



# Compass Hotel Group Limited

ACN 127 909 835

## Appendix 4E and Consolidated Financial Report for the year ended 28 June 2009

*This Preliminary Annual Report is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.3A.*

*This report should be read in conjunction with the Financial Report for Compass Hotel Group Limited and controlled entities for the half year ended 28 December 2008 and announcements made via the ASX.*

**Current reporting period:** Period ended 28 June 2009

**Comparative reporting period:** Period ended 30 June 2008

### ***Results for announcement to the market***

#### **1. Key information**

<b>Revenue and net profit</b>	<b>28 June 2009 Amount \$'000</b>	<b>30 June 2009 Amount \$'000</b>	<b>Change %</b>
Revenue from continuing operations	75,326	29,822	up 153%
Profit from ordinary activities after tax attributable to members	(99,219)	974	down 10,284%
Net profit attributable to members	(99,219)	974	down 10,284%

#### **Explanation of Results**

For the explanation of results, refer to the attached Financial Statements.

#### **2. Net tangible assets per security**

<b>Net tangible assets per security</b>	<b>28 June 2009 \$ per security</b>	<b>30 June 2008 \$ per security</b>
Net tangible assets per security	\$0.21	\$0.48

#### **3. Details of entities over which control has been gained or lost**

Not applicable.

**4. Details relating to dividends and distributions**

	<u>Financial Year</u>	<u>Amount per Security</u>	<u>Franked amount per Security</u>
<b>Final distribution declared</b>	<b>2009</b>	<b>\$0.00</b>	<b>\$0.00</b>
<b>Final dividend declared</b>	<b>2009</b>	<b>\$0.00</b>	<b>\$0.00</b>
Final distribution declared	2008	\$0.01	\$0.00
Final dividend declared	2008	\$0.00	\$0.00

No final distribution or dividend was declared for 2009.

The Compass Hotel Group Dividend Reinvestment Plan is currently not in operation.

**Appendix 4E Compass Hotel Group Limited - 28 June 2009  
(Continued)**

**The preliminary final report for the period ended 28 June 2009 prepared in accordance with the Corporations Act 2001 is attached**

**Compliance statement**

1. This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.

Identify other standards used

**NONE**

2. This report, and the +accounts upon which the report is based (if separate), use the same accounting policies.

3. This report does give a true and fair view of matters disclosed (see Note 1).

4. This report is based on + accounts to which one of the following applies.  
(tick one)

**X**

The +accounts have been audited

The +accounts have been subject to an audit

The +accounts are in the process of being audited

The +accounts have not yet been audited

5. The entity has a formally constituted Audit and Risk Management Committee.



Roland Hill  
Director

17 November 2009

# **Compass Hotel Group Limited**

ABN 18 127 909 835

## **Consolidated Financial Statements for the period ended 28 June 2009**

# Compass Hotel Group Limited ABN 18 127 909 835 Annual Report - 28 June 2009

Lodged with the ASX under listing Rule 4.3A

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<b>Directors</b>	Roland Hill <i>Chairman</i> Warwick Jones (Resigned 17 July 2009) <i>Chairman</i> Peter Kadar (Resigned 17 July 2009) Bryan Northcote (Resigned 17 July 2009) Robert Garton Smith (Appointed 8 September 2009) Anne Thome (Appointed 8 September 2009)
<b>Company Secretary</b>	Malcolm McLean (Appointed 31 August 2009) Mark Maitland (Appointed 13 May 2009 and resigned 28 August 2009)
<b>Chief Executive Officer</b>	Bryan Northcote (Resigned 17 July 2009)
<b>Chief Operating and Planning Officer</b>	Antoine Musu (Appointed 22 September 2008)
<b>Group Financial Controller</b>	Malcolm McLean (Appointed 31 August 2009) Mark Maitland (Appointed 28 April 2009 and resigned 28 August 2009)
<b>Principal registered office in Australia</b>	Compass House 1/493 Beach Road Duncraig WA 6026
<b>Securities register</b>	Computershare Investment Services Pty Ltd Yarra Falls 452 Johnston Street Abbotsford VIC 2067
<b>Auditor</b>	PricewaterhouseCoopers 201 Sussex Street Sydney NSW 2000
<b>Bankers</b>	St George Bank Limited 1 Chifley Square Sydney NSW 2000
<b>Responsible Entity</b>	Primary Compass Ltd AFSL 323380 13 Nairn Street Fremantle WA 6160
<b>Stock exchange listings</b>	Compass Hotel Group Limited and Compass Hotel Group Trust stapled securities are listed on the Australian Securities Exchange.
<b>Website address</b>	<a href="http://www.compasshotel.com.au">www.compasshotel.com.au</a>

## Directors' report

Your directors present their report on Compass Hotel Group Limited (the Company) and Compass Hotel Group Trust (the Trust), collectively together with all controlled entities referred to as "the Group", at the end of, or during, the period ended 28 June 2009.

### Directors

The following persons were directors of the Company from their respective dates of appointment and up to the date of this report:

Roland Hill  
 Warick Jones (Resigned 17 July 2009)  
 Peter Kadar (Resigned 17 July 2009)  
 Bryan Northcote (Resigned 17 July 2009)  
 Robert Garton Smith (Appointed 8 September 2009)  
 Anne Thoume (Appointed 8 September 2009)

### Principal activities

During the period the principal continuing activities of the Group consisted of:

- (a) operating hotel and tavern businesses in Western Australia; and
- (b) managing investment properties in WA.

### Dividends - Compass Hotel Group Limited

On 28 August 2008 a final ordinary distribution of \$1,237,310 (1 cent per fully paid stapled security) was paid to securityholders out of retained profits at 30 June 2008.

### Review of operations

A summary of Group revenues and results is set out below:

	<b>28 June 2009 \$'000</b>	30 June 2008 \$'000
Net hotel operating revenue	75,326	29,822
Other	<u>1,238</u>	<u>1,341</u>
Total continuing operations	<u><b>76,564</b></u>	<u>31,163</u>
Unallocated revenue less unallocated expenses	<u>(174,560)</u>	<u>(30,847)</u>
Profit/(loss) before income tax expense	<u>(97,996)</u>	316
Income tax (expense)/benefit	<u>(1,223)</u>	<u>658</u>
Profit/(loss) for the year	<u><b>(99,219)</b></u>	<u>974</u>
Profit/(loss) attributable to unitholders of Compass Hotel Group Trust	<b>(86,456)</b>	(5,537)
Profit/(loss) attributable to security holders of Compass Hotel Group Limited	<b>(12,763)</b>	6,511

Comments on the operations and the results of those operations are set out below:

(a) *Hotel operations*

#### **Group Performance Overview**

This first full financial year for Compass Hotel Group has seen varying patterns of consumer behaviors as a direct result of the current economic environment. The financial year commenced favourably with reasonably healthy revenues between July and September. However, the interpretation of global financial crisis generated a substantial flow-on effect that resulted in a considerable slow-down in the Australian economy.

The Groups overall loss of \$99.2m after tax as reported was after impairment costs of \$83.1m and the fair value loss on the derivative financial instrument of \$9.3m. The impairment of intangibles comprises \$58.4m for goodwill written off in December 2008, and a further \$24.7m written off in June 2009 based on revaluations of land and buildings for the Group's trading venues. The value loss of \$9.3m is attributed to the interest rate swap held by the group.

**Review of operations (continued)**

The following table shows a comparison between the 2008 and 2009 financial results:

	<b>2009</b>	2008
	<b>\$'000</b>	\$'000
Reported Profit/(Loss) before income tax	<b>(97,996)</b>	316
Impairment (Goodwill)	<b>58,410</b>	-
Revaluation of land and buildings	<b>24,679</b>	-
Value loss in interest rate swap	<b>9,347</b>	(2,481)
<b>Underlying Profit/(loss) excluding impairment, interest rate swap and tax</b>	<b><u>(5,560)</u></b>	<b><u>(2,165)</u></b>

The acquisition of the properties was undertaken between January and February 2008 and the result for 2008 is based on 4 - 5 month trading performance only.

**Operating Venue Performance**

Operating revenues for the full year 2009 were recorded at \$75.3m. Half-year total revenue to December 2008 was \$40.5m with \$36.0m attributed to January to June 2009. This reduction on revenue in the second half of the financial year shows the impact on the local economic environment. Food and beverage on-site sales declined during the second half of the financial year whilst retail sales performance continued steadily into the second half of the financial year.

During the second half of the financial year following rationalization, stabilization of all operating venues and tight cost control, the Group's overall performance improved marginally in spite of revenue shortfalls the venues experienced as a direct result of consumer sentiment.

The table below shows the comparison between the first and last six months of the financial year. This highlights the action taken by senior management had an impact on the bottom line results which is expected to continue into the next financial year.

	June 2009	Dec 2008
	\$m	\$m
Revenue	36.0	40.5
Gross Contribution	17.1	19.3
Payroll & Related Expenses	7.8	8.9
Other Expenses	4.7	5.4
<b>Gross Operating Profit</b>	<b>4.6</b>	<b>5.0</b>
	12.7%	12.5%

The overhead costs for the six months to December 2008 were recorded at \$2.2m, whilst for the six months to June 2009 overhead costs were recorded at \$1.5m. This result contributed to an increase in EBITDA from \$2.8m or 7.1% of operating revenue for the period July to December 2008 to \$3.1m or 8.5% of operating revenue for the January to June 2009 period.

**Looking Forward**

CHX adopted a prudent outlook for business at the time of preparation of financial forecasts for financial year 2010 with particular emphasis on the July to December 2009 period. With this, CHX maintained an operating philosophy of continuous performance improvement and preliminary results clearly show performance advancement as a direct result of incremental operational efficiencies and further cost rationalization.

The recent brighter outlook for the Western Australian economy ought to bring about renewed confidence in the leisure and hospitality sector of the economy. The operating venues are geographically well placed to take advantage of this change in the environment. With additional capital expenditure, CXH will be well positioned to maximize revenue growth that will generate favorable outcomes to shareholders.

**Our People**

In spite of highly challenging times experienced during the financial year 2009, the Group has continued to invest time and effort in its key staff with the objective of achieving higher operating performance.

With the advent of more challenging times ahead, consumer choices will continue to improve and CXH will exploit all opportunities to maximize its position as a community driven food and beverage facility provider.



**Review of operations (continued)**

(b) *Other activities*

The lease of Cobblers Tavern expired in February 2009 and the option to renew was not exercised as the business was not economically viable under the existing terms of the lease.

Following enquiries about the group's assets around October 2008, and the group having encountered issues with financial position particularly with regard to ICR and impairment testing, CHX invited expressions of interest from parties wishing to acquire assets. As world markets deteriorated further, it became increasingly evident that CHX would not receive any offers that would make a significant difference to the group's financial position and as a result any actions if offers were to be accepted, these would not be in the best interests of security holders.

Following this process the Board investigated options to divest non-core assets of the Group and in June 2009 the Gosnells Railway Markets was sold for \$5,675,000 with the funds of the sale used to reduce debt and assist the working capital of the Group. These funds were received after the balance date of 28 June 2009.

**Earnings per stapled security**

	28 June 2009	30 June 2008
	Cents	Cents

**(a) Basic earnings per stapled security**

Profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company

	(11.9)	5.3
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**(b) Diluted earnings per stapled security**

Profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company

	(11.9)	5.2
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**Dividends and distributions**

A final distribution for the period ended 30 June 2008 of 1.0 cent per fully paid stapled security was made on 28 August 2008.

**Significant changes in the state of affairs**

Significant changes in the state of affairs of the Group during the financial period were as follows:

In September 2008, Antoine Musu was appointed as the group's Chief Operating Officer with additional responsibilities for development planning and refurbishment. Antoine is an accounting and hospitality industry professional and has formal organizational capabilities and relevant experience in Australian and overseas businesses to improve and develop the Group's operations in Western Australia.

Also in September 2008 the Responsible Entity of the Trust was changed to Primary Compass Limited. This change was initiated to reduce the risk to the Groups eligible undertaking as the previous Responsible Entity, Primary Securities Limited, was also the Responsible Entity for other non-related managed investment schemes.

**Matters subsequent to the end of the financial period**

At 28 June 2009, the Group was in breach of its borrowing covenants with respect to its long-term finance facility. As a result, the Group has classified \$96 million of borrowings that are due for repayment in excess of 12 months from the balance sheet date as current liabilities on the balance sheet, reflecting the fact that the lender had the right to call these funds immediately as at 28 June 2009. In November 2009, the Group received confirmation from the relevant financial institution that they will not take any action in respect to the covenant breaches and will not presently recall any amounts as due outside of the previously agreed upon debt repayment schedule.

On 3 July 2009 the settlement of the sale of Gosnells Railway Markets was completed.

On 17 July 2009 the Group was suspended from trading on the Australian Securities Exchange (ASX) due to the resignation of the Rick Jones (Chairman), Peter Kadar (Director) and Bryan Northcote (Managing Director and Chief Executive Officer).

On 28 August 2009 Mark Maitland resigned as Group Financial Controller and Company Secretary, he was replaced by Malcolm McLean. Malcolm has worked in a number of industries involved in the oil industry, IT consulting, financial services and retail and has over twenty years experience in the accounting and finance field. Malcolm is a Member of the Australian Society of Certified Practising Accountants.

**Matters subsequent to the end of the financial period (continued)**

On 31 August 2009, the stapled entity of Compass Hotel Group Trust and Compass Hotel Group Limited, was suspended from trading on the Australian Securities Exchange for the failure to lodge the required Appendix 4E by the required deadline.

On 8 September 2009, Anne Thome and Robert Garton Smith were appointed "interim" directors of Compass Hotel Group Limited. Anne is the Chair of Primary Compass Limited, the Responsible Entity of Compass Hotel Group Trust, and Robert is the Managing Director of Primary Group. Their appointment was made to stabilise the Group during the search for suitably qualified and experienced candidates to replace them.

Except for the matters discussed above, no other matter or circumstance has arisen since 28 June 2009 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

**Likely developments and expected results of operations**

Likely developments in the operations of the Group that were not finalised at the date of this report are included in "Matters Subsequent to the end of the financial period" section above.

Additional comments on expected results of certain operations of the Group are included in this annual report under the review of operations and activities on pages 2 - 3.

**Environmental regulation**

The Group is not subject to significant environmental regulation in respect of its activities.

**Information on directors**

**Roland Hill** *Chairman*

**Experience and expertise**

Roland is a non-executive director of the Company. Roland has 15 years of corporate finance experience through senior roles in stockbroking and investment banking with several international and domestic financial institutions. Roland also held the role of Portfolio Manager with Deutsche Asset Management. Roland has developed extensive hotel operational experience through managing several hotels in Western Australia.

**Other Current Public Company Directorships**

Crescent Gold Ltd

**Former Public Company Directorships in last 3 years**

Nil.

**Special responsibilities**

Member of the Audit & Risk Management Committee.

Member of the Nomination Committee.

**Warrick Jones, LLB** *Chairman* (Resigned 17 July 2009)

**Experience and expertise**

Rick was appointed the non-executive chairman of the Company. Rick is currently a consultant to the legal firm Mills Oakley Lawyers. Previously Rick was the principal solicitor/director of Rick Jones & Associates, a Brisbane based legal firm specialising in commercial, corporate, commercial litigation and insolvency law throughout Australia and has also been the managing partner of Jones King Lawyers, a national legal firm specialising in commercial, corporate, commercial litigation and insolvency work.

Rick holds a Bachelor of Laws (University of Otago, New Zealand, 1980), and is a barrister and solicitor of the various Supreme Courts of Australia. In addition to this, Rick is also a Member of the Insolvency Practitioners' Association of Australia and an associate of the Australian Institute of Credit Managers.

**Other Current Public Company Directorships**

Nil.

**Former Public Company Directorships in last 3 years**

Nil

**Special responsibilities**

Chairman of the Board.

Member of the Audit & Risk Management Committee.

Chairman of the Nomination Committee.

Chairman of the Remuneration Committee.

**Information on directors (continued)**

**Peter Kadar** *Director* (Resigned 17 July 2009)

**Experience and expertise**

Peter was appointed a non-executive director of the Company. Peter runs his own consultancy business with major listed companies as clients and has extensive experience at senior executive level with both public and private companies.

Prior to establishing his own business, Peter was Chief Executive Wagering at Tab Limited where he established a successful track record in new business development and re-engineering of existing businesses.

Peter also has extensive experience in the field of media and entertainment provided via retail and electronic channels having held the position of business development manager for Publishing & Broadcasting Limited where he was responsible for sourcing and assessing business opportunities both domestically and internationally.

Peter also has substantial experience in industries with onerous legislative, regulatory and probity requirements and managed a diverse portfolio of stakeholders, including State/Federal governments and hotel/club industry bodies.

**Other Current Public company Directorships**

Nil.

**Former Public Company Directorships in last 3 years**

Nil.

**Special responsibilities**

Chairman of the Audit & Risk Management Committee.

Member of the Remuneration Committee.

Member of the Nomination Committee.

**Bryan Northcote** *Director and Chief Executive Officer* (Resigned 17 July 2009)

**Experience and expertise**

Bryan was appointed the Managing Director and Chief Executive Officer of the Company. Bryan was the Managing Director and remains a shareholder of Clarity Management Group Pty Ltd (Clarity) , a niche provider of financial, administration and operational services to the hotel, club and restaurant industries in NSW. Prior to the formation of Clarity, Bryan was responsible for setting up the hospitality and leisure division of Grant Thornton Chartered Accountants during the period from 1993 to 1997. He has been actively involved in the hotel sector since 1980.

**Other Current Public Company Directorships**

Nil.

**Former Public Company Directorships in last 3 years**

Nil.

**Special responsibilities**

Member of the Remuneration Committee.

**Robert Garton Smith** *Director* (Appointed 8 September 2009)

**Experience and expertise**

Robert Garton Smith is the Managing Director and owner of the Primary Group and is its key person in relation to managed investments. He has degrees in law, commerce and financial planning and is a legal practitioner as well as being a Fellow of the Financial Services Institute of Australia. He is a member of the Law Society of Western Australia and the Australian Compliance Institute. Robert Garton Smith has worked in the area of managed investments since 1981. He has prepared and overseen dozens of managed investment schemes relating to real estate, mortgages, equity, forestry, viticulture, horticulture, manufacturing and film, and also prepared share, debenture stock and unsecured notes issues. Robert Garton Smith has practiced law since 1970 and is admitted as a practitioner in Australia and in England and Wales. He is on the board of several unlisted public technology companies.

**Other Current Public Company Directorships**

Primary Securities Limited

Primary Compass Limited

**Former Public Company Directorships in last 3 years**

None.

**Information on directors (continued)**

**Anne Thoume** *Director* (Appointed 8 September 2009)

**Experience and expertise**

Anne Thoume has extensive experience in the commerce, banking and trustee industries. Beginning as a trust officer, and moving into management of unit trusts, she has acted as both Manager - Trust and Corporate and Company Secretary of a major international bank. She has also worked as a senior executive with Perpetual Trustees (WA) Ltd and as General Manager of a Singaporean trust company. As a former director of Professional Funds Management Pty Ltd, Anne was responsible for the day to day operations and administration of that company's trustee and corporate service division.

**Other Current Public Company Directorships**

Primary Securities Limited  
Primary Compass Limited

**Former Public Company Directorships in last 3 years**

None.

**Company secretary**

**Malcolm McLean**, *Group Financial Controller* (Appointed 31 August 2009)

Malcolm has previously held the position of Company Secretary for three years for an ASX listed company involved in investment property and retailing.

**Mark Maitland**, *Group Financial Controller* (Resigned 28 August 2009)

Mark is a Chartered Accountant with more than twenty years experience in accounting, financial and business management matters including ten years as principal of his own Practice.

**Regan Cheriton**, *B.Comm, CPA, ACIS* (Resigned 8 June 2009)

Regan has previously held the position of Company Secretary at Sydney Attractions Group Limited, holds a Graduate Diploma in Applied Corporate Governance and is a member of Chartered Secretaries Australia.

**Rhonda King**, *BA, LLB* (Resigned 3 November 2008)

Rhonda King has been a commercial lawyer since 1981, and partner or consultant to various legal practices since 1984. Rhonda was company secretary of Collection House Limited (CLH) and its subsidiaries from April 2003 to 30 June 2006 and a Board member of CLH from August 2005 to 31 December 2006

**Meetings of directors**

The numbers of meetings of the Company's Board of directors and of each Board committee held during the period ended 28 June 2009, and the numbers of meetings attended by each director were:

	Meetings of committees							
	Full meetings of directors		Audit		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
R. Jones	11	11	8	8	-	-	1	1
R. Hill	9	11	6	8	-	-	**	**
P. Kadar	11	11	8	8	-	-	1	1
B. Northcote	11	11	**	**	**	**	1	1

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the period

\*\* = Not a member of the relevant committee

**Remuneration report**

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Stippled security-based compensation

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

**Remuneration report (continued)**

**A Principles used to determine the nature and amount of remuneration**

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for holders of stapled securities, and conforms with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to holders of stapled securities;
- performance linkage / alignment of executive compensation;
- transparency;
- capital management; and
- reflects competitive reward for contribution to growth for holders of stapled securities.

The Board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

*Non-executive directors*

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board has also considered the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

*Directors' fees*

The current base remuneration was last reviewed with effect from 9 October 2007. All Directors fees are inclusive of committee fees.

The Company Constitution provides that the non-executive Directors of the company are entitled to remuneration not exceeding an aggregate maximum of \$500,000 per annum or such other maximum amount determined by the Company at an Annual General Meeting.

	<b>Year ending 28 June 2009</b>	<b>From 9 October 2007 to 30 June 2008</b>
<b>Base fees</b>		
Chairman	\$66,750	\$61,313
Other non-executive directors	<u>\$109,000</u>	<u>\$73,664</u>
	<u>\$175,750</u>	<u>\$134,977</u>

*Retirement allowances for directors*

Superannuation contributions required under the Australian superannuation guarantee legislation are made and are on top of the directors' overall fee entitlements.

*Executive pay*

The executive pay and reward framework has three components:

- base pay and benefits, including superannuation;
- short-term performance incentives; and
- long-term performance incentives through participation in the Employee Option Plan.

The combination of these comprises the executive's total remuneration. The company intends to review both its short-term and long-term performance incentives for executives during the year ending 30 June 2010.

*Base pay*

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any executives' contracts.

**Remuneration report (continued)**

**A Principles used to determine the nature and amount of remuneration (continued)**

*Benefits*

Executives receive benefits including car allowances.

*Superannuation*

Retirement benefits are delivered via the employee's choice of superannuation fund.

*Short-term incentives*

If the Group achieves a pre-determined profit target set by the remuneration committee, a short-term incentive (STI) pool is available to executives during the annual review. Cash incentives (bonuses) are payable on 30 September each year. Using a profit target ensures variable reward is only available when value has been created for holders of stapled securities and when profit is consistent with the business plan. The incentive pool is leveraged for performance above the threshold to provide an incentive for executive over-performance.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the organisation or business unit performance. The maximum target bonus opportunity is 25% of base pay.

Each year, the remuneration committee considers the appropriate targets and key performance indicators (KPIs) to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of STI.

For the period ended 28 June 2009, there were no STI or LTI plans in place for the Group.

The remuneration committee is responsible for assessing whether the KPIs are met for senior executives. To help make this assessment, the committee receives detailed reports on performance from management.

The short-term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the remuneration committee.

The STI performance targets are reviewed annually.

*Long-term incentives*

Long-term incentives are provided to certain employees via the Employee Option Plan, see page 11 for further information.

**B Details of remuneration**

*Amounts of remuneration*

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 *Related Party Disclosures*) and specified executives of the Group are set out in the following tables.

The key management personnel of the Group includes the directors as per pages 5 to 7 above and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entities:

- A. Musu - Chief Operating and Planning Officer (from 22 September 2008)
- M. Maitland - Group Financial Controller (from 28 April 2009 and resigned 28 August 2009)
- F. Mastroianni - General Manager Retail Off Premise
- B. Jenkins - Chief Operating Officer (terminated 21 September 2008)
- R. Cheriton - Chief Financial Officer (resigned 8 June 2009)

**Remuneration report (continued)**

**B Details of remuneration (continued)**

Amounts of remuneration (continued)

**Key management personnel of the Group and other executives of the Group**

2009

Name	Short-term employee benefits		Post-employment benefits	Long-term benefits		Total \$
	Cash salary and fees \$	Fringe Benefits \$	Super-annuation \$	Long service leave \$	Termination benefits \$	
<i>Non-executive directors</i>						
R. Jones	45,000	-	21,750	-	-	66,750
R. Hill	50,000	-	4,500	-	-	54,500
P. Kadar	50,000	-	4,500	-	-	54,500
<b>Sub-total non-executive directors</b>	<b>145,000</b>	<b>-</b>	<b>30,750</b>	<b>-</b>	<b>-</b>	<b>175,750</b>
<i>Executive directors</i>						
B. Northcote	250,001	37,416	22,500	-	-	309,917
<i>Other key management personnel (Group)^#</i>						
A. Musu (from 22 September 2008)^#	76,387	-	65,900	-	-	142,287
M. Maitland (from 28 April 2009)^	25,385	-	2,285	-	-	27,670
F. Mastroianni^#	125,765	-	15,539	-	-	141,304
B Jenkins (terminated 21 September 2008)^#	40,107	8,262	3,808	-	85,000	137,177
R. Cheriton (resigned 8 June 2009)^#	164,121	-	14,829	-	-	178,950
<b>Total key management personnel compensation (Group)</b>	<b>826,766</b>	<b>45,678</b>	<b>155,611</b>	<b>-</b>	<b>85,000</b>	<b>1,113,055</b>

^ denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

# denotes one of the 5 highest paid executives of the Company, as required to be disclosed under the *Corporations Act 2001*.

**Key management personnel of the Group and other executives of the Group**

2008

Name	Short-term employee benefits		Post-employment benefits	Long-term benefits		Total \$
	Cash salary and fees \$	Fringe Benefits \$	Super-annuation*	Long service leave \$	Termination Benefits \$	
<i>Non-executive directors</i>						
R. Jones (Appointed 9 October 2007)	45,000	-	16,313	-	-	61,313
R. Hill (Appointed 9 October 2007)	37,500	-	3,375	-	-	40,875
P. Kadar (Appointed 25 November 2007)	30,082	-	2,707	-	-	32,789
<b>Sub-total non-executive directors</b>	<b>112,582</b>	<b>-</b>	<b>22,395</b>	<b>-</b>	<b>-</b>	<b>134,977</b>
<i>Executive directors</i>						
B. Northcote (Appointed 9 October 2007)^#	139,423	31,848	12,548	-	-	183,819
B. Jenkins (from 10 December 2007)^#	100,739	4,107	10,669	-	-	115,515
R. Cheriton (from 3 March 2008)^#	56,986	-	5,129	-	-	62,115
G. Mack (from 10 December 2007 to 3 March 2008)^#	62,914	-	18,197	-	-	81,111
F. Mastroianni (from 14 April 2008)^	33,620	-	4,387	-	-	38,007
<b>Total key management personnel compensation</b>	<b>506,264</b>	<b>35,955</b>	<b>73,325</b>	<b>-</b>	<b>-</b>	<b>615,544</b>

**C Service agreements**

On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of director.

Remuneration and other terms of employment for the Chief Executive Officer, Chief Operating and Planning Officer, Chief Financial Officer and the other key management personnel are also formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses, other benefits including, car allowances and participation, when eligible, in the Employee Option Plan. Other major provisions of the agreements relating to remuneration are set out below.

B. Northcote, *Director, Chief Executive Officer*

Term of agreement - 5 years commencing 10 December 2007.

**Remuneration report (continued)**

**C Service agreements (continued)**

- Annual base salary of \$250,000 plus superannuation, plus Car Allowances of \$50,000 to be reviewed annually by the remuneration committee.
- Contract includes a termination benefit of the issue of 1,750,000 fully paid ordinary securities in the capital of the Group subject to applicable approval requirements, such as the ASX Listing Rules, if terminated by the Company.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the base salary plus superannuation for the remaining term of the agreement or 3 years, whichever the greater. No termination payments were made as a result of his resignation on 17 July 2009.

**A. Musu, Chief Operating and Planning Officer**

- Term of agreement - on-going commencing 22 September 2008.
- Base salary, for the period ended 28 June 2009 (annualised) of \$250,000 including superannuation to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 12 months after 6 months employment, 18 months after 12 months employment and 24 months after 18 months employment.

**M. Maitland, Group Financial Controller**

- Term of agreement - on-going, commencing 28 April 2009.
- Base salary, for the period ending 28 June 2009 (annualised) of \$163,500 including superannuation, to be reviewed after six months by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 6 months base salary.

**F. Mastroianni General Manager Retail Off Premise**

- Term of agreement - on-going, commencing 14 April 2008.
- Base salary, inclusive of superannuation and motor vehicle, of \$210,000 per annum, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 6 months base salary.

**D Stapled security based compensation**

To 28 June 2009 there were no stapled security based compensation payments made to executives of the Company.

**Loans to directors and executives**

There were no loans to directors and executives during the period ending 28 June 2009.

**Insurance of officers**

During the period ended 28 June 2009 the Group paid a premium of \$50,250 to insure the directors and secretaries of the Company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

**Agreement to indemnify officers**

During the period ending 28 June 2009 the Company entered into an agreement to indemnify the directors and secretaries of the Company and its Australian based subsidiaries.

The indemnity relates to any liability:

- (a) to a third party (other than Compass Hotel Group Limited or a related body corporate) unless the liability arises out of conduct involving a lack of good faith, and
- (b) for legal costs incurred in successfully defending civil or criminal proceedings or in connection with proceedings in which relief is granted under the *Corporations Act 2001*.

No liability has arisen under these indemnities as at the date of this report.



**Proceedings on behalf of the company**

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

**ASX Statement**

The Group advises that the ASX reserves the right (but without limiting its absolute discretion) to remove the Trust or the Company or both from the official list if any of the units of the Trust and the shares in the Company cease to be stapled together or any equity securities are issued by the Trust or the Company which are not stapled to corresponding securities in the other entity.

On 17 July 2009 the Group was voluntarily suspended from trading on the ASX due to the resignation of Rick Jones (Chairman), Peter Kadar (Director) and Bryan Northcote (Managing Director and Chief Executive Officer).

**Non-audit services**

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the period are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the period the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	<b>Consolidated</b>	
	<b>28 June 2009</b>	30 June 2008
	\$	\$
<b>1. Audit services</b>		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports	<u>117,000</u>	<u>143,000</u>
<b>Total remuneration for audit services</b>	<u>117,000</u>	<u>143,000</u>
<b>2. Non-audit services</b>		
PricewaterhouseCoopers Australian firm:		
Due diligence services	<u>-</u>	<u>148,000</u>
<b>Total remuneration for audit-related services</b>	<u>-</u>	<u>148,000</u>
Tax compliance services	<u>107,000</u>	<u>15,000</u>
Accounting services	<u>24,000</u>	<u>12,000</u>
<b>Total remuneration for non-audit services</b>	<u>131,000</u>	<u>175,000</u>

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14.

**Rounding of amounts**

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

**Auditor**

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.



R. Hill  
Chairman

Perth  
17 November 2009

PricewaterhouseCoopers  
ABN 52 780 433 757

Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999  
[www.pwc.com/au](http://www.pwc.com/au)

### Auditor's Independence Declaration

As lead auditor for the audit of Compass Hotel Group Limited for the year ended 30 June 2009, 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.

This declaration is in respect of Compass Hotel Group Limited and the entities it controlled during the period.



Gareth Winter  
Partner  
PricewaterhouseCoopers

Sydney  
17 November 2009

## Corporate governance statement

Compass Hotel Group Limited (together with its controlled entities referred to as "the Company" in this statement) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of the holders of stapled securities.

The relationship between the Board and senior management is critical to the Company's long-term success. The directors are responsible to the holders of stapled securities for the performance of the Company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Company as a whole. Their focus is to enhance the interests of holders of stapled securities and other key stakeholders and to ensure the Company is properly managed.

Day to day management of the Company's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Chief Executive Officer (CEO) and senior executives as set out in the Company's delegations policy. These delegations are reviewed on an annual basis.

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place from the date of listing.

### The Board of directors

The Board operates in accordance with the broad principles set out in the Directors' Charter which is available from the corporate governance information sub-section of the Investor section of the Company website at [www.compasshotel.com.au](http://www.compasshotel.com.au). The charter details the Board's composition and responsibilities.

### Board composition

The charter states:

- The Board shall consist of Directors (or their duly elected alternates) elected by the holders of stapled securities in accordance with the Constitution;
- the Chairman is elected to lead and manage the Board in accordance with the Constitution;
- The performance of the Board will be reviewed annually by the Chairman, by use of a combination of assessment questionnaires, confidential (non-attribution) interviews (if deemed necessary by the Chairman), a workshop to discuss findings and or such other means as the Chairman may from time to time determine.

### Responsibilities

The responsibilities of the Board include:

- providing strategic guidance to the Company including contributing to the development of and approving the corporate strategy;
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- overseeing and monitoring:
  - organisational performance and the achievement of the Company's strategic goals and objectives;
  - compliance with the Company's Code of Conduct (see page 19);
  - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments;
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors;
- appointment, performance assessment and, if necessary, removal of the CEO;
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the Chief Operating and Planning Officer (COO) and Chief Financial Officer (CFO);
- ensuring there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the organisation;
- overseeing the operation of the Company's system for compliance and risk management reporting to holders of stapled securities.

### Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the Directors' report under the heading "Information on directors". There are three non-executive directors, all of whom are deemed independent under the principles set out below, at the date of signing the directors' report.

The Board seeks to ensure that:

(continued)

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Company and directors with an external or fresh perspective
- the size of the Board is conducive to effective discussion and efficient decision-making.

#### **Directors' independence**

The Board complies with specific principles in relation to directors' independence. These state that when determining independence, a director must be a non-executive and the Board should consider whether the director:

- is a substantial holder of stapled securities of the Company or an officer of, or otherwise associated directly with, a substantial holder of stapled securities of the Company;
- is or has been employed in an executive capacity by the Company or any other Group member within three years before commencing to serve on the board;
- within the last three years has been a principal of a material professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with the Company or a controlled entity other than as a director of the Group;
- is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's independent exercise of their judgment.

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the Company or 5% of the individual directors' net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the holder of stapled securities' understanding of the director's performance.

#### **Term of office**

The Company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election.

#### **Chairman and Chief Executive Officer**

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the Board's relationship with the Company's senior executives.

The CEO is responsible for implementing Company strategies and policies.

#### **Commitment**

The Board held several Board meetings and an additional corporate strategy workshop during the period. One of those meetings was held at operational sites of the Company and a full tour of the facilities was included as part of the visit.

Non-executive directors are expected to spend at least 40 days a year preparing for and attending Board and committee meetings and associated activities.

The number of meetings of the Company's Board of directors and of each Board committee held during the period ended 28 June 2009, and the number of meetings attended by each director is disclosed on page 7.

It is the Company's practice to allow its executive directors to accept appointments outside the Company with prior written approval of the board. No appointments of this nature were accepted during the period ended 28 June 2009.

The commitments of non-executive directors are considered by the nomination committee prior to the directors' appointment to the Board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

#### **Conflict of interests**

Entities connected with some of the directors had business dealings with the consolidated entity during the period, as described in note 22 to the financial statements. In accordance with the Board charter, the directors concerned declared their interests in those dealings to the Company and took no part in decisions relating to them or the preceding discussions.

**Independent professional advice**

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

**Performance assessment**

The Board undertakes an annual self assessment of its collective performance, the performance of the Chairman and of its committees. Management are invited to contribute to this appraisal process which is facilitated by an independent third party. The results and any action plans are documented together with specific performance goals which are agreed for the coming year.

The Chairman undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment.

**Corporate reporting**

The Group Financial Controller has made the following certifications to the board:

- that the Group's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Group and are in accordance with relevant accounting standards;
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

**Board committees**

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the nomination, remuneration and audit & risk management committees. The committee structure and membership is reviewed on an annual basis.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company website. All matters determined by committees are submitted to the full Board as recommendations for Board decisions.

Minutes of committee meetings are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

**Nomination committee**

The nomination committee consisted of the following directors for the reporting period:

R. Jones (Chairman)  
P. Kadar  
R. Hill

R. Jones and P. Kadar have subsequently resigned and a new Nomination Committee will be formed.

No meetings of the nominations committee have been required during the year ended 28 June 2009.

The nomination committee operates in accordance with its charter which is available on the Company website. The main responsibilities of the committee are to:

- conduct an annual review of the membership of the Board having regard to present and future needs of the Company and to make recommendations on Board composition and appointments;
- conduct an annual review of and conclude on the independence of each director;
- propose candidates for Board vacancies;
- oversee the annual performance assessment program;
- oversee Board succession including the succession of the Chairman;
- assess the effectiveness of the induction process.

When a new director is to be appointed the committee reviews the range of skills, experience and expertise on the Board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. Where necessary, advice is sought from independent search consultants.

(continued)

The full Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of the Company. The committee's nomination of existing directors for reappointment is not automatic and is contingent on their past performance, contribution to the Company and the current and future needs of the Board and Company.

Notices of meetings for the election of directors comply with the Australian Securities Exchange (ASX) Corporate Governance Council's best practice recommendations.

New directors are provided with a letter of appointment setting out the Company's expectations, their responsibilities, rights and the terms and conditions of their employment. All new directors participate in a comprehensive, formal induction program which covers the operation of the Board and its committees and financial, strategic, operations and risk management issues.

#### **Remuneration committee**

The remuneration committee consisted of the following directors for the reporting period:

R. Jones (Chairman)  
P. Kadar  
B. Northcote

R. Jones, P. Kadar and B Northcote have subsequently resigned and a new Remuneration Committee will be formed.

Details of these directors' attendance at remuneration committee meetings are set out in the Directors' report on page 7.

The remuneration committee operates in accordance with its charter which is available on the Company website. The remuneration committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Committee members receive regular briefings from an external remuneration expert on recent developments on remuneration and related matters.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the remuneration committee on an annual basis and, where necessary, is revised in consultation with the relevant employee.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors' report under the heading "Remuneration report".

The committee also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programs and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

#### **Audit & risk management committee**

The audit & risk management committee consisted of the following directors, the Chief Financial Officer and the Group Financial Controller of the Company for the reporting period:

P. Kadar (Chairman)  
R. Jones  
R. Hill

P. Kadar and R. Jones have subsequently resigned and a new Audit and Risk Management Committee will be formed.

Details of these directors' qualifications and attendance at audit & risk management committee meetings are set out in the directors' report on pages 5 - 7.

The audit & risk management committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Company operates.

The audit & risk management committee operates in accordance with a charter which is available on the Company website. The main responsibilities of the committee are to:

- review, assess and approve the annual report, the half-year financial report and all other financial information published by the Company or released to the market;
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
  - effectiveness and efficiency of operations;

(continued)

- reliability of financial reporting;
- compliance with applicable laws and regulations.
- determine the scope of the internal audit function and ensure that its resources are adequate and used effectively, and assess its performance, including independence;
- oversee the effective operation of the risk management framework;
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence;
- review and monitor related party transactions and assess their propriety; and
- report to the Board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit & risk management committee:

- receives regular reports from management and external auditors;
- meets with the external auditors at least twice a year, or more frequently if necessary;
- reviews the processes the CEO and Group Financial Controller have in place to support their certifications to the Board;
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- meets separately with the external auditors at least twice a year without the presence of management; and
- provides the external auditors with a clear line of direct communication at any time to either the Chairman of the audit & risk management committee or the Chairman of the Board.

The audit & risk management committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

#### **External auditors**

The Company and audit & risk management committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as and when deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PricewaterhouseCoopers was appointed as the external auditor in 2008.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in note 23 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit & risk management committee.

The external auditor will attend the annual general meeting and be available to answer questions from the holders of stapled securities about the conduct of the audit and the preparation and content of the audit report.

#### **Risk assessment and management**

The Board, through the audit & risk management committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. These policies are available on the Company website. In summary, the Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Company's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct (see page 19) is required at all times and the Board actively promotes a culture of quality and integrity.

#### **Code of Conduct**

The Company has developed a statement of values and a Code of Conduct ("the Code") which has been fully endorsed by the Board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Company's integrity.

In summary, the Code requires that at all times all Company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Company policies.



(continued)

The purchase and sale of Company securities by directors and employees is governed by the Insider Trading Policy, which states that trading is permitted during the thirty day period following the release of the half-yearly and annual financial results to the market and for a period of twenty one days with the express written consent of the Chairman or CEO. Any transactions undertaken must be notified to the Company Secretary in advance.

The Code and the Company's Insider Trading Policy is provided to each new employee as part of their induction training.

Employees who are aware of unethical practices within the Company or breaches of the Company's Insider Trading policy can report these using the Company's whistleblower program. This can be done anonymously.

The operations and accounting divisions review and report directly to the Board on the compliance with the Code and the Insider Trading Policy. The Company Secretary has responsibility for the initial investigations of significant issues raised under the whistleblower program. These matters are reported to the Board.

The directors are satisfied that the Company has complied with its policies on ethical standards, including trading in securities.

A copy of the Code of Conduct, the Insider Trading Policy and the Whistleblower Policy are all available on the Company website.

#### **Continuous disclosure and communication**

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Group's stapled securities. These policies and procedures also include the arrangements the Company has in place to promote communication with holders of stapled securities and encourage effective participation at general meetings. A summary of these policies and procedures is available on the Company website.

The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, holders of stapled securities, the media and the public.

All information disclosed to the ASX is posted on the Company's web-site as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Company's operations, the material used in the presentation is released to the ASX and posted on the Company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

All holders of stapled securities receive a copy of the Company's annual (full or concise) report. In addition, the Company seeks to provide opportunities for holders of stapled securities to participate through electronic means. Recent initiatives to facilitate this include making all Company announcements, media briefings, press releases and financial reports available on the Company website.

A copy of the Shareholder Communications Guidelines is available on the website.

From 17 July 2009, a number of the above Corporate Governance Policies were not or could not be adhered to resulting from the resignation of the Chairman and two Directors. It is the Company's intention to restore these policies as soon as possible.

# Compass Hotel Group Limited ABN 18 127 909 835

## Annual Report - 28 June 2009

Lodged with the ASX under listing Rule 4.3A

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This financial report covers the separate financial statements of Compass Hotel Group Limited as an individual entity and the consolidated financial statements for the consolidated entity consisting of Compass Hotel Group Limited and its subsidiaries ("the Company" and the Compass Hotel Group Trust ("the Trust") (collectively referred to as "the Group"). The financial report is presented in the Australian currency.

At the record date the Company and the Trust are limited by stapled securities and are registered and domiciled in Australia. The registered office and principal place of business of the Company was:

Compass Hotel Group Limited  
Suite 1  
493 Beach Road  
Duncraig WA 6026.

And of the Trust is:

Compass Hotel Group Trust  
C/- Primary Securities Limited  
13 Nairn St  
Fremantle WA 6160

A description of the nature of the Group's operations and its principal activities is included in the Directors' report on pages 2 - 13 which does not form part of this financial report.

The financial report was authorised for issue by the directors on 10 November 2009. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Investor Centre on our website: [www.compasshotel.com.au](http://www.compasshotel.com.au).

For queries in relation to our reporting please call (08) 9247-7220.

**Compass Hotel Group Limited**  
**Preliminary consolidated income statement**  
**For the period ended 28 June 2009**

	Notes	Consolidated		Parent	
		28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
Revenue from continuing operations	3	75,326	29,822	-	-
Other income	4	1,238	1,341	64	242
Purchases of inventories and changes in inventories (net)		(40,089)	(16,696)	-	-
Loss on sale of assets		(1,465)	-	-	-
Advertising & Promotions		(540)	(375)	(2)	(115)
Impairment of intangibles		(58,410)	-	-	-
Impairment of assets		(24,679)	-	-	-
Depreciation & amortisation		(1,983)	(716)	(72)	(36)
Light & power		(982)	(401)	(1)	(1)
Employment costs		(18,827)	(7,815)	(1,314)	(654)
Entertaining patrons		(844)	(348)	-	-
Rate & Taxes		(1,160)	(288)	-	-
Other expenses		(5,891)	(2,504)	(1,221)	(556)
Fair value loss on derivative financial instrument		(9,347)	2,481	-	-
Repairs & maintenance		(779)	(297)	-	(3)
Security		(1,134)	(506)	-	-
Investment property acquisition costs		-	(457)	-	-
Finance costs		(7,529)	(2,556)	(184)	(87)
Cleaning		(901)	(369)	-	(1)
<b>Profit(loss) before income tax</b>		<b>(97,996)</b>	316	<b>(2,730)</b>	(1,211)
Income tax (expense)\benefit	5	<u>(1,223)</u>	658	<u>(946)</u>	<u>381</u>
<b>Profit(loss) for the year</b>		<b><u>(99,219)</u></b>	974	<b><u>(3,676)</u></b>	<u>(830)</u>
Profit(loss) is attributable to:					
Shareholders of Compass Hotel Group Limited		(14,763)	6,511	(3,676)	(830)
Unitholders of Compass Hotel Group Trust		<u>(84,456)</u>	(5,537)	<u>-</u>	<u>-</u>
		<b><u>(99,219)</u></b>	974	<b><u>(3,676)</u></b>	<u>(830)</u>
		Cents	Cents		
<b>Earnings per stapled security for profit from continuing operations attributable to the ordinary equity holders of the company:</b>					
Basic earnings per stapled security	29	(11.9)	5.3		
Diluted earnings per stapled security	29	(11.9)	5.2		

*The above preliminary consolidated income statement should be read in conjunction with the accompanying notes.*

**Compass Hotel Group Limited**  
**Statements of financial position**  
**As at 28 June 2009**

	Notes	Consolidated		Parent	
		28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	6	2,677	4,709	674	1,614
Trade and other receivables	7	5,881	623	8	163
Inventories		2,563	3,186	-	-
Current tax receivables		2	-	2	-
Other		87	228	1	81
<b>Total current assets</b>		<b>11,210</b>	<b>8,746</b>	<b>685</b>	<b>1,858</b>
<b>Non-current assets</b>					
Receivables		24	24	-	4
Property, plant and equipment	8	116,304	141,213	248	475
Investment properties	9	-	6,950	-	-
Deferred tax assets	10	-	1,223	-	946
Intangible assets	11	-	58,451	-	-
Other non-current assets	12	-	-	22,021	22,504
<b>Total non-current assets</b>		<b>116,328</b>	<b>207,861</b>	<b>22,269</b>	<b>23,929</b>
<b>Total assets</b>		<b>127,538</b>	<b>216,607</b>	<b>22,954</b>	<b>25,787</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	13	5,312	6,405	672	203
Borrowings	14	96,052	94,298	-	-
Derivative financial instruments		6,866	(2,481)	-	-
Provisions	15	313	167	26	27
<b>Total current liabilities</b>		<b>108,543</b>	<b>98,389</b>	<b>698</b>	<b>230</b>
<b>Non-current liabilities</b>					
Borrowings	16	99	100	2,675	2,300
Provisions	17	12	15	-	-
<b>Total non-current liabilities</b>		<b>111</b>	<b>115</b>	<b>2,675</b>	<b>2,300</b>
<b>Total liabilities</b>		<b>108,654</b>	<b>98,504</b>	<b>3,373</b>	<b>2,530</b>
<b>Net assets</b>		<b>18,884</b>	<b>118,103</b>	<b>19,581</b>	<b>23,257</b>
<b>EQUITY</b>					
Contributed equity	18	24,087	24,087	24,087	24,087
Retained profits/(losses)	19(a)	(8,252)	6,511	(4,506)	(830)
Equity attributable to security holders of Compass Hotel Group Limited		<b>15,835</b>	<b>30,598</b>	<b>19,581</b>	<b>23,257</b>
Parent entity interest		15,835	30,598	19,581	23,257
Minority interest	20	3,049	87,505	-	-
<b>Total equity</b>		<b>18,884</b>	<b>118,103</b>	<b>19,581</b>	<b>23,257</b>

The above statements of financial position should be read in conjunction with the accompanying notes.

**Compass Hotel Group Limited**  
**Preliminary consolidated statement of changes in equity**  
**For the period ended 28 June 2009**

Consolidated	Notes	Attributable to members of Compass Hotel Group Limited			Total \$'000
		Contributed equity \$'000	Retained earnings \$'000	Minority interest \$'000	
<b>Beginning balance</b>		-	-	-	-
Issue of securities under IPO	18	25,453	-	100,659	126,112
Equity raising costs	18	(1,366)	-	(6,380)	(7,746)
<b>Restated total equity at the beginning of the financial year</b>		<b>24,087</b>	<b>-</b>	<b>94,279</b>	<b>118,366</b>
Profit/(loss) for period		-	6,511	(5,537)	974
<b>Total recognised income and expense for the year</b>		<b>-</b>	<b>6,511</b>	<b>(5,537)</b>	<b>974</b>
Dividends provided for or paid	21	-	-	(1,237)	(1,237)
<b>Balance at 30 June 2008</b>		<b>24,087</b>	<b>6,511</b>	<b>87,505</b>	<b>118,103</b>
<b>Balance at 1 July 2008</b>		<b>24,087</b>	<b>6,511</b>	<b>87,505</b>	<b>118,103</b>
Profit/(loss) for period		-	(14,763)	(84,456)	(99,219)
<b>Total recognised income and expense for the period</b>		<b>-</b>	<b>(14,763)</b>	<b>(84,456)</b>	<b>(99,219)</b>
Dividends provided for or paid	21	-	-	-	-
<b>Balance at 28 June 2009</b>		<b>24,087</b>	<b>(8,252)</b>	<b>3,049</b>	<b>18,884</b>
<b>Parent</b>	Notes	Ordinary shares \$'000	Retained earnings \$'000	Minority interest \$'000	Total \$'000
<b>Beginning balance</b>		-	-	-	-
Issue of securities under IPO	18	25,453	-	-	25,453
Equity raising costs	18	(1,366)	-	-	(1,366)
<b>Restated total equity at the beginning of the financial year</b>		<b>24,087</b>	<b>-</b>	<b>-</b>	<b>24,087</b>
Profit/(loss) for period		-	(830)	-	(830)
<b>Total recognised income and expense for the period</b>		<b>-</b>	<b>(830)</b>	<b>-</b>	<b>(830)</b>
Dividends provided for or paid		-	-	-	-
<b>Balance at 30 June 2008</b>		<b>24,087</b>	<b>(830)</b>	<b>-</b>	<b>23,257</b>
<b>Balance at 1 July 2008</b>		<b>24,087</b>	<b>(830)</b>	<b>-</b>	<b>23,257</b>
Profit/(loss) for period		-	(3,676)	-	(3,676)
<b>Total interest recognised and expense for the period</b>		<b>-</b>	<b>(3,676)</b>	<b>-</b>	<b>(3,676)</b>
Dividends provided for or paid		-	-	-	-
<b>Balance at 28 June 2009</b>		<b>24,087</b>	<b>(4,506)</b>	<b>-</b>	<b>19,581</b>

*The above preliminary consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*

**Compass Hotel Group Limited**  
**Statements of cash flows**  
For the period ended 28 June 2009

	<b>Consolidated</b>		<b>Parent</b>	
	<b>28 June</b>	<b>30 June</b>	<b>28 June</b>	<b>30 June</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Notes	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>				
Receipts from customers (inclusive of goods and services tax)	<b>78,419</b>	32,557	<b>155</b>	1,033
Payments to suppliers and employees (inclusive of goods and services tax)	<b>(71,782)</b>	(27,119)	<b>(1,348)</b>	(2,382)
	<b>6,637</b>	5,438	<b>(1,193)</b>	(1,349)
Interest received	<b>271</b>	1,109	<b>64</b>	242
Interest & other finance costs paid	<b>(7,709)</b>	(3,276)	<b>(184)</b>	(87)
Income taxes paid	<b>-</b>	-	<b>-</b>	-
<b>Net cash (outflow) inflow from operating activities</b>	<b>(801)</b>	3,271	<b>(1,313)</b>	(1,194)
28				
<b>Cash flows from investing activities</b>				
Payment for purchase of hotels and taverns, net of cash acquired	<b>-</b>	(199,755)	<b>-</b>	-
Payments for property, plant and equipment	<b>(1,768)</b>	(1,675)	<b>-</b>	(511)
Payments for investment property	<b>-</b>	(6,950)	<b>(2)</b>	-
Loans to related parties	<b>-</b>	-	<b>-</b>	(21,797)
Proceeds from sale of property, plant and equipment	<b>22</b>	-	<b>-</b>	-
Net proceeds from sale of investment property	<b>-</b>	-	<b>-</b>	-
Repayment of loans by related parties	<b>-</b>	-	<b>-</b>	-
<b>Net cash (outflow) inflow from investing activities</b>	<b>(1,746)</b>	(208,380)	<b>(2)</b>	(22,308)
<b>Cash flows from financing activities</b>				
Proceeds from issues of stapled securities and other equity securities net of issue costs	<b>-</b>	115,420	<b>-</b>	22,816
Proceeds from borrowings net of borrowing costs	<b>1,752</b>	94,398	<b>375</b>	2,300
Dividends/distributions paid to Company's securityholders	<b>(1,237)</b>	-	<b>-</b>	-
<b>Net cash inflow (outflow) from financing activities</b>	<b>515</b>	209,818	<b>375</b>	25,116
21				
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(2,032)</b>	4,709	<b>(940)</b>	1,614
Cash and cash equivalents at the beginning of the financial period	<b>4,709</b>	-	<b>1,614</b>	-
<b>Cash and cash equivalents at end of year</b>	<b>2,677</b>	4,709	<b>674</b>	1,614
6				
Financing arrangements	16			
Non-cash financing and investing activities				

*The above statements of cash flows should be read in conjunction with the accompanying notes.*

## **1 Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to the period presented, unless otherwise stated. The financial report includes separate financial statements for Compass Hotel Group Limited (the Company) as an individual entity and the consolidated entity consisting of the Company, its subsidiaries and the Compass Hotel Group Trust (the Group).

### **(a) Basis of preparation**

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

#### *Compliance with IFRS*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of the Group complies with International Financial Reporting Standards (IFRS).

#### *Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

#### *Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonably under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are impairment of goodwill.

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(h). The recoverable amounts of cash-generating units have been determined on value-in-use calculations. These calculations require the use of assumptions. Refer to note 11 for details of these assumptions and the potential impact of changes to the assumptions.

#### *Going concern*

At 28 June 2009, the Group was in breach of its borrowing covenants with respect to its long-term finance facility. As a result, the Group has classified \$96.1m of borrowings that are due for repayment in excess of 12 months from the balance sheet date as current liabilities on the balance sheet, reflecting the fact that the lender had the right to call these funds immediately as at 28 June 2009. As a result, as at 28 June 2009, the consolidated entity had a working capital deficiency of \$97.8m. The consolidated entity generated negative cash flows from operating activities for the period ended 28 June 2009 of \$0.8m and as at the date of this report, the gearing of the Group remains in excess of the maximum threshold allowed under its lending facility. However in November 2009, the Group received confirmation from the relevant financial institution that they will not take any action in respect to the covenant breaches and will not presently recall any amounts as due outside of the previously agreed upon debt repayment schedule.

Due to the present financial circumstances of the Group as noted above there is an inherent material uncertainty in relation to the Group's ability to continue as a going concern and therefore the Group may not realise assets or extinguish liabilities in the normal course of business or at the amounts stated in this financial report.

The Directors are however of the opinion that there is a reasonable expectation that the Group will be able to continue as a going concern based on all information currently available. The Directors have formed this view after reviewing actual operating results since 28 June 2009 and budgeted cash flows to December 2010, which have been prepared on the basis of planned events and the expected results of operations of the Group. This financial report has therefore been prepared on a going concern basis. No adjustments have been made relating to the recoverability and classification of recorded amounts or to the amounts of liabilities that might be necessary if the Group does not continue as a going concern.

## **1 Summary of significant accounting policies (continued)**

### **(a) Basis of preparation (continued)**

The Directors have identified that there remain risks associated with the budget and future lending covenant compliance.

The future compliance with lending covenants require no further reduction in value of the tavern portfolio and the tavern businesses operated by the Company to operate at a level required to meet targets in the budget. The budget on which the directors have formed their view on going concern is forward looking and by its very nature is based upon best estimate assumptions of transactions and events that may or may not occur as expected and is subject to influences and events outside of the control of the Group. Actual results may differ from the budget.

If there is a future breach of a lending covenant and the lender exercises its rights in relation to the continuance of the facility and requires a repayment of funds at a date prior to the present planned repayment schedule, this will require mitigating action by the directors to sell assets or seek alternative funding sources, the outcome of which cannot be certain.

### **(b) Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Compass Hotel Group Limited ("Company" or "parent entity") and the Trust as at 28 June 2009 and the results of all subsidiaries for the period then ended. The Company, its subsidiaries and the Trust are together referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, generally accompanying a securityholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Compass Hotel Group consists of two entities Compass Hotel Group Limited and Compass Hotel Group Trust. The issued securities in these entities have been stapled together and trade as one listed security on the Australian Securities Exchange. The stapled security represents one share in the Company and one unit in the Trust. The stapled securities cannot be traded or transferred independently and are quoted at a single price.

AASB Interpretation 1002, Post Date of Transition Stapling Arrangements, applies to stapling arrangements occurring during reporting periods ending on or after 31 December 2006 where the identified parent does not obtain an ownership interest in the entity whose securities have been stapled. As a consequence of the stapling arrangement involving no acquisition consideration and no ownership interest being acquired by the combining entities, no goodwill is recognised in relation to the stapling arrangement and the interest of the equityholders in the Trust are treated as minority interests.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company (refer to note 1(g)).

The Company applies a policy of treating transactions with minority interests as transactions with parties external to the Company. Disposals to minority interests result in gains and losses for the company that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant stapled security acquired of the carrying value of identifiable net assets of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company.



## **1 Summary of significant accounting policies (continued)**

### **(c) Segment reporting**

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's operations are all based in Western Australia and relate to the ownership and operation of hotels, taverns and market place. On this basis the Group considers that it operation in one geographic segment and one business segment.

### **(d) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

#### *(i) Sale of goods - retail*

Revenue from the sale of goods is recognised when a Group entity sells a product to the customer. Retail sales are usually by credit card or in cash.

#### *(ii) Rental income*

Revenue from the lease or rental of properties is recognised when a Group entity earns the revenue. Rental or lease income is usually by credit card or in cash.

#### *(iii) Interest income*

Interest income is recognised on a time proportion basis using the effective interest method.

### **(e) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The Group has implemented the tax consolidation legislation.

## **1 Summary of significant accounting policies (continued)**

### **(e) Income tax (continued)**

#### *Tax consolidation legislation*

Compass Hotel Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Compass Hotel Group Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Compass Hotel Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in note 5.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

### **(f) Leases**

Leases of property, plant and equipment where a Group entity, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 25). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### **(g) Business combinations**

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition unless related to investment property in which case they are expensed as incurred. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(o)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

## **1 Summary of significant accounting policies (continued)**

### **(h) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### **(i) Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### **(j) Trade receivables**

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within 'other expenses'. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

### **(k) Inventories**

#### *(i) Finished goods inventory*

Finished goods, consisting of primarily food and beverage items for re-sale, are stated at the lower of cost and net realisable value. Cost comprises purchase price and delivery costs associated. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### **(l) Derivatives and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has decided not to apply hedge accounting.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in other income or other expenses.

(continued)

## 1 Summary of significant accounting policies (continued)

### (m) Property, plant and equipment

Land and buildings (except for investment properties - refer to note 1(n)) are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are credited, net of tax, to other reserves in stapled security holders equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the income statement. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost, net of tax, is transferred from the property, plant and equipment revaluation reserve to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

	<b>2009</b>	<b>2008</b>
- Buildings	25-45 years	25-40 years
- Machinery	10-15 years	10-15 years
- Vehicles	3-5 years	3-5 years
- Furniture, fittings and equipment	3-8 years	3-8 years
- Leasehold improvements	10 years	10 years
- Leased plant and equipment	10-15 years	10-15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

### (n) Investment property

Investment property, principally comprising a freehold market building, is held for long-term rental yields and is not occupied by the Group. Investment property is carried at fair value, which is based on active market prices, adjusted, if necessary, for any differences in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuations methods such as recent prices in less active markets or discounted cash flow projections. These valuations are reviewed annually by a member of the Australian Property Institute. Changes in fair values are recorded in the income statement as part of other income. Transactions costs associated with investment property are expensed as incurred.

## **1 Summary of significant accounting policies (continued)**

### **(o) Intangible assets**

#### *(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisitions of businesses is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Company's investment in each primary reporting segment.

### **(p) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### **(q) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### **(r) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

### **(s) Provisions**

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### **(t) Employee benefits**

#### *(i) Wages and salaries, annual leave*

Liabilities for wages and salaries, including non-monetary benefits expected to be settled within 12 months of the reporting date are recognised in other payables and annual leave are recognised in provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

#### *(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

## **1 Summary of significant accounting policies (continued)**

### **(t) Employee benefits (continued)**

#### *(iii) Profit-sharing and bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Group's holders of stapled securities after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### **(u) Contributed equity**

Incremental costs directly attributable to the issue of new stapled securities are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new securities for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

### **(v) Dividends and distributions**

Provision is made for the amount of any dividend or distribution declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial period but not distributed at balance date.

### **(w) Earnings per security**

#### *(i) Basic earnings per security*

Basic earnings per security is calculated by dividing the profit attributable to equity holders of the Group, excluding any costs of servicing equity other than securities, by the weighted average number of securities outstanding during the financial period, adjusted for bonus elements in securities issued during the year.

#### *(ii) Diluted earnings per security*

Diluted earnings per security adjusts the figures used in the determination of basic earnings per security to take into account the after income tax effect of interest and other financing costs associated with dilutive potential securities and the weighted average number of additional securities that would have been outstanding assuming the conversion of all dilutive potential securities.

### **(x) Maintenance and repairs**

The Group expenses repairs and maintenance costs as incurred unless the expenditure enhances or extends the useful life of the related property, plant and equipment.

### **(y) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### **(z) Rounding of amounts**

The Group is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(continued)

## **1 Summary of significant accounting policies (continued)**

### **(aa) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 28 June 2009 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

(i) *AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

(ii) *Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]*

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group does already capitalise borrowing costs relating to qualifying assets.

(iii) *Revised AASB 3 Business combination*

The revised AASB 3 is applicable to annual reporting periods commencing on or after 1 July 2009. It has changed the aspects for accounting for certain aspects of business combinations including transaction costs, contingent consideration and accounting for a step acquisition, among others. The Group has not adopted the standard early.

(iv) *AASB 127 Consolidated and separate financial statements*

AASB 127 is applicable to annual reporting periods commencing on or after 1 July 2009. The standard changes the requirements for accounting for transactions with minority interests. Application of this standard is not expected to have a material impact on the Group. The Group has not adopted the standard early.

(continued)

## 2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, and aging analysis for credit risk.

Risk management is carried out by senior management under policies approved by the Board of Directors. Senior management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Group and the parent entity hold the following financial instruments:

	<b>28 June</b> <b>2009</b> <b>\$'000</b>	30 June 2008 \$'000	<b>28 June</b> <b>2009</b> <b>\$'000</b>	30 June 2008 \$'000
<b>Financial assets</b>				
Cash and cash equivalents	2,677	4,709	674	1,614
Trade and other receivables	5,905	647	8	167
Intercompany loans	-	-	<b>22,021</b>	<b>22,504</b>
	<b>8,582</b>	5,356	<b>22,703</b>	<b>24,285</b>
<b>Financial liabilities</b>				
Trade and other payable	5,312	6,405	672	203
Borrowings	96,502	94,398	2,675	2,300
Derivative financial instruments	6,866	(2,481)	-	-
	<b>108,680</b>	98,322	<b>3,347</b>	<b>2,503</b>

### (a) Market risk

#### (i) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. During 2009 the Group's borrowings at variable rate were denominated in Australian Dollars.



(continued)

## 2 Financial risk management (continued)

As at the reporting date, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	28 June 2009		30 June 2008	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank overdrafts and bank loans	5.1%	96,052	8.4%	94,298
Interest rate swaps (notional principal amount)	7.0%	<u>(94,000)</u>	7.0%	<u>(94,000)</u>
Net exposure to cash flow interest rate risk		<u>2,052</u>		<u>298</u>

An analysis by maturities is provided in (c) below.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest bearing positions. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by management.

Based on the various scenarios, the Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (monthly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

### *Group sensitivity*

At 28 June 2009, if interest rates had changed by +/- 100 basis points from the period end rates with all other variables held constant, post tax profit for the period would have been \$13,000 lower/higher. Post tax profit for the period would have been \$20,000 lower/higher mainly as a result of an increase/decrease in the cash flow of unhedged borrowings.

### *Parent entity sensitivity*

The parent entity's exposure to variable interest rates is immaterial.

### *(ii) Summarised sensitivity analysis*

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk, foreign exchange risk and other price risk.

## **(b) Credit risk**

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk.

The Group's financial assets including cash and cash equivalents and derivative financial instruments are held by one financial institution whose Standard and Poors credit rating is currently 'A+'. The Parent's financial assets consist of cash and cash equivalents that are held by the same financial institution.

The Group's trade and other receivables are all within their terms of trade at 28 June 2009.

Credit risk further arises in relation to financial guarantees given to certain parties. Such guarantees are only provided in exceptional circumstances and are subject to specific board approval.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

(continued)

## 2 Financial risk management (continued)

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

#### *Financing arrangements*

The Group and the parent entity had access to the following undrawn borrowing facilities at the reporting date:

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>Floating rate</b>				
- Expiring beyond one year (bank loans)	-	1,622	-	-
	<u>-</u>	<u>1,622</u>	<u>-</u>	<u>-</u>

The bank bill facilities may be drawn at any time and is subject to a 5 yearly review. Subject to the continuance of satisfactory credit ratings, the bank loan facilities may be drawn at any time in Australian dollars.

#### *Maturities of financial liabilities*

The tables below analyse the Group's and the parent entity's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the reporting date.

#### **Group - At 28 June 2009**

	<b>Less than 6 months</b>	<b>6 - 12 months</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>	<b>Total contractual cash flows</b>	<b>Carrying Amount (assets)/ liabilities</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Non-derivatives</b>							
Non-interest bearing	5,312	-	-	-	-	5,312	5,312
Variable rate	96,488	-	-	-	-	96,488	96,052
Fixed rate	-	-	-	-	-	-	-
<b>Total non-derivatives</b>	<u>101,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>101,800</u>	<u>101,364</u>
<b>Derivatives</b>							
Net settled (interest rate swaps)	508	508	1,015	3,046	3,553	8,630	6,866
Gross settled							
- (inflow)	-	-	-	-	-	-	-
- outflow	-	-	-	-	-	-	-
<b>Total derivatives</b>	<u>508</u>	<u>508</u>	<u>1,015</u>	<u>3,046</u>	<u>3,553</u>	<u>8,630</u>	<u>6,866</u>

(continued)

## 2 Financial risk management (continued)

Group - At 30 June 2008

	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>							
Non-interest bearing	6,405	-	-	-	-	6,405	6,405
Variable rate	95,378	-	-	-	-	95,378	94,298
Fixed rate	-	-	-	-	-	-	-
<b>Total non-derivatives</b>	<u>101,783</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>101,783</u>	<u>100,703</u>
<b>Derivatives</b>							
Net settled (interest rate swaps)	(334)	(334)	(668)	(2,004)	(3,006)	(6,346)	(2,481)
Gross settled							
- (inflow)	-	-	-	-	-	-	-
- outflow	-	-	-	-	-	-	-
<b>Total derivatives</b>	<u>(334)</u>	<u>(334)</u>	<u>(668)</u>	<u>(2,004)</u>	<u>(3,006)</u>	<u>(6,346)</u>	<u>(2,481)</u>

The parent's financial liabilities consist of trade and other payables due for settlement within 6 months and related party borrowings maturing within 3.5 years.

### (d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives and investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

## 3 Revenue

	Consolidated		Parent	
	28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
<b>From continuing operations</b>				
<i>Sales revenue</i>				
Beverage	60,165	23,622	-	-
Food	13,523	5,691	-	-
Other	1,638	509	-	-
	<u>75,326</u>	<u>29,822</u>	<u>-</u>	<u>-</u>

(continued)

#### 4 Other income

	Consolidated		Parent	
	28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
Net profit/(loss) on disposal of property, plant and equipment	(37)	-	-	-
Interest	101	925	64	242
Rental income	1,174	416	-	-
	<u>1,238</u>	<u>1,341</u>	<u>64</u>	<u>242</u>

#### 5 Income tax expense

	Consolidated		Parent	
	28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
<b>(a) Income tax expense(benefit)</b>				
Current tax	-	(491)	-	(475)
Deferred tax	1,223	(167)	946	94
	<u>1,223</u>	<u>(658)</u>	<u>946</u>	<u>(381)</u>

#### (b) Numerical reconciliation of income tax expense to prima facie tax payable

Profit/(loss) from continuing operations before income tax expense	(97,996)	316	(2,730)	(1,211)
Tax at the Australian tax rate of 30%	(29,399)	95	(819)	(363)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Impairment of Goodwill and assets	24,927	-	-	-
Interest rate swap	2,804	(744)	-	-
Loss on sale of assets	451	-	-	-
Compass Hotel Group Trust interest income	-	(145)	-	-
Investment property acquisition costs	-	137	-	-
Tax losses not booked	1,165	-	813	-
Derecognition of tax assets booked in prior year	1,223	-	946	-
Sundry items	52	(1)	6	(18)
Income tax expense/(income)	<u>1,223</u>	<u>(658)</u>	<u>946</u>	<u>(381)</u>

#### (c) Tax consolidation legislation

Compass Hotel Group Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation from 1 January 2008. The accounting policy in relation to this legislation is set out in note 1(e). The Compass Hotel Group Trust does not form part of this tax consolidated group.

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Compass Hotel Group Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Compass Hotel Group Limited for any current tax payable assumed and are compensated by Compass Hotel Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Compass Hotel Group Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax installments. The funding amounts are recognised as current intercompany receivables or payables (see note 12).

(continued)

## 6 Current assets - Cash and cash equivalents

	Consolidated		Parent	
	28 June 2009	30 June 2008	28 June 2009	30 June 2008
	\$'000	\$'000	\$'000	\$'000
Cash on hand	1,664	1,356	-	-
Cash at bank	331	2,321	(8)	582
Term deposits	682	1,032	682	1,032
	<u>2,677</u>	<u>4,709</u>	<u>674</u>	<u>1,614</u>

### (a) Reconciliation to cash at the end of the period

The above figures are reconciled to cash at the end of the financial period as shown in the statement of cash flows as follows:

	Consolidated		Parent	
	28 June 2009	30 June 2008	28 June 2009	30 June 2008
	\$'000	\$'000	\$'000	\$'000
Balances as above	<u>2,677</u>	4,709	<u>674</u>	1,614
Balances per statement of cash flows	<u>2,677</u>	<u>4,709</u>	<u>674</u>	<u>1,614</u>

## 7 Current assets - Trade and other receivables

	Consolidated		Parent	
	28 June 2009	30 June 2008	28 June 2009	30 June 2008
	\$'000	\$'000	\$'000	\$'000
<b>Trade Receivables</b>				
Trade Debtors	469	451	-	-
Other Debtors	5,412	139	8	145
	<u>5,881</u>	<u>590</u>	<u>8</u>	<u>145</u>
<b>Interest Receivable</b>				
Interest Receivable	-	33	-	18
	<u>5,881</u>	<u>623</u>	<u>8</u>	<u>163</u>

(continued)

## 8 Non-current assets - Property, plant and equipment

Consolidated	Freehold land \$'000	Freehold buildings \$'000	Plant and equipment \$'000	Other \$'000	Total \$'000
<b>Period ended 30 June 2008</b>					
Revaluation surplus	-	-	147	1,528	1,675
Acquisition of subsidiary	83,901	53,399	2,946	17	140,263
Transfers to assets held for sale	-	-	(7)	(3)	(10)
Depreciation charge	-	(447)	(157)	(112)	(716)
Closing net book amount	<u>83,901</u>	<u>52,952</u>	<u>2,929</u>	<u>1,430</u>	<u>141,212</u>
<b>At 30 June 2008</b>					
Cost or fair value	83,901	53,399	3,086	1,542	141,928
- Valuation	-	-	-	-	-
Accumulated depreciation	-	(447)	(157)	(111)	(715)
Net book amount	<u>83,901</u>	<u>52,952</u>	<u>2,929</u>	<u>1,431</u>	<u>141,213</u>
Consolidated	Freehold land \$'000	Freehold buildings \$'000	Plant and equipment \$'000	Other \$'000	Total \$'000
<b>Period ended 28 June 2009</b>					
Opening net book amount	83,901	52,952	2,929	1,431	141,213
Additions	-	-	698	1,271	1,969
Impairment charge recognised in profit and loss	(15,081)	(9,598)	-	-	(24,679)
Disposals	-	-	(50)	(165)	(215)
Depreciation charge	-	(1,187)	(483)	(314)	(1,984)
Closing net book amount	<u>68,820</u>	<u>42,167</u>	<u>3,094</u>	<u>2,223</u>	<u>116,304</u>
<b>At 28 June 2009</b>					
Cost or fair value	83,901	53,399	3,735	2,634	143,669
- Impairment	(15,081)	(9,598)	-	-	(24,679)
Accumulated depreciation	-	(1,634)	(641)	(411)	(2,686)
Net book amount	<u>68,820</u>	<u>42,167</u>	<u>3,094</u>	<u>2,223</u>	<u>116,304</u>

(continued)

## 8 Non-current assets - Property, plant and equipment (continued)

Parent	Plant and equipment \$'000	Other \$'000	Total \$'000
<b>Period ended 30 June 2008</b>			
Additions	6	505	511
Depreciation charge	-	(36)	(36)
Closing net book amount	<u>6</u>	<u>469</u>	<u>475</u>
<b>At 30 June 2008</b>			
Cost or fair value	6	505	511
Accumulated depreciation	-	(36)	(36)
Net book amount	<u>6</u>	<u>469</u>	<u>475</u>
Parent	Plant and equipment \$'000	Other \$'000	Total \$'000
<b>Period ended 28 June 2009</b>			
Opening net book amount	6	469	475
Additions	-	3	3
Acquisition of subsidiary	-	-	-
Disposals	-	-	-
Transfers to related entities	-	(157)	(157)
Depreciation charge	(1)	(72)	(73)
Closing net book amount	<u>5</u>	<u>243</u>	<u>248</u>
<b>At 28 June 2009</b>			
Cost or fair value	6	350	356
Accumulated depreciation	(1)	(107)	(108)
Net book amount	<u>5</u>	<u>243</u>	<u>248</u>

### (a) Valuation of land and buildings

The Group's hotel portfolio is a single cash generating unit which comprises freehold land and buildings, property, plant and equipment and goodwill. Valuations of the Group's hotels were performed by an independent valuer (a member of the Australian Property Institute) as at 28 June 2009. The valuations were determined based on hotel revenue and earnings, estimated market yields for hotel assets and with reference to recent market transactions where available. The Directors have considered and accepted each hotel valuation and have assessed the recoverable amount of the Group's hotel portfolio on the basis of fair value for each hotel per the independent valuation, less costs to sell. Total recoverable amount is assessed on this basis at \$116.3m. This has resulted in the Group recording an impairment charge of \$83.1m in the income statement, with \$58.4m charged to goodwill and \$24.7m charged to freehold land and buildings.

Key assumption in the independent valuations is the yield used to capitalise net income from the hotel operations. The weighted average capitalisation rate at 28 June 2009 was 10.8% (2008: 9.3%).

(continued)

## 9 Non-current assets - Investment properties

	Consolidated		Parent	
	28 June 2009	30 June 2008 \$'000	28 June 2009	30 June 2008 \$'000
	\$'000		\$'000	
<b>At fair value</b>				
Opening balance at 1 July	6,950	-	-	-
Acquisitions	-	6,950	-	-
Disposals	(6,950)	-	-	-
	-	6,950	-	-
<b>At fair value</b>				
Closing balance as at 30 June	-	6,950	-	-
	-	6,950	-	-

## 10 Non-current assets - Deferred tax assets

	Consolidated		Parent	
	28 June 2009	30 June 2008	28 June 2009	30 June 2008
	\$'000	\$'000	\$'000	\$'000
<b>The balance comprises temporary differences attributable to:</b>				
Tax losses *	-	491	-	476
Employee benefits	-	99	-	13
Property, plant & equipment	-	164	-	11
Accrued expenses	-	23	-	-
Doubtful debts	-	-	-	-
	-	777	-	500
<i>Other</i>				
IPO "blackhole" expenditure	-	452	-	452
Total deferred tax assets	-	1,229	-	952
Set-off of deferred tax liabilities pursuant to set-off provisions	-	(6)	-	(6)
Net deferred tax assets	-	1,223	-	946
<b>Movements:</b>				
Opening balance at 1 July	1,223	-	946	-
Credited/(charged) to the income statement (note 5)	(1,223)	658	(946)	381
Credited/(charged) to equity	-	565	-	565
	-	-	-	-
Closing balance at 30 June	-	1,223	-	946
Deferred tax assets to be recovered within 12 months	-	604	-	589
Deferred tax assets to be recovered after more than 12 months	-	619	-	357
	-	1,223	-	946

\* The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

The Directors have taken the view that as the Company has yet to derive any taxable income, no accumulated tax losses or tax benefits will be recognised in the financial statements.



(continued)

## 11 Non-current assets - Intangible assets

Consolidated	Goodwill \$'000
<b>Period ended 30 June 2008</b>	
Opening net book amount	-
Acquisition of businesses	58,451
Closing net book amount	<u>58,451</u>
Cost	<u>58,451</u>
<b>At 28 June 2009</b>	
Cost	58,410
Impairment	(58,410)
Net book amount	<u>-</u>

### (a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment operation. The recoverable amount of the CGU has been assessed using an independent valuation as per note 8(a).

## 12 Non-current assets - Other non-current assets

	Consolidated		Parent	
	28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
Intercompany loans	-	-	<u>22,021</u>	<u>22,504</u>
	<u>-</u>	<u>-</u>	<u>22,021</u>	<u>22,504</u>

## 13 Current liabilities - Trade and other payables

	Consolidated		Parent	
	28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
Trade payables	4,160	4,214	338	76
Distribution payable	-	1,237	-	-
PAYG Payable	53	163	44	43
Accrued expenses	430	237	274	94
Net GST Payable	553	470	(13)	(47)
Other payables	116	84	29	37
	<u>5,312</u>	<u>6,405</u>	<u>672</u>	<u>203</u>

(continued)

## 14 Current liabilities - Borrowings

	Consolidated		Parent	
	28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
<b>Secured</b>				
Bank loans	96,052	94,298	-	-
Total secured current borrowings	<u>96,052</u>	<u>94,298</u>	<u>-</u>	<u>-</u>
Total current borrowings	<u>96,052</u>	<u>94,298</u>	<u>-</u>	<u>-</u>

### (a) Security

Information about the security relating to each of the secured liabilities and further information on the bank overdrafts and bank loans are set out in note 16.

At 28 June 2009, the Group was in breach of its borrowing covenants with respect to its long-term finance facility. As a result, the Group has classified \$96 million of borrowings that are due for repayment in excess of 12 months from the balance sheet date as current liabilities on the balance sheet, reflecting the fact that the lender had the right to call these funds immediately as at 28 June 2009. In November 2009, the Group received confirmation from the relevant financial institution that they will not take any action in respect to the covenant breaches and will not presently recall any amounts as due outside of the previously agreed upon debt repayment schedule.

## 15 Current liabilities - Provisions

	Consolidated		Parent	
	28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
Employee leave entitlements	283	167	26	27
Provision for doubtful debts	30	-	-	-
	<u>313</u>	<u>167</u>	<u>26</u>	<u>27</u>

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service.

## 16 Non-current liabilities - Borrowings

	Consolidated		Parent	
	28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
<b>Secured</b>				
Lease liabilities (note 25)	99	100	-	-
Other loans	-	-	2,675	2,300
Total secured non-current borrowings	<u>99</u>	<u>100</u>	<u>2,675</u>	<u>2,300</u>

### (a) Secured liabilities and assets pledged as security

Bank overdrafts and bank loans	96,052	94,298	-	-
Lease liabilities	99	100	-	-
Other loans	-	-	2,675	2,300
Total secured liabilities	<u>96,151</u>	<u>94,398</u>	<u>2,675</u>	<u>2,300</u>

The bank loans are secured by first registered mortgages over the Trust's freehold properties and a first registered fixed and floating charge over the assets and undertakings of the Group.

(continued)

## 16 Non-current liabilities - Borrowings (continued)

Ongoing conditions are:

- (i) maximum Loan to Value Ratio is not to exceed 58% of the purchase price of the Initial Portfolio or the lender's panel valuation reports, whichever the lower
- (ii) interest cover ratio to be a minimum of 1.5 times, and
- (iii) to maintain revenue for each property in the quarterly management accounts greater than 80% of the revenue shown in the last valuation report for each respective property (seasonality adjusted based on the detailed Group's annual budget presented to the lender). Failure for any one property for two consecutive quarters will result in an event of default.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Notes	Consolidated		Parent	
		28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
<b>Current</b>					
<i>Floating charge</i>					
Cash and cash equivalents	6	2,677	4,709	674	1,614
Receivables	7	5,881	623	8	163
Total current assets pledged as security		<u>8,558</u>	<u>5,332</u>	<u>682</u>	<u>1,777</u>
<b>Non-current</b>					
<i>First mortgage</i>					
Freehold land and buildings	8	107,066	143,803	-	-
Intangibles	9	-	58,451	-	-
		<u>107,066</u>	<u>202,254</u>	<u>-</u>	<u>-</u>
<i>Floating charge</i>					
Other financial assets		-	2,481	-	-
Plant and equipment	8	5,317	4,360	248	475
		<u>5,317</u>	<u>6,841</u>	<u>248</u>	<u>475</u>
Total non-current assets pledged as security		<u>112,383</u>	<u>209,095</u>	<u>248</u>	<u>475</u>
Total assets pledged as security		<u>120,941</u>	<u>214,427</u>	<u>930</u>	<u>2,252</u>

### (b) Bank loans and bank overdraft

The bank loan facility is a Commercial Bill Acceptance Facility with a limit of \$96,488,000 (being the aggregate face value of bills outstanding at any time). The available term to maturity of Bills is one to six months, with a Repayment Date of 5 years from the first drawdown i.e. 5 February 2013.

### (c) Interest rate risk exposures

Exposures arise predominantly from liabilities bearing variable interest rates, however these have been mitigated as the company has entered into a 10 year Interest Rate Swap on \$94,000,000, fixed for 5 years at 6.99% effective February 2008.

## 17 Non-current liabilities - Provisions

	Consolidated		Parent	
	28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
Employee leave entitlements	12	15	-	-
	<u>12</u>	<u>15</u>	<u>-</u>	<u>-</u>

(continued)

## 18 Contributed equity

	Consolidated and Parent entity		Consolidated and Parent entity	
	28 June 2009 Stapled Securities	30 June 2008 Stapled Securities	28 June 2009 \$'000	30 June 2008 \$'000
<b>(a) Share capital</b>				
Ordinary fully paid shares	123,731,000	123,731,000	25,453	25,453
Cost of raising equity		-	<u>(1,366)</u>	<u>(1,366)</u>
			<b>24,087</b>	24,087
<b>Minority interest</b>				
Ordinary fully paid units in Compass Hotel Group Trust	123,731,000	123,731,000	100,659	100,659
Distributions from contributed equity			(1,237)	(1,237)
Cost of raising equity			<u>(6,380)</u>	<u>(6,380)</u>
Minority interest			<b>93,042</b>	93,042
<b>Total consolidated contributed equity</b>			<b>117,129</b>	117,129

### (b) Capital risk management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistently with others in the industry, the Group and the parent entity monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'trade and other payables' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet (including minority interest) plus net debt.

	Note	Consolidated		Parent	
		28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
Total borrowings	13,14,16	101,463	100,803	3,347	2,503
Less: cash and cash equivalents	6	<u>(2,677)</u>	<u>(4,709)</u>	<u>(674)</u>	<u>(1,614)</u>
Net debt		98,786	96,094	2,673	889
Total equity		<u>18,884</u>	<u>118,103</u>	<u>19,581</u>	<u>23,257</u>
Total capital		<b>117,670</b>	214,197	<b>22,254</b>	24,146
<b>Gearing ratio</b>		<b>84%</b>	45%	<b>12%</b>	4%

(continued)

## 19 Reserves and retained profits

### (a) Retained profits

Movements in retained profits were as follows:

	Consolidated		Parent	
	28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
Opening retained earnings	6,511	-	(830)	-
Net profit/(loss) for the period	(14,763)	6,511	(3,676)	(830)
Balance 30 June	<u>(8,252)</u>	<u>6,511</u>	<u>(4,506)</u>	<u>(830)</u>

## 20 Minority interest

	Consolidated		Parent	
	28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
Interest in:				
Ordinary units in Compass Hotel Group Trust	100,659	100,659	-	-
Cost of raising equity	(6,380)	(6,380)	-	-
Distributions from contributed equity	(1,237)	(1,237)	-	-
Retained profits/(losses)	(89,993)	(5,537)	-	-
	<u>3,049</u>	<u>87,505</u>	<u>-</u>	<u>-</u>

## 21 Dividends and distributions

	Consolidated	
	28 June 2009 \$'000	30 June 2008 \$'000
(a) Ordinary securities		
Final distribution for the period ended 30 June 2008 of 1.0 cent per fully paid stapled security was paid on 28 August 2008	-	1,237
No dividends or distributions were declared for the year ended 28 June 2009	-	-

(continued)

## 22 Key management personnel disclosures

See the Remuneration report within the Directors report for details of directors and other key management personnel and their detailed remuneration.

### (a) Key management personnel compensation

	<b>Consolidated</b>		<b>Parent</b>	
	<b>28 June 2009</b>	<b>30 June 2008</b>	<b>28 June 2009</b>	<b>30 June 2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Short-term employee benefits	<b>872,444</b>	654,801	<b>746,679</b>	621,181
Post-employment benefits	<b>155,611</b>	95,720	<b>140,072</b>	91,333
Termination benefits	<b>85,000</b>	-	<b>85,000</b>	-
	<b><u>1,113,055</u></b>	<u>750,521</u>	<b><u>971,751</u></b>	<u>712,514</u>

The Company has taken advantage of the relief provided by AASB 2008-4 *Amendments to Australian Accounting Standard-key management personnel disclosures by disclosing entities* and has transferred the detailed remuneration disclosures to the Directors' report. The relevant information can be found in sections A-D of the remuneration report on pages 7 to 11.

### (b) Equity instrument disclosures relating to key management personnel

#### (i) Stapled security holdings (direct and indirect holdings)

<b>2009</b>	<b>Balance at the start of the period</b>	<b>Received during the period on the exercise of options</b>	<b>Purchases during the period</b>	<b>Balance at the end of the period</b>
<b>Name</b>				
<b>Directors of Compass Hotel Group Limited</b>				
<b>Stapled securities</b>				
R. Jones	305,000	-	6,020,000	6,325,000
R. Hill	99,098	-	2,018,351	2,117,449
P. Kadar	50,000	-	-	50,000
B. Northcote	305,100	-	3,002,755	3,307,855
	-	-	-	-
<b>Other key management personnel of the Group</b>				
<b>Stapled securities</b>				
A. Musu (from 22 September 2008)	-	-	-	-
M. Maitland (from 28 April 2009)	-	-	-	-
F. Mastroianni	-	-	-	-
B. Jenkins (terminated 21 September 2008)	129,500	-	-	129,500
R. Cheriton (resigned 8 June 2009)	-	-	-	-

### (c) Other transactions with key management personnel

The Director and Chief Executive Officer, B Northcote, is a director and shareholder of Clarity Management Group Pty Ltd. The Company entered into a contract with Clarity Management Group during the period to provide administration, set up and training services to the hotel operations. The contract was based on normal commercial terms and conditions.

The Chairman, Mr. R. Jones, is a consultant to Mills Oakley Lawyers. Mills Oakley Lawyers conditions. al services to the Group during the period on normal commercial terms and conditions.

#### *Stapled security purchases*

R, Jones, indirectly through Milyara Pty Ltd as trustee for the KJ Superannuation Fund, purchased 6,020,000 stapled securities during the financial period.

R, Hill, indirectly through LJL Investments Trust, purchased 2,018,351 stapled securities during the financial period.

(continued)

## 22 Key management personnel disclosures (continued)

B. Northcote, indirectly through Migan Pty Ltd as trustee for the Bryan Northcote Family Trust, purchased 3,002,755 stapled securities during the financial period.

Aggregate amounts of each of the above types of other transactions with key management personnel of the Company are as follows:

	28 June 2009 \$'000	30 June 2008 \$'000
<b>Amounts recognised as expense</b>		
Legal fees	18	141
Administration fees	217	269
Facilitation of IPO fees	-	587
Setup/acquisition costs	-	3,110
	<u>235</u>	<u>4,107</u>

## 23 Remuneration of auditors

During the period the following fees were paid or payable for services provided by the auditor of the Group and its related practices:

	Consolidated		Parent	
	28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
<b>(a) Audit services</b>				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports	<u>117</u>	<u>143</u>	<u>117</u>	<u>143</u>
Total remuneration for audit services	<u>117</u>	<u>143</u>	<u>117</u>	<u>143</u>
<b>(b) Non-audit services</b>				
PricewaterhouseCoopers Australian firm				
Due diligence services	-	148	-	148
<i>Taxation services</i>				
Tax compliance services	107	15	95	15
<i>Other services</i>				
Accounting services	<u>24</u>	<u>12</u>	<u>24</u>	<u>12</u>
<b>Total remuneration for non-audit services</b>	<u>131</u>	<u>175</u>	<u>119</u>	<u>175</u>
	<u>248</u>	<u>318</u>	<u>236</u>	<u>318</u>

## 24 Contingencies

### (a) Contingent liabilities

#### *Guarantees*

The parent entity has provided a guarantee for \$660,000 to preserve the "net tangible assets" above the regulatory requirement assumed by Primary Compass Limited as the Responsible Entity for Compass Hotel Group Trust, under the terms of its Australian Financial Services License.

The parent entity has provided a guarantee for \$19,763 by way of security deposit for the lease of the Head Office premises at 275 Alfred St North Sydney 2060.

(continued)

## 25 Commitments

### (a) Lease commitments: Group as lessee

#### (i) Non-cancellable operating leases

The Group has a lease over various office and retail stores which are non-cancellable operating leases expiring within one to thirteen years. The lease has varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	<b>Consolidated</b>		<b>Parent</b>	
	<b>28 June</b>	30 June	<b>28 June</b>	30 June
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	179	536	24	69
Later than one year but not later than five years	622	868	-	71
Later than five years	1,029	2,210	-	-
	<u>1,830</u>	<u>3,614</u>	<u>24</u>	<u>140</u>

The Sydney head office located at Alfred Street, North Sydney, has been sub-leased effective November 2009.

### (b) Lease commitments: where a Group company is the lessor

The future minimum lease payments receivable under non cancellable operating leases are as follows (relates to markets rental business at Gosnells Railway Markets):

	<b>Consolidated</b>		<b>Parent</b>	
	<b>28 June</b>	30 June	<b>28 June</b>	30 June
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Within one year	-	711	-	-
Later than one year and not later than five years	-	819	-	-
Later than five years	-	-	-	-
	<u>-</u>	<u>1,530</u>	<u>-</u>	<u>-</u>

## 26 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Kalamunda Hotel (WA) Pty Ltd	Australia	Ordinary	-	100
Carine Glades Tavern (WA) Pty Ltd	Australia	Ordinary	-	100
Princess Road Tavern (WA) Pty Ltd	Australia	Ordinary	-	100
Peninsula Tavern (WA) Pty Ltd	Australia	Ordinary	-	100
Brighton Hotel (WA) Pty Ltd	Australia	Ordinary	-	100
Peel Alehouse (WA) Pty Ltd	Australia	Ordinary	-	100
Belmont Tavern (WA) Pty Ltd	Australia	Ordinary	-	100
Herdsmen Lake Tavern (WA) Pty Ltd	Australia	Ordinary	-	100
Albion Hotel (WA) Pty Ltd	Australia	Ordinary	-	100
Gosnells Hotel (WA) Pty Ltd	Australia	Ordinary	-	100
Greenwood Hotel (WA) Pty Ltd	Australia	Ordinary	-	100
Gosnells Markets (WA) Pty Ltd	Australia	Ordinary	-	100
Lakers Tavern (WA) Pty Ltd	Australia	Ordinary	-	100
Cobblers Tavern (WA) Pty Ltd	Australia	Ordinary	-	100
Compass Hotel Group Operations (WA) Pty Ltd	Australia	Ordinary	-	100
Compass Hotel Developments Pty Ltd	Australia	Ordinary	-	100



(continued)

## 26 Subsidiaries (continued)

CHTG 12 Pty Ltd	Australia	Ordinary	-	100
CHTG 16 Pty Ltd	Australia	Ordinary	-	100
CHTG 17 Pty Ltd	Australia	Ordinary	-	100
CHTG 18 Pty Ltd	Australia	Ordinary	-	100

## 27 Events occurring after the balance sheet date

At 28 June 2009, the Group was in breach of its borrowing covenants with respect to its long-term finance facility. As a result, the Group has classified \$96 million of borrowings that are due for repayment in excess of 12 months from the balance sheet date as current liabilities on the balance sheet, reflecting the fact that the lender had the right to call these funds immediately as at 28 June 2009. In November 2009, the Group received confirmation from the relevant financial institution that they will not take any action in respect to the covenant breaches and will not presently recall any amounts as due outside of the previously agreed upon debt repayment schedule..

On 3 July 2009 the settlement of the sale of Gosnells Railway Markets was completed.

On 17 July 2009 the Group was suspended from trading on the Australian Securities Exchange (ASX) due to the resignation of the Rick Jones (Chairman), Peter Kadar (Director) and Bryan Northcote (Managing Director and Chief Executive Officer).

On 28 August 2009 Mark Maitland resigned as Group Financial Controller and Company Secretary, he was replaced by Malcolm McLean. Malcolm has worked in a number of industries involved in the oil industry, IT consulting, financial services and retail and has over twenty years experience in the accounting and finances field. Malcolm is a Member of the Australian Society of Certified Practising Accountants.

On 8 September 2009, Anne Thome and Robert Garton Smith were appointed "interim" directors of Compass Hotel Group Limited. Anne is the Chair of Primary Compass Limited, the Responsible Entity of Compass Hotel Group Trust, and Robert is the Managing Director of Primary Group. Their appointment was made to stabilise the Group during the search for suitably qualified and experienced candidates to replace them.

## 28 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated		Parent	
	28 June 2009 \$'000	30 June 2008 \$'000	28 June 2009 \$'000	30 June 2008 \$'000
Profit/(loss) for the period	(99,219)	974	(3,676)	(830)
Depreciation and amortisation	1,983	716	72	36
Acquisition costs	-	87	-	-
Borrowing costs	118	-	-	-
Net (gain) loss on sale of non-current assets	1,465	-	-	-
Impairment of businesses and assets	83,089	-	-	-
Decrease/(Increase) in trade debtors and bills of exchange	165	(623)	154	(163)
Decrease/(Increase) in inventories	623	157	-	-
Decrease in financial assets at fair value through profit or loss	9,347	(2,481)	-	-
(Increase) decrease in deferred tax assets	1,223	(655)	946	(378)
(Increase) decrease in other operating assets	115	(253)	720	(89)
(Decrease) increase in trade creditors	146	5,167	470	203
Increase (decrease) in provision for income taxes payable	-	-	-	-
Increase (decrease) in other provisions	144	182	1	27
Net cash (outflow) inflow from operating activities	<u>(801)</u>	<u>3,271</u>	<u>(1,313)</u>	<u>(1,194)</u>

(continued)

## 29 Earnings per stapled security

	<b>Consolidated</b>	
	<b>28 June 2009 Cents</b>	<b>30 June 2008 Cents</b>
<b>(a) Basic earnings per share</b>		
Profit from continuing operations attributable to the ordinary equity holders of the company	<b>(11.9)</b>	5.3
	<b>(11.9)</b>	5.3
<b>(b) Diluted earnings per share</b>		
Profit from continuing operations attributable to the ordinary equity holders of the company	<b>(11.9)</b>	5.2
	<b>(11.9)</b>	5.2
<b>(c) Reconciliation of earnings used in calculating earnings per stapled security</b>		
	<b>Consolidated</b>	
	<b>28 June 2009 \$'000</b>	<b>30 June 2008 \$'000</b>
<i>Basic earnings per share</i>		
Profit/(loss) from continuing operations	(14,763)	6,511
<b>(d) Weighted average number of stapled securities used as the denominator</b>		
	<b>Consolidated</b>	
	<b>28 June 2009 Number</b>	<b>30 June 2008 Number</b>
<i>Weighted average number of stapled securities used as the denominator in calculating basic earnings per stapled security</i>	123,731,100	123,731,100
Adjustments for calculation of diluted earnings per stapled security:		
Potential securities issued to CHTG Pty Ltd	658,333	658,333
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	<b>124,389,433</b>	124,389,433

In the directors' opinion:

- (a) the financial statements and notes set out on pages 21 to 52 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Company's and consolidated entity's which includes the Trust financial position as at 28 June 2009 and of their performance for the period ended on that date; and
- (b) there are reasonable grounds to believe that the Company's and consolidated entity's including the Trust will be able to pay its debts as and when they become due and payable; and
- (c) the remuneration disclosures set out on pages 7 to 11 of the Directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



R. Hill  
Director

Perth  
17 November 2009

## Independent auditor's report to the members of Compass Hotel Group Limited

### Report on the financial report

We have audited the accompanying financial report of Compass Hotel Group Limited (the company), which comprises the balance sheet as at 30 June 2009, 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, other explanatory notes and the directors' declaration for both Compass Hotel Group Limited and the Compass Hotel Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company 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 controls 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 compliance with the Australian equivalents to International Financial Reporting Standards ensures 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 judgement, 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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Independent auditor's report to the members of  
Compass Hotel Group Limited (continued)**

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

- (a) the financial report of Compass Hotel Group Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their 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*; and
- (b) the consolidated financial statements and notes also complies with International Financial Reporting Standards as disclosed in Note 1.

*Significant uncertainty regarding continuation as a going concern*

Without qualification to our opinion expressed above, we draw attention to Note 1(a) in the financial report which comments on the company's non-compliance with a debt covenant and the related status of discussions with the company's lenders regarding debt facilities. These conditions, along with other matters as set out in Note 1(a), indicate the existence of a significant uncertainty about the ability of the company and its controlled entities to continue as a going concern and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

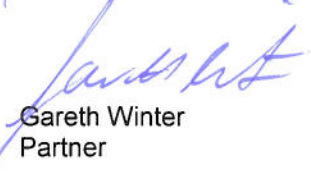
**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 7 to 11 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the Remuneration Report of Compass Hotel Group Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

  
PricewaterhouseCoopers

  
Gareth Winter  
Partner

Sydney  
17 November 2009

The holders of stapled securities information set out below was applicable as at 17 November 2009.

**A. Distribution of stapled securities**

Analysis of numbers of stapled security holders by size of holding:

	Total Holders	Units	% Issued Capital
1 - 100	8	240	-
101 - 1000	15	13,150	0.01
1,001 - 5,000	165	503,504	0.41
5,001 - 10,000	68	629,086	0.51
10,001 - 100,000	157	6,070,702	4.90
100,001 and over	48	116,514,418	94.17
	461	123,731,100	100.00

There were 10 holders of less than a marketable parcel of stapled securities.

**B. Stapled security holders**

*Twenty largest quoted stapled security holders*

The names of the twenty largest holders of quoted stapled securities are listed below:

1. National Nominees Limited	26,537,593	21.45
2. J P Morgan Nominees Australia Limited	16,392,423	13.25
3. AMP Life Limited	12,388,988	10.01
4. Cogent Nominees Pty Limited <SMP Accounts>	9,285,013	7.50
5. HSBC Custody Nominees (Australia) Limited	6,761,828	5.46
6. Milyara Pty Ltd <KJ Superannuation Fund>	6,200,000	5.01
7. Merrill Lynch (Australia) Nominees Pty Limited <Berndale A/C>	5,977,040	4.83
8. Absolute Investments Australia Pty Limited <Absolute A/c>	4,895,141	3.96
9. Gain Capital Management Pty Ltd	4,367,100	3.53
10. Citicorp Nominees Pty Limited <CFSIL CWLTH Property 6 A/C>	3,456,217	2.79
11. Migan Pty Ltd <Bryan Northcote Family A/C>	3,302,755	2.67
12. Mrs Ingrid Monique Beaven	2,080,047	1.68
13. LJL Investments Pty Limited	2,000,000	1.62
14. Mr Fred Herbort <Herbort Family A/C>	1,942,869	1.57
15. Mr Michael Craig Orr & Mrs Jennifer Ngaire Orr <Orr Family A/C>	1,220,000	0.99
16. Cogent Nominees Pty Limited	1,073,574	0.87
17. Mrs Ada Kornhauser	1,000,000	0.81
18. Swancliffe Pty Limited	655,237	0.53
19. Mr Stephen Alexander Shaw	507,237	0.41
20. Mrs Cara McCarthy <Blackcomb A/C>	476,000	0.38
	110,519,062	89.32

**C. Substantial holders**

Substantial holders in the company are set out below:

1. AMP Limited	23,704,338	19.16%
2. Challenger Financial Services Group Limited	19,009,241	15.37%
3. UBS Nominees Pty Ltd	14,856,273	12.01%
4. Deutsche Bank AG	11,374,101	9.19%
5. Absolute Investments Australia Pty Ltd	9,930,805	8.03%
6. National Australia Bank Limited	8,305,468	6.71%
7. Northcape Capital Pty Ltd	6,624,600	5.35%
8. Milyara Pty Ltd	6,325,000	5.11%
	100,129,826	80.93%

**D. Voting rights**

The voting rights attaching to the stapled securities are set out below:

- (a) on a show of hands, every member present at a meeting in person shall have one vote
- (b) upon a poll, every holder of stapled securities present at a meeting in person or by proxy shall have one vote.