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CHILDCARE PROPERTY TRUST NO 3  
ARSN 100 596 218

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Half-year financial report  
31 December 2005



**CHILDCARE PROPERTY TRUST NO 3  
DIRECTORS' REPORT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

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The directors of DDH Graham Limited, ("the Responsible Entity") the Responsible Entity of Childcare Property Trust No 3 ("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:

| <b>Name</b>            | <b>Period of directorship</b> |
|------------------------|-------------------------------|
| ■ 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:

- Annandale, Townsville, QLD
- Camira, Brisbane, QLD
- Moulden, Darwin, NT
- Wodonga, VIC
- Bentley Park, Cairns, QLD
- Bentley Park, Cairns, QLD
- Toowoomba, QLD
- Buderim, Sunshine Coast, QLD
- Sippy Downs, Sunshine Coast, QLD
- High Wycombe, Perth, WA
- Plympton, Adelaide, SA
- Alexander Heights, Perth, WA
- Manunda, Cairns, QLD
- Moulden, Darwin, NT
- Cooloongup, Perth, WA

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 3 Pty Ltd, a wholly owned subsidiary of A.B.C. Learning Centres Limited ("ABC").

### **Results**

The result for the half-year to 31 December 2005 was a net profit after income tax of \$374,266. For the corresponding period in 2004, the net profit after tax was \$293,972.

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 at this time.

**CHILDCARE PROPERTY TRUST NO 3  
DIRECTORS' REPORT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

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The benefits of the strategy of holding a number of freehold properties earning a fixed monthly rental return is apparent – eight of the Trust's centres are now held as freehold land and buildings, and these provide a stable base for the Trust's earnings in periods of seasonal weakness.

The remaining seven centres earn a profit based rental return and as such are subject to market trading conditions. Over the first quarter occupancy rates rose slightly to average approximately 85%, while the labour cost ratio has been maintained at approximately 53%. Throughout most of the second quarter occupancy levels were generally maintained, with the seasonal downturn becoming evident in the last few weeks of the quarter. This resulted in a reduced average occupancy level over the second quarter of 81%. As a consequence of softening occupancy levels the labour cost ratio rose to 56% over the second quarter.

For the half year overall occupancy averaged 83% and the labour cost ratio 54%.

Competition, particularly from newly built centres remains a major issue. In such an environment ABC is mindful of the need to provide high quality care to ensure parents maintain their child's attendance at Trust centres. In addition, the presentation and resourcing of Trust centres needs to be of a high standard to facilitate on-going parent support.

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.

The distribution for the half-year to 31 December 2005 is 4.00 cents per unit (2004: 4.00 cents per unit). The income portion of 3.04 cents per unit is franked to an average level of 85%. This represents an annualised yield of 8% based on an initial issue price of \$1.00 per unit. The second quarter distribution is at the same level as the first quarter, that is 2.0 cents per unit.

**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 3  
AUDITOR'S INDEPENDENCE DECLARATION  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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

To the Unit holders of Childcare Property Trust No 3

I declare that, to the best of my knowledge and belief, in relation to the audit of Childcare Property Trust No 3 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 3  
 INCOME STATEMENT  
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

|   | Note | 2005           | 2004             |
|---|------|----------------|------------------|
|   |      | \$             | \$               |
| <b>Revenue</b>                                |      |                |                  |
| Lease income                                  |      | 802,077        | 876,921          |
| Gross proceeds on sale of investment property |      | -              | 2,976,917        |
| Interest income                               |      | 8,824          | 24,382           |
| <b>Total revenue</b>                          |      | <b>810,901</b> | <b>3,878,220</b> |
| <b>Expenses</b>                               |      |                |                  |
| Borrowing costs                               |      | 172,749        | 240,689          |
| Responsible Entity's remuneration             |      | 71,428         | 75,920           |
| Costs relating to sale of investment property |      | -              | 2,997,098        |
| Depreciation                                  |      | 50,255         | 60,259           |
| Other expenses                                | 2    | 52,664         | 115,691          |
| <b>Total expenses</b>                         |      | <b>347,096</b> | <b>3,489,657</b> |
| <b>Net Profit before income tax expense</b>   |      | <b>463,805</b> | <b>388,563</b>   |
| Income tax expense                            |      | (89,539)       | (94,591)         |
| <b>Net Profit after income tax expense</b>    |      | <b>374,266</b> | <b>293,972</b>   |
| <b>Earnings per unit:</b>                     |      |                |                  |
| Basic (cents per unit)                        |      | 3.04           | 2.39             |

*There are no dilutive potential ordinary units, therefore diluted earnings per unit has not been calculated or disclosed.*

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

CHILDCARE PROPERTY TRUST NO 3  
BALANCE SHEET  
AS AT 31 DECEMBER 2005

|                                      | Note | 31 Dec 2005       | 30 Jun 2005       |
|--------------------------------------|------|-------------------|-------------------|
|                                      |      | \$                | \$                |
| <b>Assets</b>                        |      |                   |                   |
| <b>Current assets</b>                |      |                   |                   |
| Cash and cash equivalents            |      | 163,125           | 349,553           |
| Trade and other receivables          |      | 291,448           | 200,348           |
| Other current assets                 |      | 53,053            | 35,398            |
| Current tax assets                   |      | 160,498           | 153,273           |
| <b>Total current assets</b>          |      | <b>668,124</b>    | <b>738,572</b>    |
| <b>Non current assets</b>            |      |                   |                   |
| Investment properties                | 5    | 14,560,005        | 14,543,584        |
| Furniture, fixtures and fittings     |      | 627,178           | 659,327           |
| <b>Total non current assets</b>      |      | <b>15,187,183</b> | <b>15,202,911</b> |
| <b>Total assets</b>                  |      | <b>15,855,307</b> | <b>15,941,483</b> |
| <b>Liabilities</b>                   |      |                   |                   |
| <b>Current liabilities</b>           |      |                   |                   |
| Trade and other payables             | 3    | 509,744           | 505,653           |
| Current tax liabilities              |      | (77,732)          | (105,999)         |
| <b>Total current liabilities</b>     |      | <b>432,012</b>    | <b>399,654</b>    |
| <b>Non current liabilities</b>       |      |                   |                   |
| Borrowings                           |      | 4,703,000         | 4,703,000         |
| Deferred tax liabilities             |      | 35,437            | 35,437            |
| <b>Total non current liabilities</b> |      | <b>4,738,437</b>  | <b>4,738,437</b>  |
| <b>Total liabilities</b>             |      | <b>5,170,449</b>  | <b>5,138,091</b>  |
| <b>Net assets</b>                    |      | <b>10,684,858</b> | <b>10,803,392</b> |
| <b>Equity</b>                        |      |                   |                   |
| Issued capital                       |      | 10,492,440        | 10,610,974        |
| Retained earnings                    |      | 192,418           | 192,418           |
| <b>Total equity</b>                  |      | <b>10,684,858</b> | <b>10,803,392</b> |

*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 3**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

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|   | Note | 2005              | 2004              |
|---|------|-------------------|-------------------|
|   |      | \$                | \$                |
| Total equity at the beginning of the half-year                      |      | 10,803,392        | 11,088,375        |
| <b>Adjustments on adoption of AIFRS</b>                             |      |                   |                   |
| Transfer from asset revaluation reserve                             |      | -                 | (82,686)          |
| Transfer to retained earnings                                       |      | -                 | 82,686            |
| Recognition of deferred tax asset relating to capital raising costs |      | -                 | 164,598           |
| Profit for the half year  |      | 374,266           | 293,972           |
| Distributions paid or payable                                       | 3    | (492,800)         | (492,800)         |
| <b>Total equity at the end of the half-year</b>                     |      | <b>10,684,858</b> | <b>11,054,145</b> |

*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 3  
CASH FLOW STATEMENT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

|  | 2005<br>\$       | 2004<br>\$         |
|--|------------------|--------------------|
| <b>Cash flows from operating activities</b>                        |                  |                    |
| Lease income received  | 883,318          | 743,486            |
| Cash payments in the course of operations                          | (205,537)        | (165,735)          |
| Interest received  | 8,824            | 24,382             |
| Income taxes paid  | (68,496)         | (56,461)           |
| <b>Net cash provided by operating activities</b>                   | <b>618,109</b>   | <b>545,672</b>     |
| <b>Cash flows from investing activities</b>                        |                  |                    |
| Proceeds from sale of investment properties                        | -                | 2,976,917          |
| Payments for furniture, fixtures and fittings                      | (138,730)        | (23,195)           |
| <b>Net cash used in investing activities</b>                       | <b>(138,730)</b> | <b>2,953,722</b>   |
| <b>Cash flows from financing activities</b>                        |                  |                    |
| Borrowing costs paid   | (173,006)        | (224,902)          |
| Distribution paid  | (492,801)        | (492,801)          |
| Repayment of borrowings  | -                | (2,500,000)        |
| <b>Net cash used in financing activities</b>                       | <b>(665,807)</b> | <b>(3,217,703)</b> |
| <b>Net increase (decrease) in cash and cash equivalents</b>        | <b>(186,428)</b> | <b>281,691</b>     |
| <b>Cash and cash equivalents at the beginning of the half-year</b> | <b>349,553</b>   | <b>315,180</b>     |
| <b>Cash and cash equivalents at the end of the half-year</b>       | <b>163,125</b>   | <b>596,871</b>     |

*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.3 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 3**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

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**2. Other expenses from ordinary activities**

|                              | 2005   | 2004    |
|------------------------------|--------|---------|
|                              | \$     | \$      |
| Auditor's remuneration       |        |         |
| Audit services               | 4,050  | 2,843   |
| Bank charges                 | 281    | 133     |
| Compliance costs             | 5,000  | 5,000   |
| Consultant fees              | -      | 1,500   |
| Courier                      | -      | 121     |
| Custodian fees               | 7,500  | 7,500   |
| Insurance                    | 4,038  | 4,935   |
| Legal fees                   | 840    | 34,860  |
| Lodgment fees                | 1,098  | 1,368   |
| Printing and stationery      | 1,287  | 3,316   |
| Property evaluation costs    | -      | 5,000   |
| Rates and taxes              | 10,312 | 30,606  |
| Repairs and maintenance      | 13,156 | 13,417  |
| Responsible Entity's outlays | 466    | 14      |
| Unit registry fees           | 4,636  | 5,078   |
|                              | 52,664 | 115,691 |
|                              | 52,664 | 115,691 |

**3. Distributions**

|  | 2005    |        | 2004    |        |
|--|---------|--------|---------|--------|
|  | \$      | ¢/unit | \$      | ¢/unit |
| Distribution paid –<br>September quarter   | 246,400 | 2.00   | 246,400 | 2.00   |
| Distribution payable –<br>December quarter | 246,400 | 2.00   | 246,400 | 2.00   |
|  | 492,800 | 4.00   | 492,800 | 4.00   |
|  | 492,800 | 4.00   | 492,800 | 4.00   |

CHILD CARE PROPERTY TRUST NO 3  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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.

5. Investment Properties

| Address   | Title  | Ownership | Acquisition date | Cost including additions<br>\$ | Valuation date | Valuation<br>\$   | Carrying value<br>31/12/05<br>\$ | Carrying value<br>30/06/05<br>\$ |
|---|--------|-----------|------------------|--------------------------------|----------------|-------------------|----------------------------------|----------------------------------|
| 121 Yolanda Drive,<br>Annandale, Townsville, QLD              | F/hold | 100%      | 02/08/02         | 707,570                        | 05/07/04       | 910,000           | 910,000                          | 910,000                          |
| 2-4 Cochrane Street,<br>Camira, QLD                           | F/hold | 100%      | 30/08/02         | 1,273,592                      | 24/06/04       | 1,150,000         | 1,078,639                        | 1,070,389                        |
| 2440 Moulden Terrace,<br>Moulden, Darwin, NT                  | F/hold | 100%      | 30/09/02         | 881,092                        | 29/06/04       | 900,000           | 900,000                          | 900,000                          |
| 134 De Kerilleau Drive,<br>Wodonga, VIC                       | F/hold | 100%      | 27/09/02         | 921,580                        | 17/06/04       | 1,400,000         | 1,302,703                        | 1,302,703                        |
| 2-4 Kangaroo Street,<br>Bentley Park, Cairns, QLD             | F/hold | 100%      | 30/09/02         | 1,239,970                      | 28/06/04       | 1,350,000         | 1,255,008                        | 1,255,008                        |
| 60-64 Roberts Road,<br>Bentley Park, Cairns, QLD              | F/hold | 100%      | 30/09/02         | 791,866                        | 28/06/04       | 910,000           | 910,000                          | 910,000                          |
| 332 Spring Street, West<br>Toowoomba, QLD                     | F/hold | 100%      | 07/10/02         | 844,523                        | 17/06/04       | 720,000           | 720,000                          | 720,000                          |
| 37 Glen Kyle Drive,<br>Buderim, QLD                           | F/hold | 100%      | 30/09/02         | 1,217,905                      | 22/06/04       | 1,400,000         | 1,300,950                        | 1,300,950                        |
| 11 Scholars Way,<br>Sippy Downs, QLD                          | F/hold | 100%      | 30/09/02         | 1,379,844                      | 22/06/04       | 1,580,000         | 1,498,852                        | 1,490,681                        |
| 81-83 Cuthbertson Drive,<br>Cooloongup, Perth, WA             | F/hold | 100%      | 13/12/02         | 493,023                        | 09/06/04       | 470,000           | 470,000                          | 470,000                          |
| 185 Maida Vale Road,<br>High Wycombe, Perth, WA               | F/hold | 100%      | 01/11/02         | 356,216                        | 10/06/04       | 370,000           | 370,000                          | 370,000                          |
| 9 Mooringe Avenue,<br>Plympton, Adelaide, WA                  | F/hold | 100%      | 30/09/02         | 1,257,869                      | 22/06/04       | 1,600,000         | 1,485,318                        | 1,485,318                        |
| 95 Azelia Street,<br>Alexander Heights, Perth, WA             | F/hold | 100%      | 08/11/02         | 1,164,743                      | 09/06/04       | 1,050,000         | 968,535                          | 968,535                          |
| 38 James Street,<br>Manunda, Cairns, QLD                      | F/hold | 100%      | 04/10/02         | 640,150                        | 28/06/04       | 590,000           | 590,000                          | 590,000                          |
| Cnr Temple Terrace &<br>Tamarind Road,<br>Moulden, Darwin, NT | F/hold | 100%      | 04/11/02         | 795,106                        | 29/06/04       | 800,000           | 800,000                          | 800,000                          |
| <b>Total investment properties</b>                            |        |           |                  | <b>13,965,049</b>              |                | <b>15,200,000</b> | <b>14,560,005</b>                | <b>14,543,584</b>                |

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

CHILDCARE PROPERTY TRUST NO 3  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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6. Net tangible assets

|   | 31 Dec 2005  | 30 Jun 2005  |
|---|--------------|--------------|
| Net tangible assets                                 | \$10,684,858 | \$10,803,392 |
| Units issued  | 12,320,025   | 12,320,025   |
| Net tangible asset backing (at book value) per unit | \$0.8673     | \$0.8769     |

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.

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<br>2005<br>\$ | 31 December<br>2004<br>\$ | 1 July<br>2004<br>\$ |
|---|-----------|-----------------------|---------------------------|----------------------|
| Total equity under AGAAP  |           | 10,693,660            | 10,916,979                | 11,088,375           |
| Transfer from asset revaluation reserve                             | 9 (f)(i)  | (82,686)              | (82,686)                  | (82,686)             |
| Transfer to retained earnings                                       | 9 (f)(i)  | 82,686                | 82,686                    | 82,686               |
| Recognition of deferred tax asset relating to capital raising costs | 9 (f)(ii) | 109,732               | 137,166                   | 164,598              |
| Total equity under AIFRS  |           | <u>10,803,392</u>     | <u>11,054,145</u>         | <u>11,252,973</u>    |

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

|                                 | Note      | 1 July 2004<br>\$ |
|---------------------------------|-----------|-------------------|
| Increase in deferred tax assets | 9 (f)(ii) | <u>164,598</u>    |

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

|                                  | Note     | Year ended<br>30 June 2005<br>\$ | Half-year ended<br>31 December 2004<br>\$ |
|----------------------------------|----------|----------------------------------|---|
| Net profit after tax under AGAAP |          | 590,885                          | 321,404                                   |
| Increase in income tax expense   | 9 (f)(i) | (54,866)                         | (27,432)                                  |
| Net profit after tax under AIFRS |          | <u>536,019</u>                   | <u>293,972</u>                            |

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

(d) Retained Earnings

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

|   | Note     | 30 June<br>2005<br>\$ | 31 December<br>2004<br>\$ | 1 July<br>2004<br>\$ |
|---|----------|-----------------------|---------------------------|----------------------|
| Transfer from asset revaluation reserve                             | 9 (f)(i) | 82,686                | 82,686                    | 82,686               |
| Recognition of deferred tax asset relating to capital raising costs | 9 (f)(i) | 109,732               | 137,166                   | 164,598              |
|   |          | <u>192,418</u>        | <u>219,852</u>            | <u>247,284</u>       |

(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 3  
DIRECTORS' DECLARATION  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

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In the opinion of the directors of DDH Graham Limited, the Responsible Entity of Childcare Property Trust No 3 ("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 in accordance with the provisions of the Trust Constitution dated 9 May 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 3  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

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## **Scope**

We have reviewed the financial report of Childcare Property Trust No 3 ("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 9 May 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 3 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 9 May 2002 (as amended).

**William Buck**  
**Chartered Accountants**

**DW Langdon**  
**Partner**

Brisbane 21st March 2006

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| <b>Responsible Entity and Principal place of business of the Trust</b> | <b>DDH Graham Limited</b><br>Level 18<br>344 Queen Street<br>Brisbane Qld 4000                       |
| <b>Directors of Responsible Entity</b>                                 | David DH Graham<br>Peter B Lockhart<br>Ugo C Di Girolamo   |
| <b>Childcare Centre Operator</b>                                       | <b>Peppercorn Holdings No 3 Pty Ltd</b><br>Level 5<br>232 Adelaide Street<br>Brisbane Qld 4000       |
| <b>Solicitors</b>  | <b>Macrossans Lawyers</b><br>Level 23<br>AMP Place<br>10 Eagle Street<br>Brisbane Qld 4000           |
| <b>Auditors</b>  | <b>William Buck</b><br>Level 16<br>William Buck Centre<br>120 Edward Street<br>Brisbane Qld 4000     |
| <b>Taxation Advisors</b>   | <b>PricewaterhouseCoopers</b><br>Level 17<br>Waterfront Place<br>1 Eagle Street<br>Brisbane Qld 4000 |
| <b>Bank</b>  | <b>National Australia Bank</b><br>Level 24, 500 Bourke Street<br>Melbourne VIC 3000                  |
| <b>Valuer</b>  | <b>Landmark White</b><br>Level 12<br>97 Creek Street<br>Brisbane Qld 4000                            |
| <b>Custodian</b>   | <b>Trust Company of Australia Limited</b><br>213-217 St Pauls Terrace<br>Spring Hill Qld 4006        |