FORTLAND

HOTEL PROPERTY TRUST

ARSN 092 701 589

Half-year financial report
31 December 2002

The directors of DDH Graham Limited, ("the Responsible Entity") the Responsible Entity of Fortland Hotel Property Trust ("the Trust") present their report together with the financial report of the Trust for the half-year ended 31 December 2002 and the review report thereon.

Review of operations

Overview

During the period under review the Trust owned five properties which were leased to and managed by AAPC Properties (QLD) Pty Limited ("the Hotel Manager"), a wholly owned subsidiary of international hotel management company, Accor. The lease income reflects net operating income of the hotels less a management fee. Lease income for the half-year was $1,360,144 (2001: $1,401,030).

The result for the half-year to 31 December 2002 is a profit of $963,451 (2001: loss of $1,274,879).

Distributions

No distributions to unitholders have been made during the six month period to 31 December 2002. The ability of the Trust to make distributions in the future will depend upon the profitability of the Trust and its financial position.

Review of Property Portfolio

During the period the Responsible Entity undertook a review of the Trust's property portfolio. As a result of this review the Toowoomba and Rockhampton properties were offered for sale by way of auction which was held on 11 December 2002. No acceptable offers were received in relation to either property. Further consideration will be given to continuing the sale process after the refinancing referred to below has been completed.

Proposed Restructure of the Trust

During the period the Responsible Entity commenced discussions regarding an underwritten renounceable rights issue at 20 cents per unit to raise approximately $6 million.

As part of the proposal being discussed the Trust would sell the Rockhampton and Toowoomba properties. As indicated above, no sale of either property has yet been finalised. It is unlikely the proposed rights issue will proceed.

Responsible Entity's remuneration

In accordance with the Constitution, the Responsible Entity's fee is 0.125% of the total tangible assets of the Trust for each quarterly period. The Responsible Entity is also entitled to an administration fee of $73,792 per annum payable quarterly in arrears.

DDH Graham Limited as Responsible Entity of the Trust received remuneration of $82,906 ($82,880 for the six months to 31 December 2001) for its management of the Trust during the half-year. No other fees or service charges were received by the Responsible Entity in relation to the affairs of the Trust.

Interest in the property of the Trust

At 31 December 2002, persons associated with the Responsible Entity and the Hotel Manager held the following fully paid units directly or beneficially:

Responsible Entity

▪ DDH Graham	107,000 units
▪ PB Lockhart	11,250 units

Hotel Manager

▪ AAPC Limited	51,450 units
▪ TAHL Northern Hotels Pty Ltd	4,135,000 units

Neither the Responsible Entity, nor any associates of the Responsible Entity, nor the Hotel Manager has any other interest in the hotels owned by the Trust or the Trust itself.

Directors of the Responsible Entity

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

Name	Period of directorship
Mr David D H Graham	Managing Director since 1986.
Mr Peter B Lockhart	Director since 1988.
Mr Ugo C Di Girolamo	Director since June 2000.
Mr Frederick J Lunn	Director since January 2000. Retired 12 September 2002.
Mr Bruce W Smeed	Director since June 2000. Retired 29 November 2002.

Events subsequent to balance date

Loan Facility

The Trust's loan facility with Westpac expires on 6 May 2003. An offer of finance from another lender has been received and accepted by the Responsible Entity. The new facility is interest only and is for a term of two years.

Valuations

As part of the refinancing referred to above, updated valuations of each of the Trust properties were obtained. The aggregate of the new valuations was $855,000 over existing book value. The increase in the carrying value of the properties has been reflected in these financial statements.

Dated at Brisbane this 28th day of April 2003.

Signed in accordance with a resolution of the Directors of DDH Graham Limited, the Responsible Entity.

DDH Graham
Director

	Note	2002 $	2001 $
Revenue from ordinary activities			
Lease income		1,360,144	1,401,030
Interest income		999	13,106
Other income		1,044	-
Total income before revaluation increment		1,362,187	1,414,136
Revaluation increment of investment properties	2(a)	854,998	-
Total income		**2,217,185**	**1,414,136**
Expenses from ordinary activities			
Borrowing costs		499,561	456,662
Rates, taxes and other property outgoings		501,003	540,890
Responsible Entity's remuneration		82,906	82,880
Depreciation		86,911	130,333
Other expenses	2(b)	73,813	62,054
Custodian's remuneration		9,540	9,540
Total expenses before revaluation decrement		1,253,734	1,282,359
Revaluation decrement of investment properties	2(a)	-	1,406,656
Total expenses		**1,253,734**	**2,689,015**
Net operating profit (loss) from ordinary activities		**963,451**	**(1,274,879)**

Earnings per unit	**2002**	**2001**
Basic earnings/(loss) per unit (cents per unit)	4.60	(6.09)
Diluted earnings/(loss) per unit (cents per unit)	4.60	(6.09)

The Statement of Financial Performance is to be read in conjunction with the notes to the financial statements set out on pages 7 to 15.

	Note	31 Dec 2002	30 Jun 2002
		$	$
Current assets			
Cash assets		372,070	235,930
Receivables		208,140	376,106
Other		91,829	79,294
Total current assets		**672,039**	**691,330**
Non current assets			
Investment properties	6	15,224,410	14,345,648
Furniture, plant and equipment		1,525,591	1,581,913
Receivables		290,000	290,000
Total non current assets		**17,040,001**	**16,217,561**
Total assets		**17,712,040**	**16,908,891**
Current liabilities			
Payables		197,595	357,895
Interest-bearing liabilities		10,440,000	10,440,000
Total current liabilities		**10,637,595**	**10,797,895**
Total liabilities		**10,637,595**	**10,797,895**
Net assets		**7,074,445**	**6,110,996**
Equity			
Contributed equity	7	15,917,103	15,917,103
Distributions in excess of net profit/(loss)	3	(956,357)	(956,357)
Accumulated losses		(7,886,301)	(8,849,750)
Total equity		**7,074,445**	**6,110,996**

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 7 to 15.

STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2002

	2002 $	2001 $
Cash flows from operating activities		
Cash receipts in the course of operations	1,576,733	1,640,084
Cash payments in the course of operations	(700,120)	(778,240)
Interest received	999	13,106
Net cash provided by operating activities	**877,612**	**874,950**
Cash flows from investing activities		
Payments for investment properties	(23,764)	(38,153)
Payments for furniture, fixtures and fittings	(216,608)	(196,122)
Net cash used in investing activities	**(240,372)**	**(234,275)**
Cash flows from financing activities		
Borrowing costs paid	(501,100)	(416,408)
Issue costs paid	-	(7,253)
Net cash provided by/(used in) financing activities	**(501,100)**	**(423,661)**
Net increase in cash held	**136,140**	**217,014**
Cash at the beginning of the half-year	**235,930**	**220,647**
Cash at the end of the half-year	**372,070**	**437,661**

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 7 to 15.

1. Statement of significant accounting policies

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

(a) Basis of preparation

The financial report is a general purpose half-year financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 1029: Interim Financial Reporting, the recognition and measurement requirements of applicable AASB standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board, and the Trust Constitution.

The half-year financial report is to be read in conjunction with the 30 June 2002 Annual Financial Report and any public announcements issued during the half-year ended 31 December 2002 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and ASX Listing Rules.

The half-year financial report does not include notes of the type normally included in the annual financial report.

The accounting policies have been consistently applied and except where there is a change in accounting policy, are consistent with those of the previous financial year and corresponding half-year.

(b) Going Concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

During the half-year the Trust has operated at a profit (excluding revaluation increments of investment properties) of $108,453 (31 December 2001:$131,777).

As disclosed in Note 9 the Trust's commercial bill facility with Westpac Banking Corporation expires on 6 May 2003. An offer of finance from another lender has been received and accepted by the Responsible Entity. The new facility is interest only and is for a term of two years.

The ability to continue as a going concern will be impacted by the Trust's ability to remain profitable. The Responsible Entity is of the view that there are reasonable prospects that action taken to date to control costs and improve the operations of the hotels will be successful and that accordingly the going concern basis is appropriate.

(c) Revenue and expenditure recognition

Lease income

Lease income is brought to account on an accruals basis and, if not received at balance date, is reflected in the Statement of Financial Position as a receivable.

1. Statement of significant accounting policies (Continued)

Interest income

Interest is brought to account when earned and if not received at balance date, is reflected in the Statement of Financial Position as a receivable.

Property expenses

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

Responsible Entity's remuneration

Under the Trust Constitution, the Responsible Entity is entitled to a fee amounting to 0.125% of the total tangible assets of the Trust for each quarterly period. In addition, the Responsible Entity is entitled to an administration fee of $73,792 per annum payable quarterly in arrears.

Hotel Manager's remuneration

In accordance with each of the property leases, the Hotel Manager retains a percentage per property of both gross revenue (1.75% to 2.5%) and net operating income (7.5% to 9%). The Hotel Manager'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 accruals basis.

(d) Investment properties

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for the purpose of letting to produce lease income.

Valuations

Under the provisions of the Trust Constitution, the Responsible Entity shall cause a valuation to be carried out of all or any of the investments of the Trust when required to do so by the Corporations Act 2001, and may cause a valuation to be carried out at any time.

The valuations are based on the price at which the property might reasonably be expected to be sold at the date of valuation, assuming:

(i) a willing, but not anxious, buyer and seller;

(ii) a reasonable period within which to negotiate the sale, having regard to the nature and situation of the property and the state of the market for property of the same kind;

(iii) that the property will be reasonably exposed to the market;

(iv) that no account is taken to the value or other advantage or benefit, additional to market value, to the buyer incidental to ownership of the property being valued;

1. Statement of significant accounting policies (Continued)

(v) that the Trust has sufficient resources to allow a reasonable period for the exposure of the property for sale; and

(vi) that the Trust has sufficient resources to negotiate an agreement for the sale of the property.

Revaluation increments are credited directly to the asset revaluation account. Revaluation decrements are taken to the asset revaluation account to the extent that such losses are covered by amounts previously credited to the account and still available in that account. Revaluation decrements in excess of amounts available in the account are first charged to the Statement of Financial Performance.

Subsequent revaluation increments that recover amounts previously charged to the Statement of Financial Performance are to that extent, credited to the Statement of Financial Performance and then transferred to the asset revaluation account. In any particular year increments and decrements are netted off.

The gain or loss on disposal of revalued assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal and is included in the results in the year of disposal.

Any related revaluation increment standing in the asset revaluation account at the time of disposal is transferred to the asset realisation account.

In determining the increment or decrement on revaluation, no account has been taken of the potential impact on Unitholders of taxation resulting from any capital gain which may arise on the subsequent sale of the Investment.

(e) Recoverable amount of non-current assets

The carrying amounts of all non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.

(f) Distributable income

Under the provisions of the Trust Constitution, Distributable Income is defined as Net Taxable Income together with any capital amount arising from the net proceeds of realisation of investments (to the extent that it is not included in Net Taxable Income) or representing other capital of the Trust howsoever arising or representing amounts deducted for depreciation. Where the Net Accounting Income exceeds the Net Taxable Income, Distributable Income will be the Net Accounting Income or some amount greater than the Net Taxable Income but less than the Net Accounting Income.

(g) Income tax

Under current income tax legislation, the Trust is not liable for income tax, provided that the taxable income is fully distributed to Unitholders each year, and any taxable capital gain derived from the sale of assets acquired after 19 September 1985 is fully distributed to Unitholders. Tax allowances for building and plant and equipment depreciation are distributed to Unitholders in the form of tax deferred components of distributions.

(h) Loan establishment fees

Costs incurred in respect of obtaining finance are deferred and are written off over the term of the loan.

1. Statement of significant accounting policies (Continued)

(i) Capital expenditure

Refurbishment costs are capitalised and included in the investment value. Integral plant and equipment which is disposed of as part of ongoing refurbishments is written off and the investment value reduced accordingly.

(j) Issue costs

Costs incurred directly in connection with the issue of units are netted against the funds raised to determine Unitholders' equity.

(k) Depreciation

In accordance with Accounting Standard AASB 1021: Depreciation, investment properties (including buildings and integral plant) are not depreciated. The properties are subject to continued maintenance and regularly revalued on the basis in Note 1(d). Taxation allowances for buildings, plant and equipment depreciation are claimed by the Trust and are declared as tax deferred components of distributions.

Items of furniture, fixtures and fittings not integral to the buildings are carried at cost and depreciated on a straight line basis over their estimated useful lives. Depreciation rates used for each class of assets are as follows:

Furniture, fixtures and fittings 13% - 20%

Motor vehicles 20%

Plant and equipment 17% - 27%

Assets are depreciated from the date of acquisition.

(l) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with arrangement of borrowings. Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than twelve months to get ready for their intended use or sale. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

(m) Receivables

Debtors are usually settled within 30 days and are carried at amounts due. The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

(n) Payables

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

1. Statement of significant accounting policies (Continued)

(o) Bank loans

Bank loans are carried on the Statement of Financial Position at their principal amount, subject to set-off arrangements. Interest is payable in advance and is written off over the term of the borrowing.

(p) 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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

2. Profit (loss) from Ordinary Activities

	2002 $	2001 $
(a) Individually significant items in profit (loss) from ordinary activities		
Revaluation decrement/(increment) of investment properties	(854,998)	1,406,656
(b) Other Expenses		
ASX and registry fees	3,130	7,247
Auditor's remuneration – audit and review services	10,150	12,615
Bank fees	150	160
Compliance costs	7,572	140
Consultants fees	5,627	16,374
Insurance	1,495	-
Legal fees	7,601	2,134
Loss on sale of non integral asset	-	2,888
Marketing costs	26,620	-
Responsible Entity's outlays	353	4,322
Sundry expenses	4,782	2,176
Unitholder costs	6,333	13,998
	73,813	62,054

3. Distributions in excess of net profit/(loss)

	31 Dec 2002 $	30 June 2002 $
Balance at the beginning of the period	(956,357)	(956,357)
Distributions paid and payable	-	-
Balance at the end of the period	(956,357)	(956,357)

4. Segment Reporting

The Trust's revenues are entirely derived from the ownership and leasing of hotels. All operations and assets are based in Australia.

5. Net tangible assets

	31 Dec 2002 $	30 Jun 2002 $
Net tangible assets	7,074,445	6,110,996
Units issued	20,943,114	20,943,114
Net tangible asset backing (at book value) per unit	$0.338	$0.2918

6. Investment properties

Description	Acquisition date	Cost at Acquisition	Valuation date	Valuation $	Book value 31/12/02 $	Book value 30/06/02 $
Mercure Inn Leichhardt, Rockhampton	31/01/97	4,643,886	15/04/03	3,200,000	2,847,745	2,557,916
Mercure Hotel Burke & Wills, Toowoomba	31/01/97	3,863,249	15/04/03	4,000,000	3,844,114	3,506,249
Mercure Inn Burke & Wills, Mt Isa	31/01/97	3,468,912	15/04/03	3,250,000	3,096,518	2,679,716
Mercure Inn Diplomat, Alice Springs	15/05/98	4,031,380	15/04/03	4,300,000	3,466,960	3,536,174
Mercure Inn Outback, Mt Isa	20/12/99	2,778,534	15/04/03	2,000,000	1,969,073	2,065,593
Total investment properties				16,750,000	15,224,410	14,345,648

All properties have been independently valued by Mr SC Trewin from the firm SC Trewin Valuations Pty Ltd on 15 April 2003. These valuations have been adopted by the Trust as at 31 December 2002.

The valuation of investment properties includes non-integral assets which are disclosed separately in the Statement of Financial Position.

7. Contributed equity

	31 Dec 2002 $	30 Jun 2002 $
20,943,114 (30 June 2002: 20,943,114) units at issue price	16,909,529	16,909,529
Less unit issue costs	(992,426)	(992,426)
	15,917,103	15,917,103

8. Loan facility

Clause 10.5 of the Trust Constitution provides that the liabilities of the Trust must not exceed 60% of its total tangible assets and that the Responsible Entity must not incur or authorise any borrowing that would make the value of the liabilities of the Trust more than 60% of its total tangible assets. As at 31 December 2002 the Trust had total borrowings of $10,440,000 (30 June 2002:$10,440,000) which equates to 58.9% (30 June 2002: 61.7%) of total tangible assets. The diminution in the ratio at 30 June 2002 was due to revaluation decrements of the investment properties and not as a result of incurring or authorising any additional borrowings.

9. Events subsequent to balance date

Refinancing of loan facility

The Trust's loan facility with Westpac expires on 6 May 2003. An offer of finance from another lender has been received and accepted by the Responsible Entity. The new facility is interest only and is for a term of two years.

Valuations

As part of the refinancing referred to above, updated valuations of each of the Trust properties were obtained. The aggregate of the new valuations was $855,000 over existing book value. The increase in the carrying value of the properties has been reflected in these financial statements.

10. Contingent assets and liabilities

There have been no material changes in contingent assets and contingent liabilities since 30 June 2002.

In the opinion of the directors of DDH Graham Limited, the Responsible Entity of Fortland Hotel Property Trust ("the Trust"):

1. the financial statements and notes set out on pages 4 to 15 are in accordance with the Corporations Act 2001, including:

   (a) giving a true and fair view of the financial position of the Trust as at 31 December 2002 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and

   (b) complying with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and

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 half-year ended 31 December 2002 in accordance with the provisions of the Trust Constitution dated 19 April 2000.

Dated at Brisbane this 28th day of April 2003.

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

DDH Graham

Director

Scope

We have reviewed the financial report of Fortland Hotel Property Trust for the half-year ended 31 December 2002, consisting of the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, accompanying notes and the Directors' Declaration set out on pages 4 to 16. The directors of the Responsible Entity, DDH Graham Limited ("the Responsible Entity") are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029: Interim Financial Reporting, other mandatory professional reporting requirements and statutory requirements in Australia and the provisions of the Trust Constitution dated 19 April 2000, so as to present a view which is consistent with our understanding of the Trust's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the Responsible Entity to lodge the financial report with the Australian Securities and Investments Commission.

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

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Fortland Hotel Property Trust is not in accordance with:

(a) the Corporations Act 2001, including:

   (i) giving a true and fair view of the Trust's financial position as at 31 December 2002 and of its performance for the half-year ended on that date; and

   (ii) complying with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations, 2001; and

(b) other mandatory professional reporting requirements; and

(c) the provisions of the Trust Constitution dated 19 April 2000.

Inherent uncertainty regarding continuation as a going concern

Without qualification to the statement expressed above, attention is drawn to the following matter. As a result of the matters referred to in Note 1(b), there is uncertainty whether the Trust will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

I H Fraser
Partner

Brisbane 28 April 2003