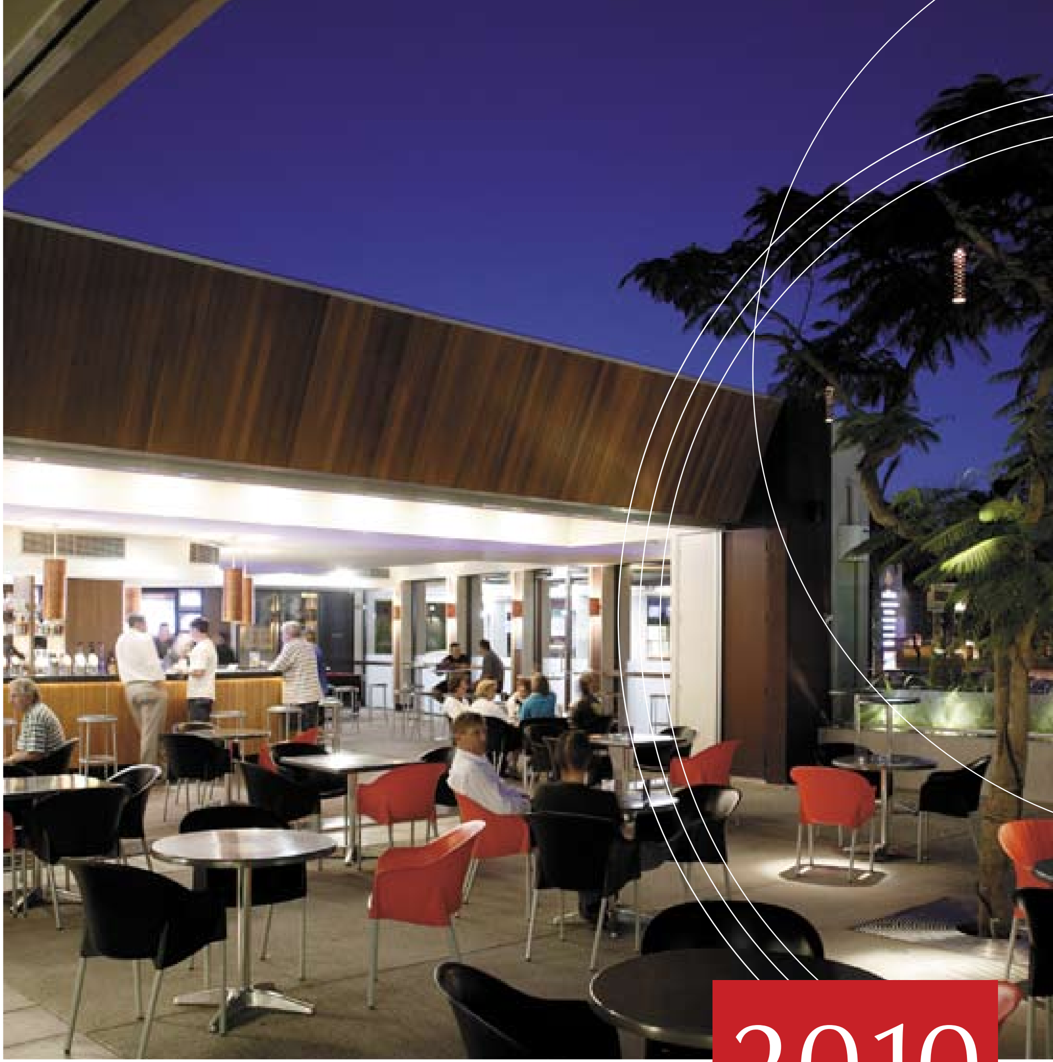

2010

Compass Hotel Group

Annual Report

Contents

2010

Chairman's Letter

FOR THE YEAR ENDED 30 JUNE 2010

On behalf of the Board, I present the Annual Report for Compass Hotel Group Limited and the Compass Hotel Group Trust (the Group) (ASX:CXH) for the year ended 30 June 2010. The financial year has continued to be a challenging one for the WA hospitality industry with the residual spin-off from the global financial crisis and the political uncertainty surrounding the mining industry in Western Australia. The combined effect of these two significant events yielded a direct impact on consumer spending across hospitality and leisure businesses.

Outlook

The outlook for the 2011 financial year is that market conditions will remain difficult through to at least the end of 2010, after which a slow and steady uplift in the economy has been forecast. The Group maintains a prudent view in terms of revenue particularly in the first six months of this financial year and has budgeted sales of approximately $63m for the full 2011 financial year.

Financial Operating Performance

The 2010 financial result was an after tax loss of $20.15m (2009: $99.2m) derived from revenue of $63m (2009: $76m). The result was materially impacted by the downturn in economic conditions and weaker consumer confidence with revenues down 10.5% on the previous financial year on a like for like basis. With a backdrop of declining revenue, the group generated a gross operating profit at venue level of $11.2m representing an improvement of 16.8% on the previous financial year.

Significant items included in the loss were the impairment of assets by $15.2m and the fair value loss on derivative financial instrument of $2.05m. The underlying loss excluding impairment and fair value loss on derivative financial instrument was $2.90m (2009: Loss $5.6m)

Bank Facilities

As at the 30th June the Group was in breach of its borrowing covenants with respect to its long-term finance facility. As a result the loan of $92m has been classified as a current liability reflecting the fact that the lender has the right to call these funds immediately payable as at 30 June 2010. The bank acknowledges the breach to the loan covenants, and will not recall any amounts due outside of the previously agreed upon debt repayment schedule.

Recognition of Thanks

Robert Garton Smith, appointed a director in September 2009, resigned on 23 September 2010. The Board wishes to express their thanks to Robert and acknowledges his contribution as “interim” director during a challenging transition period for the company.

On behalf of the Board I would like to thank Antoine Musu, the Group’s Chief Operating Officer, senior management and all staff for the work the commitment to their work and determination to overcome the hurdles of a difficult trading period in the light of other issues currently facing the Group.

Finally, I would like to express my sincere appreciation to all shareholders for their support and we look forward to an improved outcome for the next year.

Roland Hill
Chairman

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 30 June 2010.

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

R. Jones (Resigned 17 July 2009)
P. Kadar (Resigned 17 July 2009)
B. Northcote (Resigned 17 July 2009)
R. Hill (Chairman)
R. Garton Smith (Appointed 8 September 2009 – Resigned 23 September 2010))
A. Thoume (Appointed 8 September 2009)
C. Brockwell (Appointed 12 February 2010)

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
No dividends were paid to members during the financial period.

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

	30 June 2010 $'000	28 June 2009 $'000
Net operating revenue		
Hotel revenue	63,13 3	75,32 6
Other Revenue	166	1,238
Expenses	(83,454)	(174,560)
Income tax (expense)/benefit	-	(1,223)
Profit/(loss) for the year	(20,155)	(99,219)
Profit/(loss) attributable to unitholders of Compass Hotel Group Trust	(7,755)	(84,456)
Profit/(loss) attributable to shareholders of Compass Hotel Group Limited	(12,40 0)	(14,76 3)

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

(a) Hotel operations
Group Performance Overview

The financial year for Compass Hotel Group has continued to be a challenging one with the effect of the global financial crisis and the political uncertainity surrounding the mining industry in Western Australia having a direct impact on consumer spending in the hospitality industry.

The Groups overall loss of $20.15m after tax as reported was after impairment costs of $15.2m and the fair value loss on the derivative financial instrument of $2.1m. $15.2m was written off in June 2010 based on revaluations of land and buildings for the Group's trading venues. The value loss of $2.1m is attributed to the interest rate swap held by the group.

Compass Hotel Group Limited
Directors' report
30 June 2010
(continued)

Information on directors (continued)

The following table shows a comparison between 2009 and 2010 financial results:

	2010 $'000	2009 $'000
Reported Profit/(Loss) before income tax	(20,155)	(97,996)
Impairment (Goodwill)	-	58,410
Impairment of land and buildings	15,197	24,679
Value loss in interest rate swap	2,072	9,347
Underlying Profit/(loss) excluding impairment, interest rate swap and tax	(2,886)	(5,560)

Operating Venue Performance
Operating revenues for the 2010 financial year were recorded at $63.1m which was a reduction of 16.2% on the previous year. This reduction shows the hospitality industry is still being impacted by the local economic environment and uncertainty surrounding the political environment in relation to the mining industry in Western Australia.

The following table shows the comparison between 2010 and 2009 venue performance

	June 2010 $m	June 2009 $m
Revenue	63.1	75.3
Gross Contribution	31.6	36.4
Payroll & Related Expenses	13.7	16.7
Other Expenses	6.6	10.1
Gross Operating Profit (before corporate costs, interest and depreciation)	11.3	9.6

Revenue for FY 2010 came in a $63.1m. This represents a revenue contraction of 10.6% as compared to previous year after revenue adjustment resulting from the sale of Gosnells Railway Markets and the termination of the lease on Cobblers Tavern, bringing the revenue in FY 2009 to $70.6m.

The state's economic downturn in FY 2010 impacted budgeted revenues across all venues however most noticeably in venues located in the outer metropolitan areas. The process started in October 2009 and continued right through to the end of the financial year.

In spite of the revenue contraction, gross contribution was maintained at close levels to the previous year. Operational efficiencies were gained in payroll and other expenses in all segments of restaurants, bars and retail sales operations yielding a gross operating profit of $11.2m in 2010 representing an improvement of $1.6m or 4.2% on previous year.

(b) Looking Forward
Compass management holds the view that market conditions will remain difficult through to at least the end of 2010 after which a slow and steady uplift in the economy has been forecast.
Compass Hotel Group management has been in close discussions with its financier in respect to the group covenants associated with its borrowing facility.

(c) Our People
the Group has continued to invest time and effort in its key staff with the objective of achieving higher operating performance.

Earnings per stapled security

	30 June 2010 Cents	28 June 2009 Cents
(a) Basic earnings per stapled security		
Profit from continuing operations attributable to the ordinary equity holders of the Group	(10.0)	(11.9)
(b) Diluted earnings per stapled security		
Profit from continuing operations attributable to the ordinary equity holders of the Group	(10.0)	(11.9)

Information on directors (continued)

Dividends and distributions

No dividends were paid or declared during the financial year.

Significant changes in the state of affairs

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

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

On 28 August Mark Maitland resigned as Company Secretary, he was replaced by Malcolm McLean.

On 8 September 2009, Anne Thoume and Robert Garton Smith were appointed directors of Compass Hotel Group Limited.

Matters subsequent to the end of the financial period

At 30 June 2010, the Group was in technical breach of its borrowing covenants with respect to its long-term finance facility. As a result, the Group has re-classified $92m 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 payable as at 30 June 2010. In August 2010, the Group received confirmation from the relevant financial institution that there had been a breach of agreement in relation to the financial covenants at 30 June 2010 and that the financial institution will not recall any amounts as due outside of the previously agreed upon debt repayment schedule.

On 23 September 2010 Rob Garton Smith resigned as a director.

On 27 September 2010, the Group received a draft letter of offer from its financial institution in relation to an additional facility that would be made available to the Group. The facility as offered would be used to capitalise the September 2010 and October 2010 interest payments due under the Group's long-term finance facility. The additional facility allows the Group to capitalise interest totalling approximately $1,300k relating to these months. As of the date of this report, the Group is in discussions with its financial institution to formalise this arrangement and complete the additional financing. The Directors are of the view that this will be completed successfully.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

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

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 5 - 6.

Environmental regulation

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

Information on directors

R. 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.

30 June 2010
(continued)

Information on directors (continued)

Former Public Company Directorships in last 3 years
Nil

Special responsibilities
Chair of the board.
Member of the Audit & Risk Management Committee.
Chairman of the Nomination Committee.

Chairman of the Remuneration Committee.

R. Hill Director
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.

Chairman of the Remuneration Committee

Chairman of the Nomination Committee.

P. 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.

B. 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.

Information on directors (continued)
Special responsibilities
Member of the Remuneration Committee.

Robert Garton Smith Director (Appointed 8 September 2009 – Resigned 23 September 2010)
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
Nil

Special responsibilities
Member of the Nomination Committee

Member of the Remuneration Committee

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
Nil

Special responsibilities
Chairman of the Audit and Risk Management Committee

Member of the Nomination Committee

Christopher Brockwell Director (Appointed 12 February 2010)
Experience and expertise
Chris Brockwell has over 35 years experience in the hospitality and industrial catering industry. Since 2003 Chris has been Managing Director of Brockwell Hospitality Investments Pty Ltd, the owner and operator of hotels/pubs in Perth and Melbourne. Chris brings a wealth of experience to the Board and will be instrumental in assisting with the recapitalisation of the Company and setting the strategic direction for the Company.

Other Current Public Company Directorships

Nil

Former Public Company Directorships in last 3 years

Nil

Special responsibilities

Member Nomination Committee

Member Remuneration Committee

Company secretary
Malcolm McLean (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 (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.

Meetings of directors
The numbers of meetings of the Company's Board of directors and of each Board committee held during the period ended 30 June 2010, 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 Hill	15	16	4 4		1 1		-	-
A Thoume	16	16	4 4		1 1		**	**
R Garton Smith	15	16	**	**	1	1	-	-
C Brockwell	8	8	**	**	- - -			-

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:

Principles used to determine the nature and amount of remuneration
Details of remuneration
Service agreements
Stapled security-based compensation

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

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 Chair's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chair is not present at any discussions relating to determination of his own remuneration.

Remuneration report (continued)

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

	Year ended 30 June 2010	Year ended 28 June 2009
Base fees		
Chairman	$54,500	$66,750
Other non-executive directors	$120,000	$109,000

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 2011.

Base pay and benefits
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.

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 30 June 2010, 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.

Compass Hotel Group Limited
Directors' report
30 June 2010
(continued)

The remuneration committee has the discretion to adjust short-term incentives downwards in light of unexpected or unintended circumstances.

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 10 for further information.

Details of remuneration
Amounts of remuneration
Details of the remuneration of the directors, the key management personnel of the Company (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 4 to 6 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 Officer
- M. Maitland - Group Financial Controller (from 28 April 2009 and resigned 28 August 2009)
- F. Mastroianni - General Manager Retail
- M. McLean Group Financial Controller (from 31 August 2009)

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

2010	Short-term employee benefits	Post-employment benefits	Long-term benefits	
Name	Cash salary and fees $	Super-annuation $	Long service leave $	Total $
Non-executive directors				
P Kadar (resigned 17 July 2009)	-	-	-	-
R Jones (resigned 17 July 2009)	-	-	-	-
R. Hill	50,000	4,500	-	54,500
R. Garton Smith (appointed 8 September 2009 – resigned 23 September 2010)	33,333	-	-	33,333
A.Thoume (appointed 8 September 2009)	33,333	-	-	33,333
C Brockwell (appointed 12 February 2010)	13,333	-	-	13,3331
Sub-total non-executive directors	129,999	4,500	-	134,499
Executive directors				
B Northcote (resigned 17 July 2009)	-	-	-	-
Other key management personnel (Group)				
A.Musu	164,330	85,671	-	250,001
M.McLean (appointed 31 August 2009)	94,538	16,138	-	110,676
M Maitland (resigned 28 August 2009)	29,913	2,337	-	32,250
F Mastroianni	167,480	40,739	-	208,219
Sub-total key management personnel	456,261	144,885	-	601,146
Total key management personnel compensation (Group)	586,260	149,385	-	735,645

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

2009 Short-te	rm employee benefits		Post-employment benefits	Long-term benefits		
Name	Cash salary and fees $	Non monetary benefits $	Super-annuation $	Long service leave $	Termination Benefits $	Total $
Non-executive directors						
R. Jones	45,000	-	21,750	-	-	66,750
R. Hill	50,000	-	4,500	-	-	54,500
P. Kadar	50,000	-	4,500	-	-	54,500
Sub-total non-executive directors	145,000	-	30,750	-	-	175,750
Executive directors						
B. Northcote	250,001	37,416	22,500	-	-	309,917
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
Total key management personnel compensation (Company)	826,766	45,678	155,611	-	85,000	1,113,055

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 Operating Officer, Group Financial Controller 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 (Resigned 17 July 2009)
- Term of agreement - 5 years commencing 10 December 2007.
- 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 Officer
- Term of agreement - on-going commencing 22 September 2008.
- Base salary, for the period ended 30 June 2010 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 (from 28 April 2009 until 28 August 2009)
- Term of agreement - on-going, commencing 28 April 2009.
- Base salary, for the period ending 30 June 2010 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. No termination benefit was paid on his resignation.

M. McLean, Group Financial Controller (from 31 August 2009)
- Term of agreement from June 2010 is on a part time contract basis.
- There is no termination benefits associated with the contract.

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.

Stapled security based compensation
To 30 June 2010 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 30 June 2010.

Insurance of officers
During the period ended 30 June 2010 the Group paid a premium of $42,457 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 wilful 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 30 June 2010 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.

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).

On 3 February 2010 the group's securities (ASX; CXH) were relisted on the Australian Stock Exchange following an initial suspension on 17 July 2009 followed by a further voluntary suspension through to the date of relisting.

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.*

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:

	Consolidated	
	30 June	28 June
	2010 200	9
	$ $	
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports	188,500	117,000
Total remuneration for audit services	188,5 00	117,000
2. Non- audit services		
PricewaterhouseCoopers Australian firm:		
Due diligence services	-	-
Total remuneration for other assurance services	-	-
Tax compliance services	37,000	107,000
Accounting services	30,664	24,000
Total remuneration for non-audit services	67,664	131,000

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 13.

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
29 September 2010

Auditor's Independence Declaration

FOR THE YEAR ENDED 30 JUNE 2010

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of Compass Hotel Group Limited for the period ended 30 June 2010, 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
29 September 2010

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.

Principles of Good Corporate Governance and Best Practice Recommendations.

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 Operating Officer (COO) 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.

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 16);
  - 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 Officer (COO) and Group Financial Controller (GFC);
- 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.

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. 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.

The board seeks to ensure that:

- 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

Compass Hotel Group Limited
Corporate governance statement
28 June 2010

(continued)

The Board of directors (continued)

- 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 judgement.

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 Operating 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 COO 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 30 June 2010, 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 30 June 2010.

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 21 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.

(continued)

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.

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 Hill (Chairman)
A Thoume
R Garton Smith
C Brockwell

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

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.

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.

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.

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.

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

A Thoume (Chairman)
R Hill
Details of these directors' qualifications and attendance at audit & risk management committee meetings are set out in the directors' report on pages 4 - 6.

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;
  - 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

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 22 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.

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.

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 16) is required at all times and the Board actively promotes a culture of quality and integrity.

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.

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

R Hill (Chairman)
R Garton Smith
C Brockwell
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". In accordance with group policy, participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements. Details of this policy can be found on the company's website.

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.

From 17 July to 8 September 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.

Compass Hotel Group Limited
Consolidated statement of comprehensive income
For the period ended 30 June 2010

	Notes	Consolidated 30 June 2010 $'000	28 June 2009 $'000
Revenue from continuing operations	3	63,133	75,326
Other income	4	166	1,238
Purchases of inventories and changes in inventories (net)		(31,726)	(40,089)
Employment costs		(14,76 3)	(18,82 7)
Depreciation		(2,040)	(1,983)
Impairment of intangibles		-	(58,410)
Other expenses		(4,746)	(5,891)
Advertising & Promotions		(406)	(540)
Repairs & Maintenance		(707)	(779)
Loss on Sale of assets		-	(1,465)
Entertaining Patrons		(622)	(844)
Cleaning		(671)	(901)
Impairment of assets	8	(15,197)	(24,679)
Light & power		(892)	(982)
Finance Costs		(7,616)	(7,529)
Security		(988)	(1,134)
Rate & Taxes		(1,008)	(1,160)
Fair value loss on derivative financial instrument		(2,072)	(9,347)
(Loss) before income tax		(20,15 5)	(97,99 6)
Income tax expense	5	-	(1,223)
(Loss) from continuing operations		(20,15 5)	(99,219)
(Loss) for the period		(20,155)	(99,219)
Profit\(loss) is attributable to:			
Shareholders of Compass Hotel Group Limited		(12,400)	(14,763)
Unitholders of Compass Hotel Group Trust		(7,755)	(84,456)
		(20,15 5)	(99,219)

		Cents	Cents
Earnings per stapled security for profit from continuing operations attributable to the ordinary equity holders of the company:			
Basic earnings per stapled security	28	(10.0)	(11.9)
Diluted earnings per stapled security	28	(10.0)	(11.9)
Basic earnings per stapled security	28	(10.0)	(11.9)
Diluted earnings per stapled security	28	(10.0)	(11.9)

The above consolidated statement of comprehensive income statement should be read in conjunction with the accompanying notes.

Compass Hotel Group Limited
Consolidated statement of financial position
As at 30 June 2010

	Notes	**Consolidated** **30 June 2010 $'000**	28 June 2009 $'000
ASSETS			
Current assets			
Cash and cash equivalents	6	2,465	2,677
Trade and other receivables	7	257	5,881
Inventories		2,504	2,563
Current tax receivables		-	2
Other		144	87
Total current assets		5,370	11,210
Non-current assets			
Receivables		25	24
Property, plant and equipment	8	98,924	116,304
Total non-current assets		98,949	116,328
Total assets		104,319	127,538
LIABILITIES			
Current liabilities			
Trade and other payables	12	4,210	5,312
Borrowings	13	92,192	96,052
Derivative financial instruments		8,938	6,866
Provisions	14	188	313
Total current liabilities		105,528	108,543
Non-current liabilities			
Borrowings	15	48	99
Provisions	16	14	12
Total non-current liabilities		62	111
Total liabilities		105,590	108,654
Net assets		(1,271)	18,884
EQUITY			
Contributed equity	17	24,087	24,087
Retained earnings	18(a)	(20,652)	(8,252)
Equity attributable to security holders of Compass Hotel Group Limited		3,435	15,835
Minority interest	19	(4,706)	3,049
Total equity		(1,271)	18,884

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Compass Hotel Group Limited
Consolidated statement of changes in equity
For the period ended 30 June 2010

Consolidated	Notes	Attributable to members of Compass Hotel Group Limited		Minority interest $'000	Total $'000
		Contributed equity $'000	Retained earnings $'000		
Balance at 30 June 2008		24,087	6,511	87,50 5	118,1 03
Income tax relating to components of other comprehensive income	18	-	-	-	-
Total income and expense for the period	1(n)	-	(14,76 3)	(84,45 6)	(99,21 9)
Restated total comprehensive income for the period		-	(14,76 3)	(84,45 6)	(99,21 9)
Balance at 28 June 2009		24,08 7	(8,252)	3,04 9	18,88 4
Balance at 28 June 2009		24,087	(8,252)	3,04 9	18,88 4
Total income and expense for the period	18	-	(12,40 0)	(7,755)	(20,15 5)
Balance at 30 June 2010		24,08 7	(20,65 2)	(4,706)	(1,271)

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

Compass Hotel Group Limited
Consolidated statement of cash flows
For the period ended 28 June 2010

	Notes	Consolidated 30 June 2010 $'000	28 June 2009 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		70,232	78,419
Payments to suppliers and employees (inclusive of goods and services tax)		(64,194)	(71,782)
		6,038	6,637
Interest received		61	271
Interest & other finance costs paid		(7,616)	(7,709)
Net cash (outflow) inflow from operating activities	27	(1,517)	(801)
Cash flows from investing activities			
Payments for property, plant and equipment	8	(238)	(1,768)
Payments for investment property		-	-
Proceeds from sale of investment property		5,452	-
Proceeds from sale of property, plant and equipment		-	22
Net cash (outflow) inflow from investing activities		5,214	(1,746)
Cash flows from financing activities			
Proceeds from borrowings/(repayments of) net of borrowing costs	15	(3,909)	1,752
Dividends/distributions paid to Company's security holders	25	-	(1,237)
Net cash inflow (outflow) from financing activities		(3,909)	515
Net increase (decrease) in cash and cash equivalents		(212)	(2,032)
Cash and cash equivalents at the beginning of the financial period		2,677	4,709
Cash and cash equivalents at end of period	6	2,465	2,677
Financing arrangements	15		

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies (continued)

1 Summary of significant accounting policies

(a) Basis of preparation

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

Compliance with Australian Accounting Standards - Reduced Disclosure Requirements
The consolidated financial statements of the Compass Hotel Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)

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 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

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 30 June 2010, the Group was in breach of its borrowing covenants with respect to its long-term finance facility. As a result, the Group has re-classified $92,192k of borrowings that were due for repayment in excess of 12 months from the balance sheet date as current liabilities, reflecting the fact that the lender had the right to call these funds immediately payable as at 30 June 2010. As a result, as at 30 June 2010, the consolidated entity had a working capital deficiency of $100,158k (2009: $97,333k). The Group has net liabilities of $1,271k (net assets of $18,884k in 2009) as at 30 June 2010.. The group made a loss after tax of $20,155k (2009: $99,219k) for the period ended 30 June 2010 and generated negative cash flows from operating activities of $1,517k (2009: $801k). 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 August 2010, the Group received confirmation from the relevant financial institution that there had been a breach of agreement in relation to the financial covenants at 30 June 2010 and that the financial institution will not call any amounts as due outside of the previously agreed upon debt repayment schedule.

The Group expects to be in breach of its borrowing covenants again at 30 September 2010 and is currently in discussions with the relevant financial institution in relation to a further waiver of the breach.

On 27 September 2010, the Group received a draft letter of offer from its financial institution in relation to an additional facility that would be made available to the Group. The facility as offered would be used to capitalise the September 2010 and October 2010 interest payments due under the Group's long-term finance facility. The additional facility allows the Group to capitalise interest totalling approximately $1,300k relating to these months. As of the date of this report, the Group is in discussions with its financial institution to formalise this arrangement and complete the additional financing. The Directors are of the view that this will be completed successfully.

Based on current projections, the Group will require the continuing support of the financial institutions as it seeks to execute a longer term strategy to ensure the Group manages its short and longer term obligations. The Group is actively discussing a series of options with the financial institution in order to reduce long-term debt and provide greater certainty around the current financial position in respect of liquidity. These options include the sale of non-core assets and the raising of

1 Summary of significant accounting policies (continued)

additional equity financing.

Due to the present financial circumstances of the Group as noted above there is an inherent material uncertainty in relation to the Groups 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 budget projections, discussions with the financial institution and strategy to lower the Group debt during the 2011 financial year. This report has therefore been prepared on a going concern basis. No adjustments have been made relating to the recoverability and classification of recorded amounts of liabilities that might be necessary if the Group does not continue as a going concern.

(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 30 June 2010 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 security holding 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 equity holders 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.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated balance sheet respectively.

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

(c) Segme nt reporting

Management has determined the operating segments based on reports reviewed by the board of directors that are used to make strategic decisions. The board considers the business from an income reporting stream and has identified five reporting segments. The segments at operating venue level include food, beverage, retail and other. The food, beverage and retail income segments are reported on at gross contribution level as operational expenses are not allocated against segments but reported at venue level. The remaining segment is corporate which operates outside of venues.

1 Summary of significant accounting policies (continued)

In previous financial periods, the consolidated entity's operations were viewed as being carried out in one sector, Western Australia.

(d) Reve nue 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 Company 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 Company's activities as described below. The Company 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) Interest income
Interest income is recognised using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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 liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company 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.

The Group has implemented the tax consolidation legislation.

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

2 Financial risk management (continued)

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 Company. 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) Leas es

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. (note 8). 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 Company as lessee are classified as operating leases (note 24). Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss 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.

The excess of the consideration transferred, the amount of any non controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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.

(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 the end of each reporting period.

2 Financial risk management (continued)

(i) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, 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 in the consolidated balance sheet.

(j) T rade 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 Company 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 profit or loss 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 profit or loss.

(k) Inventori es

(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.

(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 or 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

2 Financial risk management (continued)

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 or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

2	010
- Buildings	25-40 years
- Machinery	10-15 years
- Vehicles	3-5 years
- Furniture, fittings and equipment	3-8 years
- Leased plant and equipment	10-15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 profit or loss. When revalued assets are sold, it is Company policy to transfer any 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.

(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 Company 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 profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the consolidated 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 profit or loss as other income or finance costs.

Compass Hotel Group Limited
Notes to the consolidated financial statement
30 June 2010

(continued)

2 Financial risk management (continued)

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

(r) Borro wing 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 end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that 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) Emp loyee benefits

(i) Wages and salaries, annual leave
Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables 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) Other long-term employee benefit obligations
The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service 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 end of the reporting period 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 end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(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) Contri buted equity

Stapled securities are classified as 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.

2 Financial risk management (continued)

(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 consolidated 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.

(aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013)
AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The group is yet to assess its full impact. However, initial indications are that the standard will not materially impact the Group's accounting for financial assets. The group has not yet decided when to adopt AASB 9.

(ii) AASB Interpretation 19 *Extinguishing financial liabilities with equity instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* (effective from 1 January 2011)
AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the group's or the parent entity's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the group has not entered into any debt for equity swaps since that date.

(ab) Parent entity financial information

The financial information for the parent entity, Compass Hotel Group Limited, disclosed in note 29 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities
Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Compass Hotel Group Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) 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

2 Financial risk management (continued)

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.

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 instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the company.

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.

(iii) Financial guarantees
Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

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, ie 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 company holds the following financial instruments:

	30 June 2010 $'000	28 June 2009 $'000
Financial assets		
Cash and cash equivalents	2,465	2,677
Trade and other receivables	282	5,905
Intercompany loans	-	-
	2,747	8,582
Financial liabilities		
Trade and other payable	4,210	5,312
Borrowings	92,19 2	96,50 2
Derivative financial instruments	8,938	6,866
	105,3 40	108,680

(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 2010 the Group's borrowings at variable rate were denominated in Australian

2 Financial risk management (continued)

Dollars.

As at the end of the reporting period, the Company had the following variable rate borrowings and interest rate swap contracts outstanding:

	30 June 2010		28 June 2009	
	Weighted average interest rate	**Balance**	Weighted average interest rate	Balance
Bank overdrafts and bank loans	6.3%	92,192	5.1%	96,052
Interest rate swaps (notional principal amount)	7.0%	(94,000)	7.0%	(94,000)
Net exposure to cash flow interest rate risk		(1,808)		2,052

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

The Company's fixed rate borrowings and receivables are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB 7.

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 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 30 June 2010, if interest rates 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 $92,192 lower/higher.

Parent entity sensitivity

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

(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.

For wholesale customers without credit rating the Company generally retains title over the goods sold until full payment is received. For some trade receivables the Company may also obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

Credit risk further arises in relation to financial guarantees given to certain parties (see note 29 for details). 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:

Compass Hotel Group Limited
Notes to the consolidated financial statement
30 June 2010

(continued)

(c) Liquidit y 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 parent entity does not have access to any undrawn borrowing facilities at the end of the reporting period:

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 Company's financial liabilities into relevant maturity groupings as follows:

Group - At 30 June 2010	**Less than 6 months**	**6 - 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total contract - ual cash flows**	**Carrying Amount (assets)/ liabilitie s**
At 30 June 2010	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Non-derivatives							
Non-interest bearing	4,210	-	-	-	-	4,210	4,210
Variable rate	92,442	-	-	-	-	92,442	92,19 2
Total non-derivatives	96,652	-	-	-	-	96,652	96,40 2
Derivatives							
Net settled (interest rate swaps)	583	583	1,166	3,497	4,080	9,909	8,938
Gross settled							
- (inflow)	-	-	-	-	-	-	-
- outflow	-	-	-	-	-	-	-
Total derivatives	-	-	-	-	-	-	-

At 28 June 2009	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contract-ual cash flows	Carrying Amount (assets)/ liabilities
Non-derivatives							
Non-interest bearing	5,312	-	-	-	-	5,312	5,312
Variable rate	96,488	-	-	-	-	96,488	96,052
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	101,800	-	-	-	-	101,800	101,3 64
Derivatives							
Net settled (interest rate swaps)	508	508	1,015	3,046	3,553	8,630	6,866
Gross settled							
- (inflow)	-	-	-	-	-	-	-
- outflow	-	-	-	-	-	-	-
Total derivatives	-	-	-	-	-	-	-

Compass Hotel Group Limited
Notes to the consolidated financial statement
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The parent's financial liabilities consist of trade and other payables due for settlement within 6 months and related party borrowings maturing within 2.5 years. The amounts disclosed in the table are the maximum amounts allocated to the earliest period in which the guarantee could be called.

(d) Fair value measurements

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	
	30 June 2010 $'000	28 June 2009 $'000
From continuing operations		
Sales revenue		
Beverage	50,97 8	60,16 5
Food	10,78 4	13,52 3
Other	1,371	1,638
	63,13 3	75,326

4 Other income

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Net profit/(loss) on disposal of property, plant and equipment	-	(37)
Interest	60	101
Rental income	106	1,174
	166	1,238

5 Income tax expense

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Current tax	-	-
Deferred tax	-	1,223
	-	1,223

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

Profit from continuing operations before income tax expense	(20,155)	(97,996)
Tax at the Australian tax rate of 30%	(6,047)	(29,399)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Impairment of Goodwill and assets	4,559	24,927
Interest rate swap	621	2,804
Loss on sale of assets	-	451
Tax losses not booked	821	1,165
De recognition of tax assets booked prior year	-	1,223
Sundry items	46	52
Income tax expense/(income)	-	1,223

(b) Tax consolidation legislation (moved disclosures to note 1(ab))

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).

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 instalments. The funding amounts are recognised as current intercompany receivables or payables (see note 12).

6 Current assets - Cash and cash equivalents

	Consolidated	
	30 June 2010	28 June 2009
Cash on hand	644	1,664
Cash at bank	1,141	331
Term deposits	680	682
	2,465	2,677

(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	
	30 June 2010 $'000	28 June 2009 $'000
Balances as above	2,465	2,677
Balances per consolidated statement of cash flows	2,465	2,677

7 Current assets - Trade and other receivables

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Trade Receivables		
Trade Debtors	188	469
Other Debtors	69	5,412
	257	5,881

8 Non-current assets - Property, plant and equipment

	Freehold land $'000	**Freehold buildings $'000**	**Plant and equipment $'000**	**Other $'000**	**Total $'000**
Period ended 28 June 2009					
Opening book amount	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	68,820	42,16 7	3,094	2,223	116,3 04
Period ended 28 June 2009					
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	68,820	42,16 7	3,094	2,223	116,3 04

Compass Hotel Group Limited
Notes to the consolidated financial statement
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(continued)

	Freehold land $'000	Freehold buildings $'000	Plant and equipment $'000	Other $'000	Total $'000
Period ended 30 June 2010					
Opening net book amount	68,820	42,167	3,094	2,223	116,304
Additions	-	-	238	-	238
Impairment charge recognised in profit and loss	(9,285)	(5,912)	-	-	(15,197)
Development costs expensed	-	-	(381)	-	(381)
Depreciation charge	-	(1,339)	(611)	(90)	(2,040)
Closing net book amount	59,535	34,91 6	2,340	2,133	98,92 4
At 30 June 2010					
Cost or fair value	83,901	53,399	3,592	2,634	143,526
- Impairment	(24,366)	(15,510)	-	-	(39,876)
Accumulated depreciation	-	(2,973)	(1,252)	(501)	(4,726)
Net book amount	59,535	34,91 6	2,340	2,133	98,92 4

(a) Valuations of land and buildings

The Group's portfolio is a single cash generating unit which comprises freehold land and buildings, property and plant and equipment. Valuations of the Group's hotels were performed by an independent valuer (a member of the Australian Property Institute) as at 30 June 2010. 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. The recoverable amount is assessed on this basis at $99m. This has resulted in the Group recording an impairment charge of $15.2m in the income statement.

Key assumption in the independent valuations is the yield used to capitalise net income from the hotel operations. The weighted capitalisation rate as at 30 June 2010 was 12.5% (2009: 10.8%)

9 Non-current assets - Investment properties

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
At fair value		
Opening balance at 1 July	-	6,950
Disposals	-	(6,950)
	-	-
At fair value		
Closing balance as at 30 June	-	-
	-	-

(i) current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences
(ii) discounted cash flow projections based on reliable estimates of future cash flows
(iii) capitalised income projections based upon a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence.

Compass Hotel Group Limited
Notes to the consolidated financial statement
30 June 2010

(continued)

10 Non-current assets - Deferred tax assets

Balance as at 28 June 2009	-	1,223
Credited/(charged) to the income statement (note 5)	-	(1,223)
Credited/(charged) to equity	-	-
Acquisition of business	-	-
	-	-
Closing balance at 30 June 2010	-	-
Deferred tax assets to be recovered within 12 months	-	-
Deferred tax assets to be recovered after more than 12 months	-	-

* Tax losses of $821k (2009: $1165m) have not been taken up as per Note 5.

11 Non-current assets - Intangible assets

	Goodwill $'000	**Total $'000**
Period ended 30 June 2008		
Acquisition of businesses	58,451	58,45 1
Net book amount	58,45 1	58,45 1
Period ended 28 June 2008		
Opening net book amount	58,451	58,451
Impairment charge	(58,45 1)	(58,45 1)
Closing net book amount	-	-
Period ended 28 June 2009		
Cost	58,41 0	58,41 0
Accumulated amortisation and impairment	(58,410)	(58,41 0)
Net book amount	-	-
	Goodwill	**Total**
At 30 June 2010		
Net book amount	-	-

(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).

Compass Hotel Group Limited
Notes to the consolidated financial statement
30 June 2010

(continued)

12 Current liabilities - Trade and other payables

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Trade payables	3,467	4,159
PAYG Payable	21	53
Accrued expenses	352	431
Net GST Payable	255	553
Other payables	115	116
	4,210	5,312

13 Current liabilities - Borrowings

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Secured		
Bank loans	92,17 3	96,05 2
Lease liabilities (note 24)	19	-
Total secured current borrowings	92,192	96,052
Total current borrowings	92,192	96,052

(a) Securit y

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 15.

At 30 June 2010, the Group was in breach of its borrowing covenants with respect to its long-term finance facility. As a result, the Group has re-classified $92.0m 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 payable as at 30 June 2010. In August 2010, the Group received confirmation from the relevant financial institution that there had been a breach in agreement in relation to the financial covenants as at 30 June 2010 and that the financial institution will not call any amounts as due outside of the previously agreed upon debt repayment schedule.

Compass Hotel Group Limited
Notes to the consolidated financial statement
30 June 2010

(continued)

14 Current liabilities - Provisions

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Employee leave entitlements	260	283
Provision for doubtful debts	(72)	30
	188	313

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

15 Current liabilities - Borrowings

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Lease liabilities (note 24)	48	99

(a) Secured liabilities and assets pledged as security

Bank overdrafts and bank loans	92,192	96,052
Lease liabilities	48	99
Total secured liabilities	92,240	96,151

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.

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.

Compass Hotel Group Limited
Notes to the consolidated financial statement
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The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Current		
Floating charge		
Cash and cash equivalents	2,465	2,677
Receivables	257	5,881
Total current assets pledged as security	2,722	8,558
Freehold land and buildings	96,504	107,066
Floating charge		
Receivables - non-current	-	-
Plant and equipment	4,319	5,317
	4,319	5,317
Total non-current assets pledged as security	100,823	112,383
Total assets pledged as security	103,545	120,941

(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 ie 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.

16 Non-current liabilities - Provisions

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Employee leave entitlements	14	11
Other provisions	-	1
	14	12

Compass Hotel Group Limited
Notes to the consolidated financial statement
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(continued)

17 Contributed equity

	Consolidated		Consolidated	
	30 June 2010 Stapled Securities	28 June 2009 Stapled Securities	**30 June 2010 $'000**	28 June 2009 $'000
(a) Share capital				
Ordinary fully paid shares	123,731,000	123,731,000	25,453	25,453
Cost of raising equity	-	-	(1,366)	(1,366)
	123,731,000	123,731,000	24,087	24,087
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)
Costs of raising equity			(6,380)	(6,380)
Minority interest			93,042	93,042
Total consolidated contributed equity			117,129	117,129

(b) Capital risk management

The Company'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 Company 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 Company monitors 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 consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet (including non-controlling interests) plus net debt.

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Total borrowings	96,450	101,463
Less: cash and cash equivalents	(2,465)	(2,677)
Net debt	93,985	98,786
Total equity	629	18,884
Total capital	94,614	117,670
Gearing ratio	99%	84%

18 Reserves and retained earnings

(a) Retai ned earnings

Movements in retained earnings were as follows:

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Opening retained earnings	(8,252)	6,511
Net loss for the period	(12,400)	(14,763)
Balance 30 June	(20,652)	(8,252)

19 Minority interest

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Interest in:		
Ordinary units in Compass Hotel Group Trust	100,659	100,659
Cost of raising equity	(6,380)	(6,380)
Accumulated losses	(98,98 5)	(89,99 3)
Distribution provided	-	(1,237)
	(4,706)	3,049

20 Dividends and distributions

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
(a) Ordinar y shares		
No dividends or distributions were declared for the year ended 30 June 2010	-	-

21 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

	Consolidated	
	30 June 2010 $	28 June 2009 $
Short-term employee benefits	588,165	872,444
Post-employment benefits	149,3 85	155,6 11
Termination benefits	-	85,000
	737,5 50	1,113,055

The Company has taken advantage of the relief provided by AASB 2008-47 to 10.

(b) Equity instrument disclosures relating to key management personnel

(i) Stapled security holdings (direct and indirect holdings)
2010

Name	Balance at the start of the period	Received during the period on the exercise of options	Purchases during the period	Balance at the end of the period
Directors of Compass Hotel Group Limited				
Stapled securities				
R. Jones (Resigned 17 July 2009) 6,325,0	00	-	-	6,325,000
P. Kadar (Resigned 17 July 2009)	50,000	-	-	50,000
B. Northcote (resigned 17 July 2009)	3,307,855	-	-	3,307,855
R. Hill	2,117,449	-	-	2,117,449
A Thoume (Appointed 8 September 2009)	10,000	-	-	10,000
R Garton Smith (Appointed 8 September 2009 – Resigned 23 September 2010)	233,000	-	-	233,000
C Brockwell (Appointed 12 February 2010)	-	-	7,500,000	7,500,000
Other key management personnel of the Company				
Stapled securities				
A. Musu	-	-	-	-
M. Maitland (Resigned 28 August 2009))	-	-	-	-
F.Mastroianni -		-	120,000	120,000
M McLean (Appointed 31 August 2009)	-	-	-	-

Compass Hotel Group Limited
Notes to the consolidated financial statement
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(continued)

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

	28 June 2010 200 $'000 $'	28 June 9 000
Amounts recognised as expense		
Legal fees	-	18
Administration fees	-	217
Facilitation of IPO fees	-	-
Setup/acquisition costs	-	-
	-	235

22 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	
	30 June 2010 $'000	28 June 2009 $'000
(a) Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports	188	117
Non-audit services		
PricewaterhouseCoopers Australian firm		
Taxation services		
Tax compliance services	37	107
Other services	31 24	
Related practices of PricewaterhouseCoopers Australian firm	256	248

23 Contingencies

(a) Conti ngent liabilities

The Company had contingent liabilities at 30 June 2010 in respect of:

Claims
(a) A writ has been issued against Compass Hotel Group Limited in relation to a claim for work completed by a legal practitioner for which payment has not been made. Compass is defending this action and has issued a counter claim for negligence.

At this stage, the Directors are unable to assess with any certainty the outcome of this action. The company is defending the action and is confident of a positive outcome, however the impact on future Group financial performance could be $198k should the court decide in the defendant's favour.

(b) A writ has been issued against the responsible entity Primary Compass Ltd and Peninsula Tavern (WA) Pty Ltd in relation to a conditional sale agreement on the Peninsula Tavern. The company is defending the action and is confident of a positive outcome. It is not practical to estimate the potential effect of this claim.

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 Licence.

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.

24 Commitments

(a) Lease commitments: Company 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.

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	179	179
Later than one year but not later than five years	622	622
Later than five years	1,830	2,017
	2,631	2,818

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

25 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	100
Carine Glades Tavern (WA) Pty Ltd	Australia	Ordinary	100	100
Princess Road Tavern (WA) Pty Ltd	Australia	Ordinary	100	100
Peninsula Tavern (WA) Pty Ltd	Australia	Ordinary	100	100
Brighton Hotel (WA) Pty Ltd	Australia	Ordinary	100	100
Peel Alehouse (WA) Pty Ltd	Australia	Ordinary	100	100
Belmont Tavern (WA) Pty Ltd	Australia	Ordinary	100	100
Herdsman Lake Tavern (WA) Pty Ltd	Australia	Ordinary	100	100
Albion Hotel (WA) Pty Ltd	Australia	Ordinary	100	100
Gosnells Hotel (WA) Pty Ltd	Australia	Ordinary	100	100
Greenwood Hotel (WA) Pty Ltd	Australia	Ordinary	100	100
Gosnells Markets (WA) Pty Ltd	Australia	Ordinary	100	100
Lakers Tavern (WA) Pty Ltd	Australia	Ordinary	100	100
Cobblers Tavern (WA) Pty Ltd	Australia	Ordinary	100	100
Compass Hotel Group Operations (WA) Pty Ltd	Australia	Ordinary	100	100
Compass Hotel Developments Pty Ltd	Australia	Ordinary	100	100
CHTG 12 Pty Ltd	Australia	Ordinary	100	100
CHTG 16 Pty Ltd	Australia	Ordinary	100	100
CHTG 17 Pty Ltd	Australia	Ordinary	100	100
CHTG 18 Pty Ltd	Australia	Ordinary	100	100

26 Events occurring after the reporting period

At 30 June 2010, the Group was in technical breach of its borrowing covenants with respect to its long-term finance facility. As a result, the Group has re-classified $92m 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 payable as at 30 June 2010. In August 2010, the Group received confirmation from the relevant financial institution that there had been a breach of agreement in relation to the financial covenants at 30 June 2010 and that the financial institution will not recall any amounts as due outside of the previously agreed upon debt repayment schedule.

R Garton Smith resigned as a director on 23 September 2010.

On 27 September 2010, the Group received a draft letter of offer from its financial institution in relation to an additional facility that would be made available to the Group. The facility as offered would be used to capitalise the September 2010 and October 2010 interest payments due under the Group's long-term finance facility. The additional facility allows the Group to capitalise interest totalling approximately $1,300k relating to these months. As of the date of this report, the Group is in discussions with its financial institution to formalise this arrangement and complete the additional financing. The Directors are of the view that this will be completed successfully.

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

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Profit for the period	(20,155)	(99,219)
Depreciation and amortisation	2,040	1,983
Development costs expensed	381	-
Borrowing costs	118	118
Net (gain) loss on sale of non-current assets	-	1,465
Impairment of businesses and assets	15,197	83,089
Decrease/(Increase) in inventories	59	623
Decrease in financial assets at fair value through profit or loss	2,072	9,347
(Increase) decrease in deferred tax assets	-	1,223
(Increase) decrease in other operating assets	(309)	115
(Decrease) increase in trade creditors	(1,102)	146
Decrease/(Increase) in trade debtors and bills of exchange	307	165
Increase (decrease) in other provisions	(125)	144
Net cash inflow (outflow) from operating activities	(1,517)	(801)

28 Earnings per stapled security

	Consolidated	
	30 June 2010 Cents	28 June 2009 Cents
(a) Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	(10.0)	(11.9)
(b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	(10.0)	(11.9)

(c) Reconciliation of earnings used in calculating earnings per stapled security

	Consolidated	
	30 June 2010	28 June 2009
Basic earnings per share		
Profit from continuing operations		
Profit from continuing operations attributable to minority interests	(12,400)	(14,763)

(d) Weighted average number of stapled securities used as the denominator

	Consolidated	
	30 June 2010 Number	28 June 2009 Number
Weighted average number of stapled securities used as the denominator in calculating basic earnings per stapled security	123,7 31,000	123,7 31,100
Adjustments for calculation of diluted earnings per stapled security:		
Potential securities issued to CHTG Pty Ltd	658,333	658,333
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	124,3 89,333	124,389,433

29 Parent entity financial information

(a) Summar y financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent entity	
	30 June 2010 $'000	28 June 2009 $'000
Balance sheet		
Current assets	1,257	684
Non-current assets	22,314	22,771
Total assets	23,57 1	23,455
Current liabilities	1,537	699
Non-current liabilities	3,983	2,675
Total liabilities	5,520	3,374
Shareholders' equity		
Contributed equity	24,08 7	24,08 7
Retained earnings	(6,037)	(4,507)
Minority interest	-	-
	18,05 0	19,580
Profit or loss for the year	(1,530)	(553)
Total comprehensive income	139	242

COMPASS HOTEL GROUP LIMITED
AND CONTROLLED ENTITIES

30 SEGMENT REPORT

	Food		Beverage		Retail		Other		Total Venue		Corporate		Consolidated	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Sales to external customers	10,784	13,883	20,521	24,158	30,461	36,144	1,347	1,187	63,113	75,372	186	1,192	63,299	76,564
Total revenue													63,299	76,564
Gross contribution	7,465	9,003	14,588	16,922	6,820	7,287	1,347	1,187	30,220	34,399	186	1,192	30,406	35,591
Operational costs									(32,413)	(30,703)	(879)	(10,448)	(33,292)	(41,151)
Financial instrument fair value											(2,072)	(9,347)	(2,072)	(9,347)
Income tax expense											-	(1,223)	-	(1,223)
Impairment of assets									-	(58,410)	(15,197)	(24,679)	(15,197)	(83,089)
Profit before income tax													(20,155)	(99,219)
ASSETS														
Segment assets									6,732	7,719	97,587	119,819	104,319	127,538
Total assets													104,319	127,538
LIABILITIES														
Segment liabilities									70,329	70,774	35,261	37,880	105,590	108,654
Total liabilities													105,590	108,654
OTHER														
Acquisition of non-current segment assets									231	781	-	325	231	1,106
Depreciation and amortisation of segment assets									590	544	1,450	1,440	2,040	1,984
													2,271	3,090

Geographical Segments

The economic entity's business segments are all in Western Australia

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2010

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 30 June 2010 and of their performance for the period ended on that date; and

(b) the remuneration disclosures set out on pages

Note 1(a)The directors have been given the declarations by the Chief Operating Officer and Chief Financial Officer required by section 295A of the

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.*

R. Hill
Director

Perth

29 September 2010

PRICEWATERHOUSECOOPERS

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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 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Compass Hotel Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the period's end or from time to time during the financial period.

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 the financial statements comply 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.

PRICEWATERHOUSECOOPERS

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.*

We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Compass Hotel Group Limited on 29 September 2010, would be in the same terms if provided to the directors as at the date of this auditor's report.

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 consolidated entity's financial position as at 30 June 2010 and of its performance for the period ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001,* and

(b) the financial report and notes also comply 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 consolidated entity's non-compliance with a debt covenant and the related status of discussions with the consolidated entity'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 consolidated entity to continue as a going concern and therefore whether it will realise it's assets and extinguish it's 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 period ended 30 June 2010. 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 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Gareth Winter
Partner

Sydney
30 September 2010

Compass Hotel Group Limited
Shareholder information
30 June 2010

The holders of stapled securities information set out below was applicable as at 30 June 2010.

A. Distribution of stapled securities

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

Holding			Total Holders	Units	% Issued Capital
1	-	100	12	264	0.00
101	-	1000	12	10,833	0.01
1,001	-	5,000	155	474,604	0.38
5,001	-	10,000	56	514,086	0.42
10,001	-	100,000	156	6,468,561	5.23
100,001 and		over	97	116,262,752	93.96
			488	123,731,100	100

There were 321 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. Gain Capital Management Pty Ltd	11,867,100	9.59
2. Merrill Lynch (Australia) Nominees Pty Limited <Berndale A/C>	9,201,000	7.44
3. Fortis Claering Nominees P/L	8,750,000	7.07
4. Milyara Pty Ltd <KJ Superannuation Fund>	7,700,000	6.22
5. Brockwell Hospitality Investments Pty Ltd	7,500,000	6.06
6. Narband Pty Ltd	6,070,7 58	4.91
7. HSBC Custody Nominees (Australia) Limited	5,761,378	4.66
8. Absolute Investments Australia Pty Limited <Absolute A/c>	4,895,141	3.96
9. Citcorp Nominees Pty Limited <CFSIL CWLTH Property 6 A/C>	3,456,217	2.79
10. Migan Pty Ltd <Bryan Northcote Family A/C>	3,302,755	2.67
11. Mrs Ingrid Monique Beaven	2,080,047	1.68
12. Mr Robert Satti	2,036,000	1.65
13. Calama Holdings Pty Ltd <Mambat Super Fund A/C>	2,000,000	1.62
14. LJL Investments Pty Limited	2,000,000	1.62
15. Samcarni Pty Ltd <Samcarni Superfund A/C>	2,000,000	1.62
16. Nationalt Nominees Limited	1,996,050	1.61
17. Mr Fred Herbort <Herbort Family A/C>r	1,942,869	1.57
18. Corporate Property Services Pty Ltd <K W Share A/C>	1,904,000	1.54
19. Whitechurch Developments Pty Ltd	1,428,223	1.15
20. Mr Andrew Whitehead & Mrs Alison Denise Robson	1,380,473	1.12
	87,27 2,011	70.55

C. Substanti al 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	11,37 4,101	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%

Compass Hotel Group Limited
Shareholder information
30 June 2010

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.

Corporate Directory

Directors	R Hill R Garton Smith (Appointed 8 September 2009 – Resigned 23 September 2010)) C Brockwell (Appointed 12 February 2010) A Thoume (Appointed 8 September 2009)
Company Secretary	M McLean (Appointed 31 August 2009)
Chief Operating Officer	A Musu
Principal registered office in Australia	Compass House 493 Beach Road Duncraig WA 6026
Securities register	Computershare Investment Services Pty Ltd Yarra Falls 452 Johnston Street Abbotsford VIC 2067
Auditor	PricewaterhouseCoopers 201 Sussex Street Sydney NSW 2000
Bankers	St George Bank Limited 1 Chifley Square Sydney NSW 2000
Responsible Entity	Primary Compass Ltd AFSL 323380 13 Nairn Street Fremantle WA 6160
Stock exchange listings	Compass Hotel Group Limited and Compass Hotel Group Trust stapled securities are listed on the Australian Securities Exchange. (ASX: CXH)
Website address	www.compasshotel.com.au

Compass Hotel Group Ltd.
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