



27th August 2010

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COMPASS HOTEL GROUP – Full Year Results

Compass Hotel Group Limited announce their results for the Compass Hotel Group Trust and Compass Hotel Group Limited (ASX code: CXH) for the financial year ended 30 June 2010.

CXH is the largest freehold hotel and tavern business owner and operator in Western Australia and employs over 450 staff across 12 venues. The venues are located in metropolitan Perth and in Mandurah.

Results

In what has remained a difficult economic environment with reduced revenues and further impairment on property values CXH generated a net loss after tax in the 2010 financial year of \$18.3m.

This loss after tax includes impairment costs of \$13.3m and the fair value loss on the derivative financial instrument of \$2m which is attributed to the interest rate swap held by the group.

The Group's portfolio was independently valued as at June 30 2010 in accordance with the accounting standards. The valuation methodology was premised on an acknowledged improvement in trading at venue level but was penalized as a result of lack of comparable sales data in the Western Australian hotel market. The June 2010 valuation represents a contraction of 15% on the previous year.

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

	2010	2009
	\$'000	\$'000
Reported Profit/(Loss)before income tax	(18,255)	(97,996)
Impairment (Goodwill)	-	58,410
Revaluation of land and buildings	13,297	24,679
Value loss in interest rate swap	2,072	9,347
Underlying Profit/(loss)*	(2,856)	(5,560)

*Excluding impairment, interest rate swap and tax

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:

	2010	2009
	\$m	\$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 from Venues*	11.2	9.6
	16.8%	12.6%

*Before Corporate Costs, Interest & Depreciation

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 as a result of economic downturn, gross contribution improved by 1.8% compared to previous year. Further gains in operational efficiencies were made in payroll and related expenses as well as in other expenses in all segments of restaurants, bars and retail sales operations.

This result yielded a gross operating profit of \$11.2m in 2010 representing an improvement of \$1.6m or 4.2% compared to previous year.

Outlook

CXH 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. The lender continues to support the Group and has provided waivers in relation to the covenants as at 30 June 2010.

The results outlined above are preliminary in nature and are subject to finalization following the completion of the audit. Preliminary Financial Accounts and Appendix 4E will be lodged with the ASX on 30 August 2010.



R Hill
Director