

**CPT-2**

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CHILDCARE PROPERTY TRUST NO 2

ARSN 100 176 805

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**Annual Financial Report  
30 June 2006**



FUNDS MANAGEMENT

**CHILDCARE PROPERTY TRUST NO 2  
DIRECTORS' REPORT  
FOR THE YEAR ENDED 30 JUNE 2006**

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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 year ended 30 June 2006 and the auditor's report thereon.

The Trust became a registered scheme under the Corporations Act 2001 on 18 April 2002 and DDH Graham Limited became the Responsible Entity on that date.

**THE RESPONSIBLE ENTITY**

The registered office and principal place of business of the Responsible Entity and the Trust is Level 18, 344 Queen Street, Brisbane.

The directors of DDH Graham Limited continuously during and since the end of the financial year are:

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Name and qualifications	Age	Experience and special responsibilities
<b>David D H Graham</b> Chairman and Managing Director Bachelor of Commerce Bachelor of Economics (Hons) Master of Business Administration Fellow of CPA Australia	64	Managing Director since 1986. Extensive experience in financial advisory and trust management services. Non-executive director of Bank of Queensland Limited.
<b>Peter B Lockhart</b> Bachelor of Economics Master of Business Administration	52	Director since 1988. Extensive experience in financial advisory and trust management services. Member of Compliance Committee. Member of Audit Committee.
<b>Ugo C Di Girolamo</b> Associate Diploma in Business Member of Finance & Treasury Association Limited	44	Director since 2000. Over 20 years experience in financial markets.

The Responsible Entity's Constitution does not require directors to retire and seek re-election.

**UNITS ON ISSUE**

The number of interests in the Trust as at the end of the financial year consists of 8,800,025 ordinary units.

The Trust had total assets valued at \$15,358,067 as at 30 June 2006. The basis for valuation of the Trust's assets is disclosed in Note 1 to the financial statements.

The Trust neither acquired nor cancelled any units on issue during the year, including up to the date of this report.

No options have been granted over any unissued units in the Trust.

**NET TANGIBLE ASSET BACKING**

The net tangible asset backing of the Trust at 30 June 2006 was 98.56 cents per unit (2005: 94.93 cents per unit).

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DIRECTORS' REPORT  
FOR THE YEAR ENDED 30 JUNE 2006**

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**PRINCIPAL ACTIVITIES**

The Trust is an unlisted unit trust which was established to acquire and hold 11 freehold childcare centres for an initial investment period of 5 years expiring in June 2007.

The childcare centre locations and number of licensed places are as follows:

Location	Licensed Places
3 Charlotte Street, Woree, Cairns, Qld	75
9 Brose Street, Whiterock, Cairns, Qld	74
9 Tozer Park Road, Gympie, Qld	75
16 Palm Drive, Deeragun, Townsville, Qld	24
79 Veales Road, Jensen, Townsville, Qld	75
61 McLean Street, Gulliver, Townsville, Qld	75
14-18 Grant Street, Morayfield, Qld	74
21-23 Ann Street, Mooroopna, Shepparton, Vic	69
615 Greenwattle Street, Glenvale, Toowoomba, Qld	74
17 Covent Gardens Way, Banora Point, NSW	75
57 Salisbury Crescent, Colonel Light Gardens, SA	62
	<b>752</b>

Each centre is leased to and managed by Peppercorn Holdings No. 2 Pty Ltd, which on 23 December 2004 became a wholly owned subsidiary of A.B.C. Learning Centres Limited ("ABC").

**STATE OF AFFAIRS**

During the year the Trust entered into agreements to sell all of the CPT-2 childcare businesses to a subsidiary of Ramsay Bourne Holdings Pty Ltd (RBH). Each childcare business will settle upon the expiry of the current management lease in July 2007.

The agreement with RBH also covers the sale of the freehold properties which from July 2007 will be leased to RBH on a fixed rental basis. These properties, which are covered by put and call options, will settle no later than 6 months after the sale of the childcare businesses that is, no later than January 2008. In that period the Trust will receive rental income from RBH.

Other than disclosed elsewhere in this report, the opinion of the directors there were no other significant changes in the state of affairs of the Trust that occurred during the financial year under review.

**REVIEW AND RESULTS OF OPERATIONS**

The result for the year to 30 June 2006 was a net profit after income tax of \$538,951 (2005: \$345,960).

The result includes an after tax unrealised gain of \$698,226 brought to account in respect of revaluing investment properties at fair value. This is the first financial report prepared according to Australian equivalents to International Financial Reporting Standards ("AIFRS"). Under AIFRS changes in value of investment properties are recognised in income rather than in the asset revaluation reserve as was previously the case.

The performance of the centres over the year has been very poor. ABC has advised that in their experience this has been the worst year on record for childcare in Queensland. They attribute this performance to a number of factors including:-

- strong competition, particularly in North Queensland and parts of Southeast Queensland, has adversely affected occupancy levels and put constraints on fee increases;
- wage increases for centre staff in Queensland has put pressure on centre profit margins;

**CHILDCARE PROPERTY TRUST NO 2  
DIRECTORS' REPORT  
FOR THE YEAR ENDED 30 JUNE 2006**

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- the introduction of the preparatory year in an increasing number of Queensland schools has affected demand for childcare;
- increase in family day care funding has also affected demand for centre- based care.

The Responsible Entity continues to meet regularly with ABC representatives to discuss the performance of the Trust's centres and their strategies to improve trading.

As stated in "Principal Activities" of this report an Agreement to sell the childcare centres was entered into during the year. The results for the year were not impacted by this Agreement to sell.

**DISTRIBUTIONS**

The distribution for the year to 30 June 2006 is 2.5 (2005: 6.00) cents per unit. The distribution is made up of 1.90 cents per unit franked to an average level of 85% and .60 cents as a tax deferred component.

Distributions paid or declared by the Trust since the end of the previous financial year were:

	\$
As proposed and provided for in last year's report, paid in August 2005:	
- a distribution of 1.25 cents per unit for the quarter ended 30 June 2005.	110,000
In respect of the current financial year	
- a distribution of 1.50 cents per unit for the quarter ended 30 September 2005, paid in November 2005.	132,000
- a distribution of 1.00 cents per unit for the quarter ended 31 December 2005, paid in February 2006.	88,000
Total distributions provided for or paid in respect of the year ended 30 June 2006	<u>220,000</u>

**ENVIRONMENTAL REGULATION**

The Trust's operations are not subject to any significant environmental regulations under either Commonwealth, State or Territory legislation.

**EVENTS SUBSEQUENT TO BALANCE DATE**

Other than disclosed elsewhere in this report, there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the Trust, the results of those operations, or the state of affairs of the Trust, in future financial years.

**INTERESTS OF THE RESPONSIBLE ENTITY**

Interests of both DDH Graham Limited and its directors in the Trust are disclosed in Note 16 to the financial statements.

**LIKELY DEVELOPMENTS**

The trust's initial five year term is due to expire in June 2007. The sale of the childcare centres, as stated elsewhere in this report will enable the unitholders to exit the trust in line with the term of the Trust.

**INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS**

*Indemnification*

Under the Trust Constitution, the Responsible Entity, including its officers and employees, is indemnified out of the Trust's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Trust.

**CHILDCARE PROPERTY TRUST NO 2  
DIRECTORS' REPORT  
FOR THE YEAR ENDED 30 JUNE 2006**

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The Trust has not indemnified any auditor of the Trust.

*Insurance Premiums*

During the financial year the Responsible Entity has paid premiums in respect of its officers for liability and legal expenses insurance contracts for the year ended 30 June 2006. The Responsible Entity has paid or agreed to pay in respect of the Trust, premiums in respect of such insurance contracts for the year ending 30 June 2007. Such insurance contracts insure against certain liability (subject to specified exclusions) for persons who are or have been officers of the Responsible Entity.

Details of the nature of the liabilities covered or the amount of the premium paid has not been included as such disclosure is prohibited under the terms of the contracts.

**AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration is set out on page 5 and forms part of this directors' report for the year ended 30 June 2006.

Signed in accordance with a resolution of directors

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Peter B Lockhart  
Director  
DDH Graham Limited  
Brisbane, 25 October 2006

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To: the directors of DDH Graham Limited, the Responsible Entity of Childcare Property Trust No 2.

I declare that, to the best of my knowledge and belief, for the financial year ended 30 June 2006 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck

D Langdon

*Partner*

Brisbane

25 October 2006

**CHILDCARE PROPERTY TRUST NO 2  
INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	2006 \$	2005 \$
<b>Revenue</b>			
Lease income		496,748	1,129,298
Unrealised gain – investment properties		997,466	-
Interest income		9,794	7,998
<b>Total revenue</b>		<b>1,504,008</b>	<b>1,137,296</b>
<b>Expenses from Ordinary Activities</b>			
Finance costs		414,075	384,992
Responsible Entity's remuneration	1(c)	135,725	101,128
Depreciation		97,024	93,339
Other expenses from ordinary activities	2	131,166	107,126
<b>Total expenses</b>		<b>777,990</b>	<b>686,585</b>
<b>Profit before income tax expense</b>		<b>726,018</b>	<b>450,711</b>
Income tax expense	14(a)	187,067	104,751
<b>Profit for the year</b>		<b>538,951</b>	<b>345,960</b>
<b>Earnings per unit</b>			
Basic (cents per unit)		6.12	3.93

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 30 JUNE 2006**

	Note	2006 \$	2005 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	18(a)	126,390	237,723
Trade and other receivables	3	204,820	282,666
Other current assets	4	42,944	16,860
Current tax assets	10	323,687	203,278
Deferred tax assets	5	137,201	115,243
<b>Total current assets</b>		<b>835,042</b>	<b>855,770</b>
<b>Non-current assets</b>			
Investment properties	6	-	12,876,647
Furniture, fixtures and fittings	7	608,381	675,361
Assets classified as held for sale	8	13,914,644	-
<b>Total non-current assets</b>		<b>14,523,025</b>	<b>13,552,008</b>
<b>Total assets</b>		<b>15,358,067</b>	<b>14,407,778</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	9	95,140	530,686
<b>Total current liabilities</b>		<b>95,140</b>	<b>530,686</b>
<b>Non-current liabilities</b>			
Interest bearing liabilities	11	-	5,250,000
Deferred tax liabilities	10	572,321	273,082
Liabilities classified as held for sale	8	6,017,655	-
<b>Total non-current liabilities</b>		<b>6,589,976</b>	<b>5,523,082</b>
<b>Total liabilities</b>		<b>6,685,116</b>	<b>6,053,768</b>
<b>Net assets</b>		<b>8,672,951</b>	<b>8,354,010</b>
<b>Equity</b>			
Issued capital	12	7,614,200	7,666,645
Retained profits		1,058,751	687,365
<b>Total equity</b>		<b>8,672,951</b>	<b>8,354,010</b>

The Balance Sheet is to be read in conjunction with the notes to the financial statements set out on pages 10 to 29.

**CHILDCARE PROPERTY TRUST NO 2  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2006**

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	Issued Capital \$	Retained Profits \$	Total \$
Balance 1 July 2004	7,805,653	730,397	8,536,050
Return of capital	(139,008)	-	(139,008)
Profit for the year	-	345,960	345,960
Distributions paid or payable	-	(388,992)	(388,992)
<b>Balance 30 June 2005</b>	<b>7,666,645</b>	<b>687,365</b>	<b>8,354,010</b>
Return of capital	(52,445)	-	(52,445)
Profit for the year	-	538,951	538,951
Distributions paid or payable	-	(167,565)	(167,565)
<b>Balance 30 June 2006</b>	<b>7,614,200</b>	<b>1,058,751</b>	<b>8,672,951</b>

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 10 to 29.

**CHILDCARE PROPERTY TRUST NO 2  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	2006 \$	2005 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		960,531	1,344,320
Payments to suppliers and employees		(515,250)	(330,978)
Interest received		9,794	7,998
Income tax paid		(30,195)	(164,661)
Finance costs paid		(411,618)	(395,171)
<b>Net cash provided by operating activities</b>	<b>18(b)</b>	<b>13,262</b>	<b>461,508</b>
<b>Cash flows from investing activities</b>			
Payments for investment properties		(40,531)	(86,681)
Payments for furniture, fixtures and fittings		(30,044)	(48,365)
Deposit monies on sale of assets held for sale		50,000	-
Deferred selling costs – assets held for sale		(24,010)	-
<b>Net cash used in investing activities</b>		<b>(44,585)</b>	<b>(135,046)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		250,000	250,000
Distributions paid		(330,010)	(506,450)
<b>Net cash used in financing activities</b>		<b>(80,010)</b>	<b>(256,450)</b>
<b>Net (decrease)/increase in cash held</b>		<b>(111,333)</b>	<b>70,012</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>237,723</b>	<b>167,711</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>18(a)</b>	<b>126,390</b>	<b>237,723</b>

The Cash Flow Statement is to be read in conjunction with the notes to the financial statements set out on pages 10 to 29.

## **1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The Childcare Property Trust ("the Trust") is a registered managed investment scheme incorporated in Australia under the Corporations Act 2001. The financial report of the Trust is for the year ended 30 June 2006.

The financial report was authorised for issue by the directors of the Responsible Entity on 25 October 2006.

### **a) Statement of Compliance**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. International Financial Reporting Standards ('IFRS') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for purposes of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP. The financial report of the Trust also complies with IFRS and interpretations adopted by the International Accounting Standards Board in their entirety.

This is the Trust's first full year financial report prepared in accordance with Australian Accounting Standards, being AIFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRS has affected the reported balance sheet, income statement and cash flow statement of the Trust is provided in Note 20.

### **b) Basis of Preparation**

The Financial report is presented in Australian dollars.

The following standards and amendments were available for early adoption but have not been applied by the Trust in these financial statements:

- AASB 7 *Financial instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The Trust plans to adopt AASB 7 and AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Trust as the standards and the amendments are concerned only with disclosures.

The following standards are not relevant or applicable to the Trust and therefore have no impact.

- AASB 2004-3 amendments to AASB 1 *First-time adoption of AIFRS* AASB 101 *Presentation of Financial Statements* AASB 124 *Related Party Disclosures*.
- AASB 2005-1 amendments to AASB 139 *Financial Instruments: Recognition and Measurement*.

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2006**

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- AASB 2005-4 amendments to AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-time adoption of AIFRS*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*.
- AASB 2005-5 amendments to AASB 1 *First-time adoption of AIFRS* and AASB 139 *Financial Instruments: Recognition and Measurement*.
- AASB 2005-6 amendments to AASB 3 *Business Combinations*.
- AASB 2005-9 amendments to AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts*, AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 132 *Financial Instruments: Disclosure and Presentation*.
- AASB 2006-1 amendments to AASB 121, *The Effects of Change in Foreign Currency Rates*.
- AASB 119 *Employee Benefits*.
- UIG 4 Determining whether an Arrangement contains a Lease.
- UIG 5 Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds.
- UIG 6 Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.
- UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies.
- UIG 8 Scope of AASB 2.
- UIG 9 Reassessment of Embedded Derivatives.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. There were no key adjustments during the year which required accounting estimates and judgements.

The accounting policies set out below have been applied consistently to all periods presented in the financial report and in preparing an opening AIFRS balance sheet as at 1 July 2004 for the purposes of the transition to Australian Accounting Standards under AIFRS.

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2006**

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**c) Revenue and expenditure recognition**

*(i) Lease income*

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

*(ii) Valuation of Investment Properties*

Unrealised gains and losses on investment properties are recognized in the Income Statement.

*(iii) Interest Income*

Interest income is recognised in the income statement as it accrues using the original effective interest rate calculated at the acquisition or origination date and if not received at balance date, is reflected in the Balance Sheet as a receivable.

*(iv) 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 \$61,800 per annum subject to CPI increase.

*(v) 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.

**d) 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.

**e) Non-current assets held for sale**

Immediately before classification as held for sale the measurement of the assets is brought up to date in accordance with applicable accounting standards. Upon initial classification as held for sale, non-current assets are recognised at fair value.

**f) 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.

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
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*(i) 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).

*(ii) 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 principle, 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.

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.

*(iii) 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.

**g) 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

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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.

**h) Borrowing costs**

Borrowing costs are recognised as an expense when incurred.

**i) 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.

**j) Trade receivables, loans and other receivables**

Trade receivables, loans and other receivables are carried at amortised cost, less impairment losses.

**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) Trade and other 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.

**m) 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.

**n) 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 Tax 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.

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2006**

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Cash flows from operating activities 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.

**o) Segment Reporting**

A segment is a distinguishable component of the Trust that is engaged either in a business segment or based on the Trust's asset clauses within a particular geographical segment based on the geographical location of the assets, which is subject to rules and rewards that are different from those of other segments.

**p) 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.

**q) Comparative figures**

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

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<b>2. OTHER EXPENSES</b>	Note	2006 \$	2005 \$
Administration costs		3,011	2,101
Auditor's remuneration:			
- Audit of financial reports		5,900	6,153
- Audit of compliance plan		2,200	2,035
Bank charges		1,703	1,186
Consultant fees		5,845	8,932
Custodian & compliance costs		25,002	25,000
Insurance		9,655	6,485
Land tax		24,634	23,032
Legal fees		2,178	6,736
Lodgement fees		1,131	1,098
Repairs & maintenance		41,287	17,697
Unit registry fees		6,244	6,671
Stamp Duty		2,376	-
		<b>131,166</b>	<b>107,126</b>
<b>3. TRADE AND OTHER RECEIVABLES</b>			
Lease debtors – Peppercorn Holdings No.2 Pty Ltd		204,820	282,666
<b>4. OTHER CURRENT ASSETS</b>			
Prepayments		42,944	16,860
<b>5. DEFERRED TAX ASSETS</b>			
Future income tax benefit	14(c)	137,201	115,243
<b>6. INVESTMENT PROPERTIES</b>			
Investment properties at fair value		-	12,876,647

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Details of the individual properties comprising "Investment properties" are set out below.

Description	Ownership	Acquisition date	Cost including additions \$	Valuation Date	Valuation \$	Carrying value 30/06/06 \$	Carrying value 30/06/05 \$
3 Charlotte Close, Woree, Cairns, QLD	100%	05/04/02	1,207,698	16/08/04	1,015,000	-	959,001
9 Brose Street, Whiterock, Cairns, QLD	100%	05/04/02	1,216,697	16/08/04	1,200,000	-	1,159,623
9 Tozer Park Road, Gympie, QLD	100%	28/03/02	1,232,273	16/08/04	1,675,000	-	1,617,964
16 Palm Drive, Deeragun, Townsville, QLD	100%	05/04/02	348,922	16/08/04	300,000	-	286,658
79 Veales Road, Jensen, Townsville, QLD	100%	05/04/02	1,065,179	16/08/04	1,175,000	-	1,103,780
61 McLean Street, Gulliver, Townsville, QLD	100%	12/04/02	1,056,163	18/07/04	1,350,000	-	1,309,959
14-18 Grant Street, Morayfield, QLD	100%	02/04/02	1,175,114	16/08/04	1,275,000	-	1,204,135
21-23 Ann Street, Mooroopna, Shepparton, VIC	100%	28/06/02	1,037,645	17/06/04	1,180,000	-	1,128,823
615 Greenwattle Street, Glenvale, Toowoomba, QLD	100%	26/07/02	1,300,936	22/06/04	1,300,000	-	1,247,619
17 Covent Gardens Way, Banora Point, NSW	100%	15/07/02	1,274,704	16/08/04	1,700,000	-	1,606,299
57 Salisbury Crescent, Colonel Light Gardens, Adelaide, SA	100%	01/07/02	1,051,045	13/07/04	1,330,000	-	1,252,786
<b>Total investment properties</b>			<b>11,966,376</b>		<b>13,500,000</b>	<b>-</b>	<b>12,876,647</b>

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

Reconciliation of the carrying amount of Investment Properties is set out below:	2006 \$	2005 \$
Carrying amount at beginning of year	12,876,647	12,789,966
Additions	40,531	86,681
Valuation increment	997,466	-
Transfer to non-current assets held for sale	(13,914,644)	-
Carrying amount at end of year	<b>-</b>	<b>12,876,647</b>

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	2006	2005
	\$	\$
<b>7. FURNITURE, FIXTURES AND FITTINGS</b>		
Furniture, fixtures and fittings at cost	970,212	940,168
Accumulated depreciation	(361,831)	(264,807)
Total furniture, fixtures and fittings	<u>608,381</u>	<u>675,361</u>
<b>Reconciliation of the carrying amount of furniture, fixtures and fittings is set out below:</b>		
Carrying amount at beginning of year	675,361	720,335
Additions	30,044	48,365
Depreciation	(97,024)	(93,339)
Carrying amount at end of year	<u>608,381</u>	<u>675,361</u>

**8. ASSETS HELD FOR SALE**

Investment properties are presented as held for sale arising from the decision of the Responsible Entity to sell the investment properties enabling unitholders to exit from the Trust.

Settlements will not occur until July 2007 and be progressively completed by January 2008.

At 30 June 2006 the carrying value of investment properties comprise assets of \$13,914,644 less liabilities of \$6,017,655.

Assets classified as held for sale	<u>13,914,644</u>	-
Liabilities classified as held for sale		
Sundry creditors	100,328	-
Accruals	417,327	-
Interest bearing liabilities	5,500,000	-
	<u>6,017,655</u>	-

**CHILDCARE PROPERTY TRUST NO 2  
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Details of the individual properties comprising assets held for sale are set out below:

Description	Ownership	Acquisition date	Cost including additions \$	Carrying value 30/06/06 \$	Carrying value 30/06/05 \$
3 Charlotte Close, Woree, Cairns, QLD	100%	05/04/02	1,207,698	1,012,499	-
9 Brose Street, Whiterock, Cairns, QLD	100%	05/04/02	1,216,697	1,339,040	-
9 Tozer Park Road, Gympie, QLD	100%	28/03/02	1,232,273	1,682,012	-
16 Palm Drive, Deeragun, Townsville, QLD	100%	05/04/02	348,922	3,329,334	-
79 Veales Road, Jensen, Townsville, QLD	100%	05/04/02	1,065,179	1,217,743	-
61 McLean Street, Gulliver, Townsville, QLD	100%	12/04/02	1,056,163	1,375,224	-
14-18 Grant Street, Morayfield, QLD	100%	02/04/02	1,175,114	1,350,485	-
21-23 Ann Street, Mooroopna, Shepparton, VIC	100%	28/06/02	1,037,645	1,162,844	-
615 Greenwattle Street, Glenvale, Toowoomba, QLD	100%	26/07/02	1,300,936	1,375,130	-
17 Covent Gardens Way, Banora Point, NSW	100%	15/07/02	1,274,704	1,774,567	-
57 Salisbury Crescent, Colonel Light Gardens, Adelaide, SA	100%	01/07/02	1,051,045	1,295,766	-
<b>Total investment properties</b>			<b>11,966,376</b>	<b>13,914,644</b>	<b>-</b>

<b>2006</b>	<b>2005</b>
<b>\$</b>	<b>\$</b>

Reconciliation of carrying amount of assets held for sale is set out below.

Carrying amount at beginning of year	-	-
Transfer from investment properties	13,914,644	-
Carrying amount at end of year	<b>13,914,644</b>	-

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NOTES TO THE FINANCIAL STATEMENTS  
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	2006 \$	2005 \$
<b>9. TRADE AND OTHER PAYABLES</b>		
Sundry creditors	12,452	238,285
Accruals	82,688	182,401
Distribution payable	-	110,000
	<b>95,140</b>	<b>530,686</b>
	<b>95,140</b>	<b>530,686</b>

**10. TAX ASSETS AND LIABILITIES**

**Current**

Current tax asset	14(b) 323,687	203,278
	323,687	203,278

**Non-current**

Deferred tax liability	14(c) 572,321	273,082
	572,321	273,082
	572,321	273,082

**11. INTEREST BEARING LIABILITIES**

**Non-current**

Bank loan – secured	-	5,250,000
	-	5,250,000

The loan is a fixed 5 year 90 day commercial bill facility repayable on 31 August, 2007 and is secured by a first ranking registered mortgage over the trust properties and a first ranking fixed and floating charge over the assets and undertakings of the Trust.

The loan is fully utilised and classified as follows:

Liabilities held for sale	5,500,000	-
Interest bearing liability	-	5,250,000
	5,500,000	5,250,000
	5,500,000	5,250,000

**CHILDCARE PROPERTY TRUST NO 2  
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**12. ISSUED CAPITAL**

8,800,025 (2005: 8,800,025) ordinary units at \$1.00 each	8,800,025	8,800,025
Less unit issue costs	(822,772)	(822,772)
Less return of capital	(363,053)	(310,608)
	<b>7,614,200</b>	<b>7,666,645</b>
<b>Movement in ordinary units</b>		
Balance at the beginning of year	7,666,645	7,805,653
Less return of capital	(52,445)	(139,008)
Balance at end of year	<b>7,614,200</b>	<b>7,666,645</b>

**13. DISTRIBUTIONS**

Distributions provided for or paid by the Trust are:

Distribution Period	Cents per unit (i)	Total amount \$	Date of payment	Franked amount (cents per unit)	Tax deferred amount (cents per unit)	Tax rate for franking credit	Percentage franked
<b>Year ended 30 June 2006</b>							
Quarter ended 30 September 2005	1.5	132,000	31/11/05	1.33	.17	30%	85%
Quarter ended 31 December 2005	1.00	88,000	28/02/06	.5741	.4259	30%	85%
<b>Total distributions</b>	<b>2.50</b>	<b>220,000</b>		<b>1.9041</b>	<b>.5959</b>		
<b>Year ended 30 June 2005</b>							
Quarter ended 30 September 2004	2.25	198,000	30/11/04	2.00	0.25	30%	85%
Quarter ended 31 December 2004	1.50	132,000	28/02/05	0.82	0.68	30%	85%
Quarter ended 31 March 2005	1.00	88,000	31/05/05	0.47	0.53	30%	85%
Quarter ended 30 June 2005	1.25	110,000	31/08/05	1.14	0.11	30%	85%
<b>Total distributions</b>	<b>6.00</b>	<b>528,000</b>		<b>4.43</b>	<b>1.57</b>		

(i) Includes tax deferred amount where applicable.

No unfranked distributions have been declared or paid during the year.

***Distribution franking account***

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
30% franking credits available to unitholders of the Trust for subsequent financial years	(292,452)	(151,973)

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The above available amounts are based on the balance of the distribution franking account at year-end adjusted for:

- (a) franking credits that will arise from the payment of the amount of the provision for income tax;
- (b) franking debits that will arise from the payment of distributions recognised as a liability at year-end.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare distributions.

**14. TAXATION**

	2006 \$	2005 \$
<b>(a) Income tax expense</b>		
Prima facie income tax expense calculated at 30% on the profit before income tax (2005:30%)	217,805	135,213
<i>Increase in income tax expense due to:</i>		
Non-deductible legal fees	150	105
<i>Decrease of income tax expense due to:</i>		
Building allowance	(30,888)	(30,567)
Income tax expense	<u>187,067</u>	<u>104,751</u>
<b>(b) Current tax assets</b>		
<b>Provision for current income tax</b>		
Movements during the year:		
Balance at beginning of year	(203,278)	(88,498)
Income tax paid	(30,195)	(164,662)
Current year's income tax on operating profit	(90,214)	49,882
Balance at end of year	<u>(323,687)</u>	<u>(203,278)</u>
<b>(c) Deferred tax assets</b>		
<b>Future Income tax benefit</b>		
Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% on the following items:		
Expenses not currently deductible	<u>137,201</u>	<u>115,243</u>
<b>Provision for deferred income tax</b>		
Provision for deferred tax comprises the estimated future assessable income at the applicable rate of 30% on the following item:		
Valuation increments of investment properties	<u>572,321</u>	<u>273,082</u>

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(d) Reconciliations	2006	2005
	\$	\$
(i) Gross Movements		
The overall movement in the deferred tax account is as follows:		
Opening balance – net liability	157,839	102,970
Charged to income statement	277,281	54,869
Closing balance – net liability	<u>435,120</u>	<u>157,839</u>
(ii) Deferred tax liability		
The movement in deferred tax liability for each temporary difference during the year is as follows:		
<i>Valuation increments of investment properties</i>		
Opening balance	273,082	273,082
Charged to income statement	299,239	-
Closing balance	<u>572,321</u>	<u>273,082</u>
(iii) Deferred tax liability		
The movement in deferred tax liability for each temporary difference during the year was as follows:		
<i>Accrued audit and accounting fees</i>		
Opening balance	1,905	1,838
Charged to income statement	(475)	67
Closing balance	<u>1,430</u>	<u>1,905</u>
<i>Accrued leave expenses</i>		
Opening balance	42,286	38,167
Charged to income statement	82,912	4,119
Closing balance	<u>125,198</u>	<u>42,286</u>
<i>Deferred borrowing costs</i>		
Opening balance	19,140	30,250
Charged to income statement	(10,668)	(11,110)
Closing balance	<u>8,472</u>	<u>19,140</u>
<i>Capital raising costs</i>		
Opening balance	50,175	98,784
Charged to income statement	(48,611)	(48,609)
Closing balance	<u>1,564</u>	<u>50,175</u>
<i>Deferred property evaluation costs</i>		
Opening balance	1,737	1,073
Charged to income statement	(1,200)	664
Closing balance	<u>537</u>	<u>1,737</u>

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
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<b>15. NET TANGIBLE ASSETS</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Net tangible assets	8,672,951	8,354,010
Units issued	8,800,025	8,800,025
Net tangible asset backing (at book value) per unit	\$0.98556	\$0.94932

**16. RELATED PARTY DISCLOSURES**

**(a) The Responsible Entity**

The Responsible Entity of the Trust is DDH Graham Limited.

*Directors of the Responsible Entity*

The names of each person holding the position of director of DDH Graham Limited during the financial year were Messrs DDH Graham, PB Lockhart and UC Di Girolamo.

Since the end of the previous financial year, no director of the Responsible Entity has received or become entitled to receive any benefit because of a contract made by the Trust with a director or with a firm of which a director is a member, or with an entity in which the director has a substantial interest.

*Responsible Entity's holdings of units*

The relevant interests of each director of DDH Graham Limited and its directors (including director related entities) in the unit capital of the Trust at 30 June 2006 are set out below:

	<b>2006</b>	<b>2005</b>
	<b>Units</b>	<b>Units</b>
DDH Graham Limited	20	20
DDH Graham	5	5
PB Lockhart	10,000	10,000
UC Di Girolamo	10,000	10,000

The following distributions arising from the aforementioned unitholdings were paid or payable:

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
DDH Graham Limited	-	-
DDH Graham	-	-
PB Lockhart	250	600
UC Di Girolamo	250	600

*Responsible Entity's remuneration*

Set out below are the fees paid or payable by the Trust to the Responsible Entity during the year:

■ Trust management fees	135,725	101,128
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**Remuneration of directors of the Responsible Entity**

Remuneration of the directors and specified executives is paid directly by the Responsible Entity. The directors and specified executives are not provided with any remuneration by the Trust itself. Directors and specified executives are not entitled to any equity interests in the Trust, or any rights to or options for equity interests in the Trust, as a result of the remuneration provided by the Responsible Entity.

Given the number and variety of schemes operated by the Responsible Entity, the directors of the Responsible Entity do not consider that there is any direct correlation between the level of remuneration provided to directors and specified executives of the Responsible Entity and the management fees paid by the Trust to the Responsible Entity in accordance with the Trust Constitution.

The Responsible Entity determines remuneration levels and ensures they are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. Remuneration packages include a mix of fixed remuneration and performance-based remuneration.

***Loans to directors of the Responsible Entity***

The Trust has not made, guaranteed or secured, directly or indirectly, any loans to the directors of their personally-related entities at any time during the reporting period.

***Balances owed to the Responsible Entity***

The following amounts are included in accounts payable as owed to the Responsible Entity at balance date

2006	2005
\$	\$
67,998	33,599

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**17. 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.

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
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**18. NOTES TO THE CASH FLOW STATEMENT**

(a) Reconciliation of Cash

For the purpose of the Cash Flow Statement, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2006 \$	2005 \$
Cash	126,390	237,723

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(b) Reconciliation of profit after income tax to net cash provided by operating activities

Profit after income tax	538,951	345,960
<b>Add/(less) non-cash items:</b>		
Depreciation	97,024	93,339
Change in fair value of Investment Properties	(997,466)	-
<b>Change in assets and liabilities:</b>		
Decrease/(increase) in debtors	77,846	(49,500)
(Increase)/decrease in deferred tax assets	(21,958)	54,870
Increase in accounts payable	142,109	141,067
Increase/(decrease) in tax liabilities	178,830	(114,780)
(Increase)/decrease in prepayments	(2,074)	(9,448)
<b>Net cash provided by operating activities</b>	<b>13,262</b>	<b>461,508</b>

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**19. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE**

(a) Interest rate risk

The Trust does not employ any interest rate derivatives in managing its surplus funds on deposit or its loan facility.

**CHILDCARE PROPERTY TRUST NO 2  
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*Interest rate risk exposure*

The Trust's exposure to interest rate risk, the effective weighted average interest rate for classes of financial assets and financial liabilities and the period in which they reprice is set out below:

2006	Weighted average interest rate %	Floating interest rate less than 6 months \$	Fixed interest maturing in 1-5 years \$	Non-interest bearing \$	Total \$
<b>Financial assets</b>					
Cash	3.7	126,390	-	-	126,390
Receivables		-	-	204,820	204,820
		<b>126,390</b>		<b>204,820</b>	<b>331,210</b>
<b>Financial liabilities</b>					
Payables				612,795	612,795
Interest bearing liabilities	7.62	500,000	5,000,000	-	5,500,000
		<b>500,000</b>	<b>5,000,000</b>	<b>612,795</b>	<b>6,112,795</b>

  

2005	Weighted average interest rate %	Floating interest rate less than 6 months \$	Fixed interest maturing in 1-5 years \$	Non-interest bearing \$	Total \$
<b>Financial assets</b>					
Cash	4.96	237,723	-	-	237,723
Receivables	-	-	-	282,666	282,666
		<b>237,723</b>		<b>282,666</b>	<b>520,389</b>
<b>Financial liabilities</b>					
Payables	-	-	-	530,686	530,686
Interest bearing liabilities	7.77	250,000	5,000,000	-	5,250,000
		<b>250,000</b>	<b>5,000,000</b>	<b>530,686</b>	<b>5,780,686</b>

**(b) Foreign exchange risk**

The Trust does not have any foreign exchange exposures.

**(c) Liquidity and cash flow risk**

The Trust ensures that sufficient cash and cash equivalents are maintained to meet the needs of the Trust.

**(d) Credit risk exposures**

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The total credit risk for financial instruments contained in the Balance Sheet is limited to the carrying amount disclosed on the Balance Sheet.

**(e) Net fair value of financial assets and liabilities**

*Valuation approach*

The net fair value of financial assets and liabilities are determined by the Trust on the following bases:

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
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*Recognised financial instruments*

Monetary financial assets and financial liabilities not readily traded in an organised financial market are valued at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable market yield having regard to the timing of the cash flows. The carrying amounts of bank deposits, receivables, other debtors, accounts payable, bank loans, lease liabilities and distributions payable approximate net fair value.

*Net fair values*

*Recognised financial instruments*

The Trust's financial assets and liabilities included in current and non-current assets and liabilities on the Balance Sheet are carried at amounts that approximate net fair value.

*Unrecognised financial instruments*

The Trust has no off-balance sheet financial instruments.

**20. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

As stated in significant account policies note 1(a), these are the Trusts first financial statements prepared in accordance with AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the Trust's date of transition).

In preparing its opening AIFRS balance sheet, the Trust has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previously GAAP). An explanation of how the transition from previous GAAP to AIFRS has affected the Trust's income statement, balance sheet and cash flow statement is set out in the following tables and the notes that accompany the tables.

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

	Note	30 June 2005 \$	1 July 2004 \$
Total equity under AGAAP		8,303,835	8,437,265
Transfer from asset revaluation reserve	20 (f) (i)	(637,190)	(637,190)
Transfer to retained earnings	20 (f) (i)	637,190	637,190
Recognition of deferred tax asset relating to capital raising costs	20 (f) (ii)	50,175	98,785
Total equity under AIFRS		<u>8,354,010</u>	<u>8,536,050</u>

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

	Note	1 July 2004 \$
Increase in deferred tax assets	20 (f) (ii)	<u>98,785</u>

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
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(c) Reconciliation of profit after tax under AGAAP to that under AIFRS

	Note	Year ended 30 June 2005 \$
Net profit after tax under AGAAP		394,570
Increase in income tax expense	20 (f) (ii)	<u>(48,610)</u>
Net profit after tax under AIFRS		<u><u>345,960</u></u>

(d) Retained Earnings

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

	Note	30 June 2005 \$	1 July 2004 \$
Transfer from asset revaluation reserve	20 (f) (i)	637,190	637,190
Recognition of deferred tax asset relating to capital raising costs	20 (f) (ii)	<u>50,175</u>	<u>98,785</u>
		<u><u>687,365</u></u>	<u><u>735,975</u></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 year ended 30 June 2006 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.

**21. TRUST DETAILS**

The registered office of the Responsible Entity and principle place of business of the Trust is

Level 18, 344 Queen St  
Brisbane Qld 4000

**22. CONTINGENT ASSETS AND LIABILITIES**

The Trust has no contingent assets or liabilities at the date of this report.

## **CHILDCARE PROPERTY TRUST NO 2 DIRECTORS' DECLARATION**

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

1. the financial statements and notes, set out on pages 6 to 29, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the Trust as at 30 June 2006 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001.
2. there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.
3. the Trust has operated during the year ended 30 June 2006 in accordance with the provisions of the Trust Constitution dated 23 January 2002.

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

Dated at Brisbane this 25 day of October 2006.

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PB Lockhart  
Director  
DDH Graham Limited

## SCOPE

We have audited the financial report of Childcare Property Trust No.2 for the financial year ended 30 June 2006, consisting of the Income Statement, Balance Sheet, Cash Flow Statement, accompanying notes and the Directors' Declaration set out on pages 6 to 30. The directors of the Responsible Entity, DDH Graham Limited, are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the unitholders.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Trust Constitution, Accounting Standards, other mandatory professional reporting requirements and statutory requirements in Australia 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 cash flows.

The audit opinion expressed in this report has been formed on the above basis.

## INDEPENDENCE

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

## AUDIT OPINION

In our opinion, the financial report of Childcare Property Trust No.2 is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Trust's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001;
- (b) other mandatory professional reporting requirements; and

the provisions of the Trust Constitution dated 23 January 2002.

**William Buck**  
Chartered Accountants

**D Langdon**  
Partner

Brisbane 25 October 2006

## **CHILDCARE PROPERTY TRUST NO 2 DIRECTORY**

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Responsible Entity and Principal place of business of the Trust	<b>DDH Graham Limited</b> 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	<b>Peppercorn Holdings No 2 Pty Ltd</b> Level 6 232 Adelaide Street Brisbane Qld 4000
Solicitors	<b>Macrossans Lawyers</b> Level 23 AMP Place 10 Eagle Street Brisbane Qld 4000
Auditors	<b>William Buck</b> Level 16 William Buck Centre 120 Edward Street Brisbane Qld 4000
Taxation Advisors	<b>PricewaterhouseCoopers</b> Level 17 Waterfront Place 1 Eagle Street Brisbane Qld 4000
Bank	<b>National Australia Bank</b> Level 24, 500 Bourke Street Melbourne VIC 3000
Valuer	<b>Landmark White</b> Level 12 97 Creek Street Brisbane QLD 4000
Custodian	<b>Permanent Trustee Australia Limited</b> 213-217 St Paul's Terrace Spring Hill Qld 4000