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CHILDCARE PROPERTY TRUST NO 2

ARSN 100 176 805

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**Financial Report**  
**30 June 2007**



FUNDS MANAGEMENT

**CHILDCARE PROPERTY TRUST NO 2  
DIRECTORS' REPORT  
FOR THE YEAR ENDED 30 JUNE 2007**

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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 2007 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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<b>Name and qualifications</b>	<b>Age</b>	<b>Experience and special responsibilities</b>
<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	65	Managing Director since 1986. Extensive experience in financial advisory and trust management services.
<b>Peter B Lockhart</b> Bachelor of Economics Master of Business Administration	53	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	45	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 \$14,009,739 as at 30 June 2007. The basis for valuation of the Trust's assets is disclosed in Note 3 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 2007 was 80.62 cents per unit (2006: 98.56 cents per unit).

**CHILDCARE PROPERTY TRUST NO 2  
DIRECTORS' REPORT  
FOR THE YEAR ENDED 30 JUNE 2007**

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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:

<u>Location</u>	<u>Licensed Places</u>
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").

During the year the Trust re-negotiated the sale agreements of the childcare business and related freehold properties to a subsidiary of Ramsay Bourne Holdings Pty Ltd (RBH). The revised sale agreement involved the following issues:-

- Bringing forward the settlement date from completion by January 2008 to completion by October 2007. In return for early settlement, it was agreed to discount the sale price to reflect the time value of the early settlement. A discount rate of 8% pa was agreed.
- A dispute arose between the Trust and RBH regarding the physical condition of the Trust's centres RBH were contracted to buy. RBH alleged that insufficient funds had been spent by the Trust to maintain the centres at an acceptable level and this was a breach of contract. Whilst this was rejected by the Responsible Entity, in order to prevent the possibility of protracted and costly litigation which may have delayed the winding up of the Trust, the Responsible Entity negotiated a conditional agreement to contribute an amount of \$630,000 towards addressing a proportion of the capital expenditure items identified by RBH.

At the date of this report, 8 centres had settled with the 3 remaining centres expected to settle by end of October 2007.

**STATE OF AFFAIRS**

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.

**CHILDCARE PROPERTY TRUST NO 2  
DIRECTORS' REPORT  
FOR THE YEAR ENDED 30 JUNE 2007**

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**REVIEW AND RESULTS OF OPERATIONS**

The result for the year to 30 June 2007 was a net loss after income tax of \$1,577,895 (2006: profit \$538,951).

The result includes an unrealised loss of \$1,276,161 brought to account in respect of revaluing investment properties at fair value, based on the re-negotiated sale agreement, details of which are disclosed under "Principal Activities".

The Trust continued to trade poorly during the year with gross revenue earned from the centres down some 14% over the previous year. The intense competition for enrolments, due in main to the new entrants in the regions the Trust's centres operate, has placed pressure on the fees the centres are able to charge.

As a relative small player in the childcare industry, compared to its larger competitors, the Trust is more exposed to such competitive forces and this is reflected in the performance of the Trust during 2006/07.

This situation reinforces the decision to sell the centres and wind up the Trust.

**DISTRIBUTIONS**

The distribution for the year to 30 June 2007 is Nil (2006: 2.5) cents per unit.

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:	
- 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>
In respect of the current financial year	<u>-</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 below, 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.

- Settlement of eight childcare centres to a subsidiary of Ramsay Bourne Holdings Pty Ltd on 13 and 16 July 2007;
- Repayment of bank debt on 20 July 2007; and
- Capital distribution of 50 cents per unit to unitholders on 30 July 2007.

**CHILDCARE PROPERTY TRUST NO 2  
DIRECTORS' REPORT  
FOR THE YEAR ENDED 30 JUNE 2007**

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**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 expired 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.

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 2007. 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 2008. 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 2007.

Signed in accordance with a resolution of directors

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PB Lockhart  
Director  
DDH Graham Limited  
Brisbane, 27 September 2007

## **Lead Auditor's Independence Declaration**

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under S 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, there have been:

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

**WILLIAM BUCK**  
Chartered Accountants

**D W LANGDON**  
Partner

Brisbane, 27 September 2007

**CHILDCARE PROPERTY TRUST NO 2  
INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2007**

	Note	2007 \$	2006 \$
<b>Revenue</b>			
Lease income		80,094	496,748
Changes in fair value – assets held for sale		(1,276,161)	997,466
Interest income		7,395	9,794
<b>Total revenue</b>		<b>(1,188,672)</b>	<b>1,504,008</b>
<b>Expenses</b>			
Finance costs		421,978	414,075
Responsible Entity's remuneration	3(a)	140,777	135,725
Depreciation		20,971	97,024
Other expenses from ordinary activities	4	149,348	131,166
<b>Total expenses</b>		<b>733,074</b>	<b>777,990</b>
<b>(Loss)/profit before income tax benefit/expense</b>		<b>(1,921,746)</b>	<b>726,018</b>
Income tax benefit/(expense)	14(a)	343,851	(187,067)
<b>(Loss)/profit for the year</b>		<b>(1,577,895)</b>	<b>538,951</b>
<b>Earnings per unit</b>			
Basic (cents per unit)		-	6.12

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 2007**

	Note	2007 \$	2006 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	18(a)	26,570	126,390
Trade and other receivables	5	4,151	204,820
Other current assets	6	89,569	42,944
Current tax assets	14(b)	212,570	323,687
Furniture, fixtures and fittings	7	67,850	-
Assets classified as held for sale	8	13,263,437	-
<b>Total current assets</b>		<b>13,664,147</b>	<b>697,841</b>
<b>Non-current assets</b>			
Furniture, fixtures and fittings	7	-	608,381
Assets classified as held for sale	8	-	13,914,644
<b>Total non-current assets</b>		<b>-</b>	<b>14,523,025</b>
<b>Total assets</b>		<b>13,664,147</b>	<b>15,220,866</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Liabilities classified as held for sale	8	6,303,416	-
Trade and other payables	9	265,675	95,140
<b>Total current liabilities</b>		<b>6,569,091</b>	<b>95,140</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	10	-	435,120
Liabilities classified as held for sale	8	-	6,017,655
<b>Total non-current liabilities</b>		<b>-</b>	<b>6,452,775</b>
<b>Total liabilities</b>		<b>6,569,091</b>	<b>6,547,915</b>
<b>Net assets</b>		<b>7,095,056</b>	<b>8,672,951</b>
<b>Equity</b>			
Issued capital	11	7,614,200	7,614,200
Retained profits		(519,144)	1,058,751
<b>Total equity</b>		<b>7,095,056</b>	<b>8,672,951</b>

The Balance Sheet is to be read in conjunction with the notes to the financial statements set out on pages 10 to 27.

**CHILDCARE PROPERTY TRUST NO 2  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2007**

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	Issued Capital \$	Retained Profits \$	Total \$
Balance 1 July 2005	7,666,645	687,365	8,354,010
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>
Loss for the year	-	(1,577,895)	(1,577,895)
<b>Balance 30 June 2007</b>	<b>7,614,200</b>	<b>(519,144)</b>	<b>7,095,056</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 27.

**CHILDCARE PROPERTY TRUST NO 2  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2007**

	Note	2007 \$	2006 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		223,701	960,531
Payments to suppliers and employees		(87,076)	(515,250)
Interest received		7,395	9,794
Income tax (paid)/refund		19,848	(30,195)
Finance costs paid		(414,230)	(411,618)
<b>Net cash provided by operating activities</b>	<b>18(b)</b>	<b>(250,362)</b>	<b>13,262</b>
<b>Cash flows from investing activities</b>			
Payments for investment properties		(4,315)	(40,531)
Payments for furniture, fixtures and fittings		(101,079)	(30,044)
Deposit monies on sale of assets held for sale		-	50,000
Deposit monies transferred to trust account		(50,000)	-
Deferred selling costs – assets held for sale		(49,064)	(24,010)
<b>Net cash used in investing activities</b>		<b>(204,458)</b>	<b>(44,585)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		355,000	250,000
Distributions paid		-	(330,010)
<b>Net cash used in financing activities</b>		<b>355,000</b>	<b>(80,010)</b>
<b>Net decrease in cash held</b>		<b>(99,820)</b>	<b>(111,333)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>126,390</b>	<b>237,723</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>18(a)</b>	<b>26,570</b>	<b>126,390</b>

The Cash Flow Statement is to be read in conjunction with the notes to the financial statements set out on pages 10 to 27.

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2007**

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**1. REPORTING ENTITY**

The Childcare Property Trust No 2 ("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 2007.

The financial report was authorised for issue by the directors of the Responsible Entity on 27 September 2007.

**2. BASIS OF PREPARATION**

**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. The financial report of the Trust also complies with the IFRS and interpretations adopted by the International Accounting Standards Board.

**b) Functional & presentation currency**

The financial report of the Trust is presented in Australian dollars which is the Trust's functional currency.

**c) Use of estimates and judgement**

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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 and in future periods affected.

There were no key adjustments during the year arising from estimates and judgements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been consistently applied to all periods presented in these financial statements.

**a) 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.

Lease income received in advance is reflected in the Balance Sheet as a payable.

*(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.

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2007**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(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 \$68,274 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.

**b) 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.

**c) 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.

**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.

*(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.

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2007**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

**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 are reviewed at the end of each annual reporting period.

Plant and equipment classified as Held for Sale is not depreciated from the date of the classification as Held for Sale.

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.

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2007**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**g) Financial Instruments**

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition financial instruments are measured as described below.

A financial instrument is recognised if the Trust becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Trust's contractual rights to the cash flows from the financial assets expire or if the Trust transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Trust commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Trust's obligations specified in the contract expire or are discharged or cancelled.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. These assets are stated at nominal values.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

*Trade and other receivables*

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy (h)). Rental debtors to be settled within 30 days are carried at amounts due as representatives of amortised cost, less impairment losses.

*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.

*Interest-bearing loans and borrowings*

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

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.

**h) 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.

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2007**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

**i) 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.

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.

**j) 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.

**k) 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.

**l) Comparative figures**

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

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2007**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**m) New standards and interpretations not yet adopted**

The following standards, amendments to standards and interpretations have been identified as those which may impact the Trust in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing these financial statements.

- *AASB 7 Financial Instruments: Disclosures* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning or after 1 January 2007, and will require extensive additional disclosures with respect to the Trust's financial instruments.
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 Financial Instruments: Disclosure and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 139 Financial Instruments: Recognition and Measurement and AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosures contained within the financial report.
- AASB 2007-2 Amendments to Australian Accounting Standards amends references to "UIG Interpretation" to interpretations. This amending standard is applicable to annual reporting periods ending on or after 28 February 2007.
- AASB 8 Operating Segments replaces the presentation requirements of segment reporting in AASB 114 Segment Reporting. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Trust as the standard is only concerned with disclosures.
- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 Non-current Assets Held for Sale and Discontinued Operations, AASB 102 inventories, AASB 107 Cash Flow Statements, AASB 119 Employee Benefits, AASB 134 Interim Financial Reporting, AASB 136 Impairment of Assets. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 Operating Segments. This standard is only expected to impact disclosures contained within the financial report.
- AASB 2007-4 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to a number of standards arising from ED151. AASB 2007-4 is applicable for annual reporting periods beginning on or after 30 June 2008.
- AASB 2007-7 Amendments to Australian Accounting Standards (September 2005) makes editorial changes to a number of standards. AASB 2007-7 is applicable for annual reporting periods beginning on or after 30 June 2008.

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2007**

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4. OTHER EXPENSES	Note	2007 \$	2006 \$
Administration costs		923	3,011
Auditor's remuneration:			
- Audit of financial reports		14,698	5,900
- Audit of compliance plan		2,500	2,200
Bank charges		1,843	1,703
Consultant fees		12,127	5,845
Custodian & compliance costs		23,748	25,002
Insurance		12,397	9,655
Land tax		29,993	24,634
Legal fees		-	2,178
Lodgement fees		1,178	1,131
Repairs & maintenance		47,229	41,287
Unit registry fees		2,712	6,244
Stamp Duty		-	2,376
		<b>149,348</b>	<b>131,166</b>
5. TRADE AND OTHER RECEIVABLES			
Lease debtors – Peppercorn Holdings No.2 Pty Ltd		-	204,820
Sundry debtors		4,151	-
		<b>4,151</b>	<b>204,820</b>
6. OTHER CURRENT ASSETS			
Prepayments		<b>89,569</b>	<b>42,944</b>

**CHILDCARE PROPERTY TRUST NO 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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7. FURNITURE, FIXTURES AND FITTINGS	2007	2006
	\$	\$
Furniture, fixtures and fittings at cost	108,757	970,212
Accumulated depreciation	(40,907)	(361,831)
Total furniture, fixtures and fittings	<u>67,850</u>	<u>608,381</u>
<b>Reconciliation of the carrying amount of furniture, fixtures and fittings is set out below:</b>		
Carrying amount at beginning of year	608,381	675,361
Additions	65,796	30,044
Transfer to assets held for sale	(585,356)	-
Depreciation	(20,971)	(97,024)
Carrying amount at end of year	<u>67,850</u>	<u>608,381</u>

**8. ASSETS HELD FOR SALE**

Investment properties are presented as held for sale following execution of contracts to sell the investment properties.

Settlements of several properties occurred on 13<sup>th</sup> and 16<sup>th</sup> July 2007 with the remaining properties expected to be completed by October 2007.

At 30 June 2007 the carrying value of investment properties comprise assets of \$13,263,437 less liabilities of \$6,303,416.

	Note		
Assets classified as held for sale		<u>13,263,437</u>	<u>13,914,644</u>
Liabilities classified as held for sale			
Sundry creditors		131,089	100,328
Accruals		317,327	417,327
Unsecured borrowings	16	355,000	-
Interest bearing liabilities		5,500,000	5,500,000
		<u>6,303,416</u>	<u>6,017,655</u>

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2007**

**8. ASSETS HELD FOR SALE (CONTINUED)**

Details of the individual properties comprising assets held for sale are set out below:

Description	Ownership	Acquisition date	Cost including additions \$	Carrying value 30/06/07 \$	Carrying value 30/06/06 \$
3 Charlotte Close, Woree, Cairns, QLD	100%	05/04/02	1,207,698	1,002,465	1,012,499
9 Brose Street, Whiterock, Cairns, QLD	100%	05/04/02	1,216,697	1,264,381	1,339,040
9 Tozer Park Road, Gympie, QLD	100%	28/03/02	1,232,273	1,592,075	1,682,012
16 Palm Drive, Deeragun, Townsville, QLD	100%	05/04/02	348,922	296,094	329,334
79 Veales Road, Jensen, Townsville, QLD	100%	05/04/02	1,065,179	1,177,117	1,217,743
61 McLean Street, Gulliver, Townsville, QLD	100%	12/04/02	1,056,163	1,307,600	1,375,224
14-18 Grant Street, Morayfield, QLD	100%	02/04/02	1,175,114	1,292,279	1,350,485
21-23 Ann Street, Mooroopna, Shepparton, VIC	100%	28/06/02	1,037,645	1,112,858	1,162,844
615 Greenwattle Street, Glenvale, Toowoomba, QLD	100%	26/07/02	1,300,936	1,300,175	1,375,130
17 Covent Gardens Way, Banora Point, NSW	100%	15/07/02	1,274,704	1,688,608	1,774,567
57 Salisbury Crescent, Colonel Light Gardens, Adelaide, SA	100%	01/07/02	1,051,045	1,229,785	1,295,766
<b>Total investment properties</b>			<b>11,966,376</b>	<b>13,263,437</b>	<b>13,914,644</b>

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

	2007 \$	2006 \$
Carrying amount at beginning of year	13,914,644	-
Transfer from investment properties	-	13,914,644
Transfer from furniture, fixtures and fittings	585,356	-
Investment properties additions	39,598	-
Change in fair value recognised in profit and loss	(1,276,161)	-
	<b>13,263,437</b>	<b>13,914,644</b>

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2007**

		2007 \$	2006 \$
<b>9. TRADE AND OTHER PAYABLES</b>			
Sundry creditors		-	12,452
Accruals		265,675	82,688
		<u>265,675</u>	<u>95,140</u>
<b>10. TAX ASSETS AND LIABILITIES</b>			
Deferred tax liability	14(c)	345,592	572,321
Less deferred tax asset	14(c)	(345,592)	(137,201)
Net deferred tax liability		<u>-</u>	<u>435,120</u>
<b>11. ISSUED CAPITAL</b>			
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)	(363,053)
		<u>7,614,200</u>	<u>7,614,200</u>
<b>Movement in ordinary units</b>			
Balance at the beginning of year		7,614,200	7,666,645
Less return of capital		-	(52,445)
Balance at end of year		<u>7,614,200</u>	<u>7,614,200</u>
<b>12. INTEREST BEARING LIABILITIES</b>			
<p>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 was fully repaid on 20 July 2007.</p> <p>The loan is fully utilised and classified as follows:</p>			
Liabilities held for sale		<u>5,500,000</u>	<u>5,500,000</u>

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2007**

**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 2007</b>							
No distributions were provided for or paid by the Trust during the current year.							
<b>Year ended 30 June 2006</b>							
Quarter ended 30 September 2005	1.5	132,000	30/11/05	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>		

(i) Includes tax deferred amount where applicable.

*Distribution franking account:*

	2007 \$	2006 \$
30% franking credits available to unitholders of the Trust for subsequent financial years	(212,148)	(292,452)

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.

**CHILDCARE PROPERTY TRUST NO 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

14. TAXATION	2007 \$	2006 \$
<b>(a) Income tax expense</b>		
Prima facie income tax benefit/(expense) calculated at 30% on the profit before income tax (2006:30%)	576,524	(217,805)
<i>Decrease/increase in income tax benefit/expense due to:</i>		
Recognition of deferred tax liability	(156,119)	-
Under provision from prior years	(1,905)	
Non-deductible expenses		(150)
Derecognition of income tax losses	(129,765)	-
<i>Increase/decrease in income tax benefit/expense due to:</i>		
Building allowance and depreciation	54,570	30,888
Income not assessable	546	
Income tax benefit/(expense)	<b>343,851</b>	<b>(187,067)</b>
<b>(b) Current tax assets</b>		
Movements during the year:		
Balance at beginning of year	323,687	203,278
Receipt of income tax refunds	(159,424)	
Income tax paid	139,576	30,195
Under provision in prior years	(2,576)	-
Income tax loss transferred to future income tax benefit	(88,693)	-
Current year's income tax on operating profit	-	90,214
Balance at end of year	<b>212,570</b>	<b>323,687</b>
<b>(c) Deferred tax liabilities</b>		
Deferred income tax liabilities comprises the following items at the applicable rate of 30%:		
Valuation increments of investment properties	345,592	572,321
Less expenses not currently deductible	(145,616)	(137,201)
Less income tax losses	(199,976)	-
Balance at end of year	<b>-</b>	<b>435,120</b>

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2007**

**14. TAXATION (CONTINUED)**

**(d) Reconciliations**

	2007	2006
	\$	\$
(i) Gross Movements		
The overall movement in the deferred tax asset is as follows:		
Opening balance – net liability	(435,120)	(157,839)
Charged to income statement	346,427	(277,281)
Transfer from current tax asset	88,693	
Closing balance – net liability	<u>-</u>	<u>(435,120)</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	(572,321)	(273,082)
Charged to income statement	226,729	(299,239)
Total deferred tax liability closing balance	<u>(345,592)</u>	<u>(572,321)</u>
(iii) Deferred tax asset		
The movement in deferred tax asset for each temporary difference during the year was as follows:		
<i>Accrued audit and accounting fees</i>		
Opening balance	1,430	1,905
Charged to income statement	3,085	(475)
Closing balance	<u>4,515</u>	<u>1,430</u>
<i>Accrued leave expenses</i>		
Opening balance	125,198	42,286
Charged to income statement	(30,000)	82,912
Closing balance	<u>95,198</u>	<u>125,198</u>
<i>Deferred borrowing costs</i>		
Opening balance	8,472	19,140
Charged to income statement	(7,926)	(10,668)
Closing balance	<u>546</u>	<u>8,472</u>
<i>Capital raising costs</i>		
Opening balance	1,564	50,175
Charged to income statement	(1,564)	(48,611)
Closing balance	<u>-</u>	<u>1,564</u>
<i>Deferred property evaluation costs</i>		
Opening balance	537	1,737
Charged to income statement	(180)	(1,200)
Closing balance	<u>357</u>	<u>537</u>
<i>Income tax losses</i>		
Opening balance	-	-
Charged to income statement	156,283	-
Transfer from current tax asset	88,693	-
Closing balance	<u>244,976</u>	<u>-</u>
Total deferred tax asset closing balance	<u>345,592</u>	<u>137,201</u>

**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2007**

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<b>15. NET TANGIBLE ASSETS</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
Net tangible assets	7,095,056	8,672,951
Units issued	8,800,025	8,800,025
Net tangible asset backing (at book value) per unit	\$0.8062	\$0.98556

**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 2007 are set out below:

	<b>2007 Units</b>	<b>2006 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>2007 \$</b>	<b>2006 \$</b>
DDH Graham Limited	-	-
DDH Graham	-	-
PB Lockhart	-	250
UC Di Girolamo	-	250

*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	140,777	135,725
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**CHILDCARE PROPERTY TRUST NO 2  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2007**

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**16. RELATED PARTY DISCLOSURES (CONTINUED)**

*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.

*Borrowings by the Trust from the Responsible Entity*

During the year DDH Graham Limited provided funds to the Trust in order it may meet its financial obligations as and when they become due and payable. Monies advanced were to be repaid from the proceeds of the sale of the investment properties. No interest was charged on the balances outstanding. At 30 June 2007 (2006: nil) amounts owing to DDH Graham Limited under this arrangement was \$355,000 which is included in liabilities held for sale.

*Balances owed to the Responsible Entity*

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

2007	2006
\$	\$
208,775	67,998

**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  
FOR THE YEAR ENDED 30 JUNE 2007**

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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:

	2007 \$	2006 \$
Cash	26,570	126,390

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

(Loss)/profit after income tax	(1,577,895)	538,951
<b>Add/(less) non-cash items:</b>		
Depreciation	20,971	97,024
Change in fair value – assets held for sale	1,276,161	(997,466)
<b>Change in assets and liabilities:</b>		
Decrease in debtors	200,669	77,846
Increase in deferred tax assets	(208,391)	(21,958)
Increase in accounts payable	139,538	142,109
Increase/(decrease) in tax liabilities	(115,612)	178,830
(Increase)/decrease in prepayments	14,197	(2,074)
<b>Net cash used in/provided by operating activities</b>	<b>(250,362)</b>	<b>13,262</b>

**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  
NOTES TO THE FINANCIAL STATEMENTS  
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**19. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)**

*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:

2007	Weighted average interest rate %	Floating interest rate less than 6 months \$	Fixed interest maturing less than 6 months \$	Non-interest bearing \$	Total \$
<b>Financial assets</b>					
Cash	3.06	26,570	-	-	26,570
Receivables		-	-	4,151	4,151
		<b>26,570</b>	<b>-</b>	<b>4,151</b>	<b>30,721</b>
<b>Financial liabilities</b>					
Payables				1,069,091	1,069,091
Interest bearing liabilities	7.62	500,000	5,000,000	-	5,500,000
		<b>500,000</b>	<b>5,000,000</b>	<b>1,069,091</b>	<b>6,569,091</b>

  

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	3.70	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>

**(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.

**19. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)**

**(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:

*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 asset 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. 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

**21. CONTINGENT ASSETS AND LIABILITIES**

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

**22. EVENTS SUBSEQUENT TO BALANCE DATE**

During July 2007 eight childcare centres were settled in accordance with the Sale Agreement entered into with a subsidiary of Ramsay Bourne Holdings Pty Ltd. At the date of this report, it is expected the remaining three childcare centres will be settled by end of October 2007.

From the sale proceeds of the investment properties received on 13 and 16 July 2007 the following transactions occurred:

(a) on 18 July 2007 the Trust repaid \$355,000 owing to DDH Graham Limited (refer Note 16);

(b) on 20 July 2007 repaid borrowings of \$5,500,000; and

(c) on 30 July 2007 a \$0.50 distribution of capital was paid to unitholders.

Following settlement of the three remaining investment properties, satisfactory completion of all finance, taxation and legal matters it is expected the Trust will be wound up by December 2007.

## **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 2007 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 2007 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 27<sup>th</sup> day of September 2007.

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**PB Lockhart**  
Director  
DDH Graham Limited

## Independent Audit Report

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To the Unitholders of Childcare Property Trust No. 2

### *Report on the Financial Report*

We have audited the accompanying financial report of Childcare Property Trust No. 2 (the trust), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

### *Directors' Responsibility for the Financial Report*

The directors of the Responsible Entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the Directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

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## Independent Audit Report

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### *Independence*

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, has been provided to the directors on the same date as this auditor's report.

### *Auditor's Opinion*

In our opinion:

- (a) the financial report of Childcare Property Trust No. 2 is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of trust's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**WILLIAM BUCK**  
Chartered Accountants

**D W LANGDON**  
Partner

Brisbane, 27 September 2007

**William Buck**

## **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>Mallesons Stephen Jacques</b> Level 30, Waterfront Place 1 Eagles 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 15, Riverside Centre 123 Eagle Street Brisbane QLD 4000
Bank	<b>National Australia Bank</b> Level 24, 500 Bourke Street Melbourne VIC 3000
Custodian	<b>Permanent Trustee Australia Limited</b> 213-217 St Paul's Terrace Spring Hill Qld 4000