive Director

Peter has served on several ASX committees relating to stockbroking activities and has been a lecturer for the Securities Institute of Australia. He is an Affiliate of the Australian Securities Exchange and a Member of the Stockbroker's Association of Australia at the level of Master Stockbroker.

Peter is a member of the Audit and Risk Committee and is not on the board of any other listed entity.

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.

Shareholdings held by Directors

Directors	Balance 30/6/10 *	Received as Remuneration	Subscription pursuant to underwriting agreement	Net Change Other (a)	Balance 30/6/11
Peter Spann*	110,000	-	1,280,000	-	1,390,000
Howard Woolcott	-	-	-	-	-
Peter Conway	-	-	-	-	-
Benjamin Doyle	-	-	-	-	-
Total	110,000	-	1,280,000	-	1,390,000

* Peter Spann indirectly holds 1,380,000 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.

Directors' report continued

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

2011 Total Compensation	Directors' Fees $	Superannuation	Options $	Total $
Peter John Spann	-	-	-	-
Howard Woolcott *	26,400	-	-	26,400
Peter Conway	13,200	-	-	13,200
Benjamin Doyle*	26,400	-	-	26,400
	66,000	-	-	66,000

2010 Total Compensation	Directors' Fees $		Options $	Total $
Peter John Spann	-	-	-	-
Howard Woolcott *	26,400	-	-	26,400
Peter Conway	13,200	-	-	13,200
Benjamin Doyle*	13,200	-	-	13,200
	52,800	-	-	52,800

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

Note: Director fees in the tables above include GST

Other than related party transactions detailed in note 19 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. This is the end of the remuneration report.

Meetings of Directors

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

	Eligible to attend	Attended
Peter John Spann	6	6
Howard Woolcott	6	6
Peter Conway	6	6
Benjamin Doyle	6	6

Directors' report continued

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 Company

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.

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 2011:

Taxation compliance services and sundry advice - $15,524.

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 2011 financial report is presented on page 12 and forms part of this Directors' Report.

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

Benjamin Doyle – Managing Director
Dated this 25th day of August 2011

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 (ASX Corporate Governance Principles and Best Practice Recommendations 2nd Edition). The Group's framework largely complies with these principles. 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 and its controlled entities 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 Chief Executive Officer 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 company'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 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 2011.

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 2011:

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 the directors and officer of the Group 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 2011.

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 MAICD – (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 2011:

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 2011:

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 Chairman 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 mean 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 2011.

Principle 7: Recognise and manage risk

The Board is responsible for oversight of the Group's management 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 aspect of the Group activities.

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 Executive Director 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 2011. 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 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 2011:

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

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AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF PROPERTY FOX NO. 2 LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Property Fox No. 2 Limited for the year ended 30 June 2011, 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 25 August 2011

Statement of comprehensive income
For the year ended 30 June 2011

	Note	2011 $	2010 $
Revenue	2	431,345	182,363
Management fees	19(i) (ii) (iii)	(468,144)	(70,325)
Directors fees		(66,000)	(47,300)
Finance costs		(122,698)	(85,297)
Professional fees		(114,571)	(277,695)
Property costs		(94,137)	(92,655)
Other expenses from ordinary activities		(71,044)	(96,130)
Fair value adjustment on initial consolidation of PF No 1		-	(17,937)
Share of net loss of associates accounted for using the equity method		-	(58,066)
Impairment of investments	9	(45,000)	-
Profit / (loss) from ordinary activities before income tax expense		(550,249)	(563,042)
Income tax (expense) / benefit relating to ordinary activities	5	6,879	(11,019)
Net profit / (loss) from ordinary activities after related income tax benefit		(543,370)	(574,061)
Other comprehensive income		-	-
Total comprehensive income		(543,370)	(574,061)
Overall Operations:			
Basic loss per share (cents per share)	16	(8.64)	(12.8)
Diluted loss per share (cents per share)		(8.64)	(12.8)

Statement of financial position
As at 30 June 2011

	Note	2011 $	2010 $
Current assets			
Cash and cash equivalents	7	301,643	50,797
Non-current assets held for sale	9	148,560	-
Other current assets	8	9,361	20,391
Total current assets		459,564	71,188
Non current assets			
Inventory	11	3,207,371	3,794,467
Total non current assets		3,207,371	3,794,467
Total assets		3,666,935	3,865,655
Current liabilities			
Trade and other payables	12	40,000	81,231
Short term borrowings	13	1,280,338	90,338
Total current liabilities		1,320,338	171,569
Non current liabilities			
Long term borrowings	14	-	1,190,000
Total non current liabilities		-	1,190,000
Total liabilities		1,320,338	1,361,569
Net assets		2,346,597	2,504,086
Equity			
Contributed equity	15	4,454,589	4,068,708
Reserves		-	259,815
Retained profits/(accumulated losses)		(2,107,992)	(1,824,437)
Total equity		2,346,597	2,504,086

Statement of cash flows
For the year ended 30 June 2011

	Note	2011 $	2010 $
Payments for real property related investments			
Payments for real property related investments		(266,840)	(660,234)
Investment income		202,505	182,363
Payments to suppliers, directors and director related entities		(524,097)	(490,007)
Payments for financing costs		(122,698)	(85,297)
Cash flows related to interests in joint venture		(9,024)	-
Income tax (paid)/received		6,879	(11,019)
Net cash provided by / (used in) operating activities	17	**(713,275)**	**(1,064,194)**
Cash flow from investing activities			
Payment for subsidiary, net cash acquired		-	232,751
Proceeds from sale of properties		898,240	-
Net cash provided by / (used in) investing activities		**898,240**	**232,751**
Cash flow from financing activities			
(Payments to) / received from related entities		-	88,593
Proceeds from the issue of equity instruments		137,164	-
Expenses related to the issuance of equity instruments		(71,283)	-
Net cash provided by financing activities		**65,881**	**88,593**
Net increase in cash and cash equivalents held		**250,846**	**(742,850)**
Cash and cash equivalents at the beginning of the financial year		50,797	793,287
Cash and cash equivalents at the end of the financial year	7	**301,643**	**50,797**

Statement of changes in equity

For the year ended 30 June 2011

	Note	A class	Retained Profits /(Accumulated Losses)	Asset Revaluation Reserve	Total
		$	$	$	$
Balance at 01 July 2009		2,659,710	(1,250,376)	259,815	1,669,149
Total comprehensive Income		-	(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	15	4,068,708	(1,824,437)	259,815	2,504,086
Total comprehensive Income		-	(543,370)	-	(543,370)
Equity issued pursuant to underwritten rights issue	15(a)	457,164	-	-	457,164
Capital raising costs		(71,283)	-	-	(71,283)
Transfer reserve to accumulated losses		-	259,815	(259,815)	-
Sub total		4,454,589	(2,107,992)	-	2,346,597
Dividends paid or provided for		-	-	-	-
Balance at 30 June 2011	15	4,454,589	(2,107,992)	-	2,346,597

Notes to the financial statements

For the year ended 30 June 2011

1 Statement of significant accounting policies

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

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

The following is a summary of the material accounting policies adopted by the 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 25th August 2011.

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. **Inventory**

To reflect the change in intention to develop the properties held at Toowoomba, it was determined that as from December 2010 they should be treated as inventories and carried at the lower of cost and net realisable value. The revaluation surplus previously recognised has been transferred to retained earnings.

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 9.

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.

In determining the reasonableness of the carrying value of the Toowoomba properties, which are the principal long term investments of the Group, the directors have performed a valuation based on the expected plans for the asset which are subject to a development application that was lodged with the Toowoomba Regional Council in May 2011.

1 Statement of significant accounting policies (continued)

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 is in discussion with National Australia Bank Limited seeking to extend the maturity of its existing loan supported by a mortgage over the Toowoomba properties. The loan to valuation ratio is approximately 42%.

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

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. During the financial year to 30 June 2011 the Group did undertake a capital raising through the issue of a rights issue prospectus to existing shareholders and intends to undertake a further capital raising in the short term.

l. **Adoption of New and Revised Accounting Standards**

New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions*
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues*
- AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19, and*
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project.*

The adoption of these standards did not have any impact on the current period or any prior period and are not likely to affect future periods.

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:

(i) AASB 9 *Financial Instruments,* AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2013). AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, this standard is expected to have no impact on the Group's financial statements.

(ii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011). In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 July 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, it is expected that this standard will have no impact on any of the amounts recognised in the financial statements.

1 Statement of significant accounting policies (continued)

m. **New accounting standards for application in future periods (continued)**

(iii) AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective from 1 July 2013). On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Property Fox No.2 Limited is listed on the NSX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

(iv) AASB 2009-10 *Amendments to Australian Accounting Standards Classification of Rights Issues* AASB 132 *Classification of Rights Issues* and AASB 2009-10 *Amendments to Australian Accounting Standards* (effective from 1 February 2010). The amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments of the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its own non-derivative equity instruments. The Company applied the amended standard from 1 July 2010. As the Group has not made any such rights issues, the amendment will not have any effect on the financial statement as a result of applying these rules.

(v) AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* (effective from 1 July 2010). AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will look to apply the interpretation from 1 July 2010. It is not expected to have any impact on the company's financial statement as the company has not entered into any debt for equity swaps.

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.

n. **Change in Use of Assets**

The Group has changed its use of the property assets for the financial year ended 30 June 2011. These assets were previously recognised by the Group as property, plant and equipment, but are now treated as inventory and carried at the lower of cost and net realisable value. This change reflects the intention to develop the properties held at Toowoomba. On reclassification, the revaluation surplus of $259,815 was transferred to retained earnings. There were no other effects on the financial statements as a result of this reclassification.

2 Profit / (loss) from ordinary activities

	2011 $	2010 $
Operating revenue:		
Rental income	167,310	140,320
Interest received from cash held in bank accounts	10,808	22,888
Profit on sale of properties	244,040	-
Miscellaneous income	9,187	19,155
Total revenues from ordinary activities	431,345	182,363

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 accordance with the Group's real estate mandate.

The Group currently operates in one geographical segment being South East Queensland.

	Note	2011 $	2010 $
5 Income Tax Expense			
a. The components of tax expense comprise:			
Current tax		-	-
Under/(over) provision in respect of prior years		(6,879)	11,019
Deferred tax	10	-	-
		(6,879)	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%		(165,075)	(168,913)
Add:			
Share of loss / (profit) of associate		-	17,420
Legal and consultants fees		1,334	68,539
Impairment of investments		13,500	-
Other non-deductible amounts		2,431	-
Less:			
Other deductible amounts		(641)	(22,365)
Under/(over) provision in respect of prior years (franking deficits)		(6,879)	11,019
Future income tax benefit on tax loss not brought to account		155,330	94,300
Income tax expense/(refund) attributable to profit from ordinary activities before income tax		(6,879)	11,019
The applicable weighted average effective tax rates are as follows:		(1%)	2%

6 Auditor's Remuneration

	2011 $	2010 $
Remuneration of the auditor for :		
- Audit or reviewing the financial reports	43,038	30,819
- Preparation of taxation return and other services	15,524	1,920
Remuneration of other auditors of subsidiaries for:		
- Audit or reviewing the financial reports and other services	1,837	11,500
	60,399	44,239

7 Cash & Cash Equivalents

	2011 $	2010 $
Cash at bank	33,926	50,797
Short term deposits	267,717	-
	301,643	50,797

8 Other Current Assets

	2011 $	2010 $
Prepayments	9,361	20,391
	9,361	20,391

9 Joint Venture

	Note	2011 $	2010 $
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. Subsequent to balance date the property has been sold and settlement proceeds were received on 26th July 2011. The sale price has resulted in impairment in the value of the equity by $45,000.			
The Group's share of assets employed in the joint venture is:			
Non-Current Assets			
- real property at lower of cost and net realisable value*		-	184,536
Current Assets held for sale			
- real property at valuation		193,560	-
- (impairment)		(45,000)	
Total share of assets employed		148,560	184,536

*In the current year, this has been disclosed as a current asset held for sale.

10 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

Tax losses (operating)	676,126	384,275
	676,126	384,275

11 Inventory

Inventory	2,965,931	3,696,917
Capitalised development costs	241,440	97,550
	3,207,371	3,794,467

Movements in carrying amounts

Movement in the carrying amounts for each class of inventory (previously property, plant and equipment) between the beginning and the end of the current financial year

Balance at the beginning of year	3,794,467	1,609,233
Additions	-	562,684
Additions through acquisition of Property Fox No 1 Ltd	-	1,525,000
Sales	(644,000)	-
Transfer assets held for sale	(193,560)	-
Capitalised development costs	250,464	97,550
Carrying amount at the end of year	3,207,371	3,794,467

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

	Note	2011 $	2010 $

12 Trade & Other Payables

Trade creditors	12(a)	40,000	81,231
		40,000	81,231

a. Trade creditors include:

- $7,562 payable to Woolcott Corporate Development Pty Ltd (related entity) in relation to services provided to the Group
- $5,141 payable to Fiducia Estate Agents Pty Ltd (related entity) in relation to services provided to the Group
- $5,500 payable in respect of director fees

13 Short Term Borrowings

Secured Liability

- Commercial bill facilities		1,280,338	90,338
		1,280,338	90,338

The facilities expire 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 18).

The carrying amount of non current assets pledged as security:

- *First registered mortgage - Anstead properties		148,560	184,233
- *First registered mortgage - Toowoomba properties	13a	3,197,370	-
Total assets pledged as security		3,345,930	184,233

*The first registered mortgages are provided to National Australia Bank

13a This facility was shown as a long term borrowing in 2010 as it had more than 12 months until it matured. The Group has entered into negotiations with the National Australia Bank Limited to extend the loan for a further period of at least 18 months.

14 Long Term Borrowings

Secured Liability

- Commercial bill facility		-	1,190,000
		-	1,190,000

The carrying amount of non current assets pledged as security:

- First registered mortgage - Toowoomba properties	14a.	-	2,965,930
Total assets pledged as security		-	2,965,930

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

	Note	2011 $	2010 $

15 Contributed Equity

		2011 $	2010 $
7,809,275 (2010 5,980,620) fully paid A class shares		4,966,750	4,509,587
Capital raising costs		(512,161)	(440,879)
		4,454,589	4,068,708
a. Movement of shares			
At beginning of the reporting year		5,980,620	3,017,999
Shares issued during the year at 25 cents per share		1,828,655	2,962,621
		7,809,275	5,980,620

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.

16 Earnings/(loss) per Share

	2011 $	2010 $
Earnings used in the calculation of earnings per share and dilutive earnings per share is the net profit after tax.	(543,370)	(574,061)
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	6,285,396	4,480,994

17 Cash Flow Information

Reconciliation of Cash Flow from Operations with Profit/(loss) from ordinary activities after Income Tax

	2011 $	2010 $
Profit/(loss) from ordinary activities after income tax	(543,370)	(574,061)
Equity accounting and fair value adjustments	-	76,004
Gain on sale of property	(228,840)	-
Non-cash management fee paid	320,000	-
Impairment of property assets	45,000	-
Changes in assets and liabilities:		
(Increase)/decrease in other assets	11,030	75,078
(Increase)/decrease in investments	-	62,616
(Increase)/decrease in property	(275,864)	(727,695)
Increase/(decrease) in payables	(41,231)	23,864
Cash flows from operations	(713,275)	(1,064,194)

(a) A portion of the proceeds from the issue of equity instruments was offset against the above non-cash management fee and as such an amount of $320,000 was not received in cash.

18 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 its minutes 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:

	2011 $	2010 $
Classes of financial assets – carrying amounts		
Cash and cash equivalents	301,643	50,797
	301,643	50,797

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 2011 the capped rate arrangement had expired and the bill facilities of $1,190,000 relating to the Toowoomba properties and $1,806,750 relating to the Anstead joint venture property (of which the Group's 5% shares is $90,338) were on a floating rate basis.

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 2011		$	$	$
Financial assets				
Cash at bank *	4.50%	-	301,643	301,643
		-	301,643	301,643
Financial liabilities				
Commercial bill facility - Toowoomba	8.83%	1,190,000	-	1,190,000
Commercial bill facility – Anstead	8.83%	90,338	-	90,338
		1,280,338	-	1,280,338

* $267,716 was invested in an interest bearing account paying 4.50% per annum

18 Financial Instruments (continued)

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. It is currently negotiating with the National Australia Bank Limited for an extension in the maturity of the loan used to finance the Toowoomba properties, which expires in February 2012. It is the Directors' view, based on the loan to value ratio of approximately 42%, that there should be no reason for the loan facility extension not to be granted.

The bill facility used to purchase the Anstead property, in which the Group has a joint venture partnership, will be repaid upon sale of the property, which is scheduled for 26th July 2011.

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

e. Inventory

Property is carried in the financial statements as inventory and recorded at lower of cost or net realisable value.

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.

During the current period, property assets were reclassified from property, plant and equipment to inventory, to reflect the change in intention to develop the properties held at Toowoomba.

18 Financial Instruments (continued)

At 30 June 2011, 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	
	2011	2010	2011	2010
	$	$	$	$
Cash and cash equivalents				
+ 1% (100 basis points)	3,016	-	3,016	-
- 1% (100 basis points)	(3,016)	-	(3,016)	-
Borrowings				
+ 1% (100 basis points)	(12,803)	(12,803)	(12,803)	(12,803)
- 1% (100 basis points)	12,803	12,803	12,803	12,803

At 30 June 2011, 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	
	2011	2010	2011	2010
	$	$	$	$
Toowoomba properties				
Adjustments are made through asset revaluation reserve account				
+ 10%	-	-	319,737	285,000
- 10%	-	-	(319,737)	(285,000)
Anstead JV (at 5% ownership)				
Adjustments are made through the Profit & Loss account				
+ 10%	14,856	18,423	14,856	18,423
- 10%	(14,856)	(18,423)	(14,856)	(18,423)

19 Related Party Details

	2011	2010
	$	$
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 Woolcott Corporate Development Pty Ltd, a company associated with Howard Woolcott. The management fees are calculated and paid monthly. These fees cover the provision of administration services to the Group including making available the office premises from which the Group operates.	92,686	70,325

	2011 $	2010 $

19 Related Party Details (continued)

		2011 $	2010 $
(ii)	**Termination of prior management agreements**		
	Property Fox No 2 Limited and its wholly owned subsidiary Property Fox No 1 Limited had management agreements with Fox Portfolio Pty Ltd, a Company controlled by Mr Peter Spann, which terminated on 1st July 2010. The fees payable under these agreements were based on a percentage of the paid up share capital of the companies and would currently exceed $250,000 per annum had they not been terminated. Fox Portfolio Pty Ltd agreed to termination of the agreements for the payment of $320,000. The value of the agreements was independently valued by BDO Corporate Finance (NSW-VIC) Pty Limited and their valuation exceeded this figure. Fox Portfolio Pty Ltd reinvested $320,000 in the capital of Property Fox No 2 Limited pursuant to an underwriting agreement entered into with the Group. The combined transactions were therefore cash flow neutral to Property Fox No 2 Limited.	320,000	-
(iii)	**Consulting fee**		
	Property Fox No 2 Limited paid consulting fees to Fiducia Estate Agents Pty Ltd, a company associated with Benjamin Doyle, for the provision of Mr. Doyle's services as Managing Director.	55,458	-
(iv)	**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.	84,363	103,332

20 Property Fox No 2 Limited Company Information

	2011 $	2010 $
Current Assets	459,564	21,603
Total Assets	3,666,935	3,815,575
Current Liabilities	1,320,338	263,324
Total Liabilities	1,320,338	1,097,412
Net Assets	**2,346,597**	**2,718,163**
Issued Capital	4,526,224	4,140,343
(Loss) for the year	(543,370)	(431,619)
Asset Revaluation Reserve	-	259,815
Accumulated losses	(1,636,257)	(1,250,376)
Total Equity	**2,346,597**	**2,718,163**

21 Controlled Entities

Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)* 2011	2010
Subsidiaries of Property Fox No 2 Limited			
Property Fox No 1 Limited	Australia	100.00	100.00

(a) * Percentage of voting power is in proportion to ownership

21 Controlled Entities (continued)

(b) 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.

22 Subsequent Events

The property at Anstead, in which the Group had a joint venture interest, was sold on 26th July 2011 and the loan from National Australia Bank. Limited disclosed at note 13 ($90,338 is the Group's share) was repaid.

On 25th August 2011 the financial statements were authorised for issue by a resolution of the board of directors.

There were no other events subsequent to reporting date to bring into account in the 30 June 2011 financial report.

23 Commitments and Contingencies

The Group did not have any commitments or contingent liabilities at year end.

24 Company details

The registered office of the Group is:

Suite 9, Level 5
137-139 Bathurst Street
SYDNEY NSW 2000
Phone: 02 9264 2216

The principal place of business of the Group is:
Suite 303, 45 Cross Street
DOUBLE BAY NSW 2028
Phone: 02 9363 9410

Directors' declaration

The directors of the Company declare that:

1. The financial statements and notes, as set out in pages 13 to 29, 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 2011 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

Howard Woolcott – Executive Director

Dated this 25th day of August of 2011.

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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Queensland 4000
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Brisbane
Queensland 4001

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Report on the financial report

We have audited the accompanying financial report, being a general purpose financial report, of Property Fox No. 2 Limited and its controlled entity (the "Group"), which comprises the statement of financial position as at 30 June 2011, 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 parent 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 Director's of the Group are responsible for the preparation and fair presentation of the financial report, and have determined that the accounting policies used and described in Note 1 to the financial report, which form part of the financial report, are appropriate to meet the requirements of the Corporations Act 2001 and the needs of the members in accordance with Australian Accounting Standards 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 Director's 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 Group'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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Group, 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 Group's financial position as at 30 June 2011 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1; and

   b complying with Australian Accounting Standards to the extent described in Note 1 and complying with 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 pages 5 to 6 of the directors' report for the year ended 30 June 2011. The Director's of the Group 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.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M S Bell
Director – Audit & Assurance

Brisbane, Dated 25 August 2011

Shareholder Information at 31 July 2011

Share Capital

Property Fox No. 2 Limited has on issue 7,809,275 fully paid "A" Class shares held by 332 holders as at 31 July 2011. All "A" Class shares of the Company carry one vote per share.

Twenty Largest Shareholders

Rank	Investor Name	Total Shares	% of Issued Capital
1	Fox Portfolio Pty Ltd	1,380,000	17.67%
2	Excela Limited	371,820	4.76%
3	Minara Pty Ltd	120,000	1.54%
4	Property Fox No. 1 Limited *	103,499	1.33%
5	Property Fox No. 1 Limited **	100,801	1.29%
6	Peter Schaap & Pauline Schaap	90,000	1.15%
7	Quest Invest Pty Ltd	72,000	0 .92%
8	C & AC Pty Ltd	64,800	0.83%
9	Michael Brown	60,000	0.77%
10	C.J. Owen & Associates Pty Ltd	60,000	0.77%
11	Christopher P. Eldridge & Ann E. Eldridge	60,000	0.77%
12	Mirus Vita Pty Ltd	60,000	0.77%
13	David Oliver	60,000	0.77%
14	Alan Graham Hinde	55,000	0.70%
15	Damien Negus	54,000	0.69%
16	D.W. Searle & R. A. Searle	54,000	0.69%
17	Claire Winifred Charman	50,800	0.65%
18	Trevor John O'Shea + Joanne Elsie O'Shea	50,000	0.64%
19	Hugh Skelly & Margaret Skelly	50,000	0.64%
20	Ramon Charles Williams	50,000	0.64%
	Total	**2,966,720**	**37.99%**

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

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

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	4	20,000	0.26%
5,001 – 10,000	97	960,800	12.30%
10,001 – 50,000	214	4,011,755	51.37%
50,001 – 100,000	12	740,600	9.48%
100,001 and over	5	2,076,120	26.59%
Total	**332**	**7,809,275**	**100.00%**

Corporate Directory

Directors	Peter Spann Benjamin Doyle Howard Woolcott Peter Conway
Company Secretary	Andrew Whitten
Registered office in Australia	Suite 9, Level 5 137-139 Bathurst Street Sydney NSW 2000 (02) 9264 2216
Principal office in Australia	Suite 303, Level 3 45 Cross Street Double Bay NSW 2028 (02) 9363 9410
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