

CPT-2

CHILDCARE PROPERTY TRUST NO 2
ARSN 100 176 805

Half-year financial report
31 December 2005



**CHILDCARE PROPERTY TRUST NO 2
DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

The directors of DDH Graham Limited, ("the Responsible Entity") the Responsible Entity of Childcare Property Trust No 2 ("the Trust") present their report together with the financial report of the Trust for the half-year ended 31 December 2005 and the independent auditors' review report thereon.

Directors of the Responsible Entity

The directors of DDH Graham Limited during or since the end of the financial half-year are:

Name	Period of directorship
■ Mr David D H Graham	Managing Director since 1986.
■ Mr Peter B Lockhart	Appointed 1988.
■ Mr Ugo C Di Girolamo	Appointed 2000.

Review of operations

The Trust properties are located as follows:

- | | |
|---------------------------------------|------------------------------|
| ■ Banora Point, NSW | ■ Jensen, Townsville, QLD |
| ■ Colonel Light Gardens, Adelaide, SA | ■ Mooroopna, Shepparton, VIC |
| ■ Deeragun, Townsville, QLD | ■ Morayfield, QLD |
| ■ Glenvale, Toowoomba, QLD | ■ Whiterock, Cairns, QLD |
| ■ Gulliver, Townsville, QLD | ■ Woree, Cairns, QLD |
| ■ Gympie, QLD | |

For further information on the properties, refer to Note 5 in the financial statements.

Each centre is leased to and managed by Peppercorn Holdings No 2 Pty Ltd, a wholly owned subsidiary of A.B.C. Learning Centres Limited ("ABC").

Results

The result for the six months to 31 December 2005 was a net profit after income tax of \$167,565. For the corresponding period in 2004, the net profit after tax was \$229,137.

The first quarter of the financial year is generally one of minimal volatility in terms of the performance of the Trust's childcare centres. Families and centre managements are well settled into their routines for the year and centre occupancies tend to remain fairly stable throughout the period. However in the latter weeks of the second quarter, occupancy levels enter their traditional low period as summer holidays and the transition of older children to school occurs.

Whilst remaining mindful of the highly competitive nature of fees charged in some areas, fees were increased in early July in all centres by an average of \$4.00 per day. This coincided with the Family Assistance Offices' annual review and increase of the Child Care Benefit (CCB) payable to parents. The fee increase was necessary to cover escalating operating expenses and in particular to protect margins preceding the annual wage review which became operative in early September.

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While occupancy levels were maintained at first quarter levels of 73% in October and November, the seasonal downturn in occupancy was particularly marked in December. This, together with competition (particularly from newly built centres), resulted in an average occupancy level over the half of 71%. As a consequence of softening occupancy levels the labour cost ratio rose to an average 56% over the period. Strong competition, particularly in North Queensland and parts of Southeast Queensland, continues to be a major issue.

The Responsible Entity considers these overall outcomes as unsatisfactory and is examining a number of remedial strategies with ABC to address this operational underperformance and the urgent need to increase occupancy levels.

The distribution for the half-year to 31 December 2005 is 2.50 (2004: 3.75) cents per unit. This represents an annualised return of 5% based on an initial issue price of \$1.00 per unit. The income portion of 1.90 cents per unit is franked to an average level of 85%.

Auditor's Independence Declaration

The auditor's independence declaration is set out on page 3 and forms part of this directors' report for the half-year ended 31 December 2005.

Dated at Brisbane this 21st day of March 2006

Signed in accordance with a resolution of the directors of DDH Graham Limited.

**DDH Graham
Managing Director
DDH Graham Limited**

CHILDCARE PROPERTY TRUST NO 2
AUDITOR'S INDEPENDENCE DECLARATION
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Unit holders of Childcare Property Trust No 2

I declare that, to the best of my knowledge and belief, in relation to the audit of Childcare Property Trust No 2 for the half year ended 31 December 2005 there have been:

- (i) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Signed at Brisbane on 21st March 2006

WILLIAM BUCK
Chartered Accountants

D W LANGDON
Lead Audit Partner

CHILDCARE PROPERTY TRUST NO 2
 INCOME STATEMENT
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Note	2005 \$	2004 \$
Revenue			
Lease income		557,043	671,461
Interest income		4,446	3,551
Total revenue		561,489	675,012
Expenses			
Borrowing costs		209,679	191,561
Responsible Entity's remuneration		67,727	67,530
Depreciation		51,655	45,440
Other expenses	2	50,004	64,843
Total expenses		379,065	369,374
Net Profit before income tax expense		182,424	305,638
Income tax expense		(14,859)	(76,501)
Net Profit after income tax expense		167,565	229,137

Earnings per unit:

Basic (cents per unit)	1.90	2.60
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There are no dilutive potential ordinary units, therefore diluted earnings per unit has not been calculated or disclosed.

CHILDCARE PROPERTY TRUST NO 2
BALANCE SHEET
AS AT 31 DECEMBER 2005

	Note	31 Dec 2005 \$	30 Jun 2005 \$
Assets			
Current assets			
Cash and cash equivalents		233,897	237,723
Trade and other receivables		294,833	282,666
Other current assets		24,022	16,860
Current tax assets		118,198	115,242
Total current assets		670,950	652,491
Non current assets			
Investment properties	5	12,915,417	12,876,647
Furniture, fixtures and fittings		633,585	675,361
Total non current assets		13,549,002	13,552,008
Total assets		14,219,952	14,204,499
Liabilities			
Current liabilities			
Trade and other payables	3	574,560	530,686
Current tax liabilities		(179,254)	(203,278)
Total current liabilities		395,306	327,408
Non current liabilities			
Borrowings		5,250,000	5,250,000
Deferred tax liabilities		273,082	273,082
Total non current liabilities		5,523,082	5,523,082
Total liabilities		5,918,388	5,850,490
Net assets		8,301,564	8,354,009
Equity			
Issued capital		7,614,200	7,666,645
Retained earnings		687,364	687,364
Total equity		8,301,564	8,354,009

The Balance Sheet is to be read in conjunction with the notes to the financial statements set out on pages 8 to 16.

CHILDCARE PROPERTY TRUST NO 2
 STATEMENT OF CHANGES IN EQUITY
 FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	Note	2005	2004
		\$	\$
Total equity at the beginning of the half-year		8,354,009	8,437,265
Adjustments on adoption of AIFRS			
Transfers from asset revaluation reserve		-	(637,190)
Transfer to retained earnings		-	637,190
Recognition of deferred tax asset relating to capital raising costs			98,784
Profit for the half year		167,565	229,137
Distributions paid or payable	3	(220,010)	(330,000)
Total equity at the end of the half-year		8,301,564	8,435,186

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 8 to 16.

CHILDCARE PROPERTY TRUST NO 2
CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	2005 \$	2004 \$
Cash flows from operating activities		
Lease income received	639,543	670,130
Cash payments in the course of operations	(208,684)	(197,512)
Interest received	4,446	3,551
Income taxes refunded / (paid)	6,210	(57,230)
Net cash provided by operating activities	441,515	418,939
Cash flows from investing activities		
Payments for furniture, fixtures and fittings	-	(19,375)
Net cash used in investing activities	-	(19,375)
Cash flows from financing activities		
Borrowing costs paid	(203,331)	(191,508)
Distribution paid	(242,010)	(286,290)
Net cash used in financing activities	(445,341)	(477,798)
Net increase (decrease) in cash and cash equivalents	(3,826)	(78,234)
Cash and cash equivalents at the beginning of the half-year	237,723	167,711
Cash and cash equivalents at the end of the half-year	233,897	89,477

The Cash Flow Statement is to be read in conjunction with the notes to the financial statements set out on pages 8 to 16.

1. Statement of significant accounting policies

The significant accounting policies which have been adopted by the Trust in the preparation of this half-year financial report are:

(a) Basis of preparation

The half-year financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

As this is the first financial report prepared under Australian equivalents to International Financial Reporting Standards ("AIFRS"), the accounting policies applied are inconsistent with those applied in the 30 June 2005 annual report as this report was presented under previous Australian General Accepted Accounting principles ("AGAAP"). Accordingly, a summary of the significant accounting policies under AIFRS has been included below. A reconciliation of equity and profit and loss between previous AGAAP and AIFRS has been prepared in Note 9.

The Trust changed its accounting policies on 1 July 2005 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition.

The accounting policies set out below have been applied in preparing the financial statements for the half-year ended 31 December 2005, the comparative information presented in these financial statements, and in the preparation of the opening AIFRS balance sheet at 1 July 2004.

(b) Revenue and expenditure recognition

Lease income

Lease income is brought to account on an accrual basis and, if not received at balance date, is reflected in the Balance Sheet as a receivable.

Interest Income

Interest income is recognised in the income statement as it accrues, using the original effective interest rate of the instrument calculated at the origination date.

Property expenses

Property expenses consist of rates, taxes and other property outgoings in relation to investment properties where such expenses are the responsibility of the Trust.

Responsible Entity's remuneration

Under the Trust Constitution, the Responsible Entity is entitled to a fee amounting to 0.125% of the Total Tangible Assets of the Trust for each quarterly period together with a fixed component of \$65,564 per annum subject to CPI increase.

1. Statement of significant accounting policies (Continued)

Operator's remuneration

In accordance with each of the property leases, the lessee and operator of the childcare centres, Peppercorn Holdings No.2 Pty Ltd, is entitled to receive a base management fee of \$2,004 per centre operated per month (indexed by the CPI) plus 2% of gross revenue and 10% of net operating income (after deducting the base fee and 2% of gross revenue).

The operator's remuneration is deducted before lease income is paid to the Trust and as a result is not included as an expense in these financial statements.

All expenses are brought to account on an accrual basis.

(c) Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

(d) Income tax

The Trust is taxed on a similar basis to a company. Accordingly, the Trust is subject to income tax at the prevailing corporate rate.

Distributions to Unitholders out of profit are treated as dividends for tax purposes and may be franked to the extent franking credits are available. Thus, such distributions are taxed at an investor's marginal tax rate subject to the level of franking credits attaching to the distributions. Distributions which exceed the profit of the Trust are treated as a return of capital for tax purposes. Returns of capital are not assessable but reduce the Unitholder's cost base for the purposes of determining any liability for capital gains tax on disposal of the units.

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principal, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

1. Statement of significant accounting policies (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Trust expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Trust intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(e) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- Plant and equipment 4 – 20 years

Depreciation rates and methods shall be reviewed at least annually and, where changed, shall be accounted for as a change in accounting estimate. Where depreciation rates or methods are changed, the net written down value of the asset is depreciated from the date of the change in accordance with the new depreciation rate or method. Depreciation recognised in prior financial years shall not be changed, that is, the change in depreciation rate or method shall be accounted for on a 'prospective' basis.

(f) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(g) Receivables

Trade receivables, loans and other receivables are recorded at amortized cost less impairment.

(h) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Trust. Trade accounts payable are normally settled within 30 days.

1. Statement of significant accounting policies (Continued)

(i) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(j) Goods and services tax

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 Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(k) Impairment of assets

At each reporting date, the Trust reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Trust estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Any excess of the asset's carrying value over its recoverable amount is expensed to the Income Statement.

(l) Financial instruments issued by the Trust

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and distributions are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments.

1. Statement of significant accounting policies (Continued)

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown with borrowings in current liabilities in the balance sheet.

(n) Earnings per unit

(i) Basic earnings per unit

Basic earnings per unit is calculated by dividing the profit attributable to equity holders of the Trust, excluding any costs of servicing equity other than ordinary units, by the weighted average number of ordinary units outstanding during the half-year.

(ii) Diluted earnings per unit

Diluted earnings per unit adjusts the figures used in the determination of basic earnings per unit to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary units and the weighted average number of units assumed to have been issued for no consideration in relation to dilutive potential ordinary units.

(o) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

CHILDCARE PROPERTY TRUST NO 2
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

2. Other expenses from ordinary activities

	2005	2004
	\$	\$
Auditor's remuneration		
- Audit services	4,050	2,938
Bank charges	153	481
Compliance costs	5,000	5,000
Custodian fees	7,500	7,500
Insurance	3,208	3,608
Legal fees	1,679	1,918
Lodgement fees	1,131	1,098
Postage and courier costs	637	26
Printing and stationery	723	1,805
Rates and taxes	9,205	23,674
Repairs & maintenance	12,885	13,171
Sundry expenses	301	6
Unit registry costs	3,532	3,618
	50,004	64,843

3. Distributions

	2005		2004	
	\$	c/unit	\$	c/unit
Distribution paid – September quarter	132,000	1.50	198,000	2.25
Distribution payable – December quarter	88,010	1.00	132,000	1.50
	220,010	2.50	330,000	3.75

4. Segment reporting

The Trust's revenues are entirely derived from the ownership and leasing of childcare centres. All operations and assets are based in Australia. Accordingly the Trust's domicile is in Australia.

CHILD CARE PROPERTY TRUST NO 2
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

5. Investment properties

Address	Title	Ownership	Acquisition date	Cost including additions \$	Valuation date	Valuation \$	Carrying value 31/12/05 \$	Carrying value 30/06/05 \$
3 Charlotte Close, Woree, Cairns, QLD	F/hold	100%	05/04/02	1,212,498	16/08/04	1,015,000	963,801	959,001
9 Brose Street, Whiterock, Cairns, QLD	F/hold	100%	05/04/02	1,216,697	16/08/04	1,200,000	1,159,623	1,159,623
9 Tozer Park Road, Gympie, QLD	F/hold	100%	28/03/02	1,232,273	16/08/04	1,675,000	1,617,964	1,617,964
16 Palm Drive, Deeragun, Townsville, QLD	F/hold	100%	05/04/02	355,202	16/08/04	300,000	292,938	286,658
79 Veales Road, Jensen, Townsville, QLD	F/hold	100%	05/04/02	1,068,169	16/08/04	1,175,000	1,106,770	1,103,780
61 McLean Street, Gulliver, Townsville, QLD	F/hold	100%	12/04/02	1,056,163	18/07/04	1,350,000	1,309,959	1,309,959
14-18 Grant Street, Morayfield, QLD	F/hold	100%	02/04/02	1,192,764	16/08/04	1,275,000	1,221,785	1,204,135
21-23 Ann Street, Mooroopna, Shepparton, VIC	F/hold	100%	28/06/02	1,037,645	17/06/04	1,180,000	1,128,823	1,128,823
615 Greenwattle Street, Glenvale, Toowoomba, QLD	F/hold	100%	26/07/02	1,303,711	22/06/04	1,300,000	1,250,394	1,247,619
17 Covent Gardens Way, Banora Point, NSW	F/hold	100%	15/07/02	1,278,979	16/08/04	1,700,000	1,610,574	1,606,299
57 Salisbury Crescent, Colonel Light Gardens, Adelaide, SA	F/hold	100%	01/07/02	1,051,045	13/07/04	1,330,000	1,252,786	1,252,786
Total investment properties				12,005,146		13,500,000	12,915,417	12,876,647

The valuation of investment properties includes non-integral assets which are disclosed separately in the Balance Sheet.

6. Net tangible assets

	31 Dec 2005	30 Jun 2005
Net tangible assets	\$8,301,564	\$8,354,009
Units issued	8,800,025	8,800,025
Net tangible asset backing (at book value) per unit	\$0.9434	\$0.9493

7. Events subsequent to reporting date

Since 31 December 2005, no event has arisen that would be likely to materially affect the operations of the Trust or the state of affairs of the Trust not otherwise disclosed in the Trust's financial report.

CHILDCARE PROPERTY TRUST NO 2
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

8. Contingent liabilities

There has been no change in contingent liabilities since the last annual reporting date.

9. Explanation of transition to Australian equivalents to IFRSs

(a) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	Note	30 June 2005 \$	31 December 2004 \$	1 July 2004 \$
Total equity under AGAAP		8,303,835	8,360,706	8,437,265
Transfer from asset revaluation reserve	9 (f) (i)	(637,190)	(637,190)	(637,190)
Transfer to retained earnings	9 (f) (i)	637,190	637,190	637,190
Recognition of deferred tax asset relating to capital raising costs	9 (f) (ii)	50,174	74,480	98,784
Total equity under AIFRS		<u>8,354,009</u>	<u>8,435,186</u>	<u>8,536,049</u>

(b) Adjustments to balance sheet classifications at 1 July 2004

	Note	1 July 2004 \$
Increase in deferred tax assets	9 (f) (ii)	<u>98,784</u>

(c) Reconciliation of profit after tax under AGAAP to that under AIFRS

	Note	Year ended 30 June 2005 \$	Half-year ended 31 December 2004 \$
Net profit after tax under AGAAP		394,570	253,441
Increase in income tax expense	9 (f) (ii)	(48,610)	(24,304)
Net profit after tax under AIFRS		<u>345,960</u>	<u>229,137</u>

(d) Retained Earnings

The effect on retained earnings of the changes set out above are as follows:

	Note	30 June 2005 \$	31 December 2004 \$	1 July 2004 \$
Transfer from asset revaluation reserve	9 (f) (i)	637,190	637,190	637,190
Recognition of deferred tax asset relating to capital raising costs	9 (f) (ii)	50,174	74,480	98,784
		<u>687,364</u>	<u>711,670</u>	<u>735,974</u>

9. Explanation of transition to Australian equivalents to IFRSs (Continued)

(e) Reconciliation of cash flow statement

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement for the half-year ended 31 December 2004 or for the year ended 30 June 2005.

(f) Notes

(i) Investment property

The asset revaluation reserve balance relating to revaluations of investment property has been derecognised at transition date and adjusted against retained earnings.

(ii) Taxation

Income tax allowances relating to capital raising costs recognised directly in equity have been recognised as a deferred tax asset at transition date and adjusted against retained earnings.

**CHILDCARE PROPERTY TRUST NO 2
DIRECTORS' DECLARATION
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

In the opinion of the directors of DDH Graham Limited, the Responsible Entity of Childcare Property Trust No 2 ("the Trust"):

1. there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.
2. the financial statements and notes set out on pages 4 to 16 are in accordance with the Corporations Act 2001, including:
 - (a) compliance with accounting standards; and
 - (b) giving a true and fair view of the financial position and performance of the Trust; and
3. the Trust has operated during in accordance with the provisions of the Trust Constitution dated 23 January 2002 (as amended).

Dated at Brisbane this 21st day of March 2006.

Signed in accordance with a resolution of the directors of DDH Graham Limited.

**DDH Graham
Managing Director
DDH Graham Limited**

**INDEPENDENT AUDITORS' REVIEW REPORT
TO THE UNITHOLDERS OF CHILDCARE PROPERTY TRUST NO 2
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

Scope

We have reviewed the financial report of Childcare Property Trust No 2 ("the Trust") for the half-year ended 31 December 2005, consisting of the Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows, accompanying notes and the Directors' Declaration set out on pages 4 to 17. The directors of the Responsible Entity, DDH Graham Limited ("the Responsible Entity") are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134: Interim Financial Reporting, other mandatory professional reporting requirements and statutory requirements in Australia and the provisions of the Trust Constitution dated 23 January 2002 (as amended), so as to present a view which is consistent with our understanding of the Trust's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the Responsible Entity to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of the Responsible Entity and analytical procedures applied to the financial data. Our review has not involved a study and evaluation of internal accounting controls, tests of accounting records or tests of responses to inquiries by obtaining corroborative evidence from inspection, observation or confirmation. The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Statement

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

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Trust's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements; and
- (c) the provisions of the Trust Constitution dated 23 January 2002 (as amended).

William Buck
Chartered Accountants

DW Langdon
Partner

Brisbane 21 March 2006

CHILDCARE PROPERTY TRUST NO 2
DIRECTORY

Responsible Entity and Principal place of business of the Trust	DDH Graham Limited Level 18 344 Queen Street Brisbane Qld 4000
Directors of Responsible Entity	David DH Graham Peter B Lockhart Ugo C Di Girolamo
Childcare Centre Operator	Peppercorn Holdings No 2 Pty Ltd Level 5 232 Adelaide Street Brisbane Qld 4000
Solicitors	Macrossans Lawyers Level 23 AMP Place 10 Eagle Street Brisbane Qld 4000
Auditors	William Buck Level 16 William Buck Centre 120 Edward Street Brisbane Qld 4000
Taxation Advisors	PricewaterhouseCoopers Level 17 Waterfront Place 1 Eagle Street Brisbane Qld 4000
Bank	National Australia Bank Level 24, 500 Bourke Street Melbourne VIC 3000
Valuer	Landmark White Level 12 97 Creek Street Brisbane Qld 4000
Custodian	Permanent Trustee Australia Limited 213-217 St Paul's Terrace Spring Hill Qld 4006