Compass Hotel Group Limited

ACN 127 909 835

Appendix 4E and
Preliminary Consolidated Financial Report
for the year ended 30 June 2010

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

This report should be read in conjunction with the Financial Report for Compass Hotel Group Limited and controlled entities for the half year ended 28 December 2009 and announcements made via the ASX.

Current reporting period:	**Period ended 30 June 2010**
Comparative reporting period:	Period ended 28 June 2009

Results for announcement to the market

1. Key information

Revenue and net profit	**30 June 2010 Amount $'000**	**28 June 2009 Amount $'000**	**Change %**
Revenue from continuing operations	**63,133**	75,326	down 16%
Profit from ordinary activities after tax attributable to members	**(18,255)**	(99,190)	down 82%
Net profit attributable to members	**(18,255)**	(99,190)	down 82%

Explanation of Results

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

2. Net tangible assets per security

	30 June 2010 $ per security	**28 June 2009 $ per security**
Net tangible assets per security	**$0.08**	$0.21

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

Not applicable.

4. Details relating to dividends and distributions

	Financial Year	Amount per Security	Franked amount per Security
Dividends declared	**2010**	**$0.00**	**$0.00**
Dividends declared	**2009**	**$0.00**	**$0.00**

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

Appendix 4E Compass Hotel Group Limited - 30 June 2010
(Continued)

The preliminary final report for the period ended 30 June 2010 prepared in accordance with the Corporations Act 2001 is attached

Compliance statement

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

Identify other standards used **NONE**

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

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

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

	The +accounts have been audited	The +accounts have been subject to an audit
X	The +accounts are in the process of being audited	The +accounts have not yet been audited

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

Roland Hill
Director

30 August 2010

Compass Hotel Group Limited

ABN 18 127 909 835

ASX Preliminary final report for the period ended 30 June 2010

Compass Hotel Group Limited
Preliminary 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	2	**63,133**	75,326
Other income	3	**166**	1,238
Purchases of inventories and changes in inventories (net)		**(31,726)**	(40,089)
Employment Costs		**(14,763)**	(18,827)
Depreciation & Amortisation		**(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		**(13,297)**	(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		**(18,255)**	(97,996)
Income tax expense		**-**	(1,223)
(Loss) from continuing operations		**(18,255)**	(99,219)
(Loss) for the period		**(18,255)**	(99,219)
Profit\(loss) is attributable to:			
Shareholders of Compass Hotel Group Limited		**(10,500)**	(14,763)
Unitholders of Compass Hotel Group Trust		**(7,755)**	(84,456)
		(18,255)	(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	18	**(8.4)**	(11.9)
Diluted earnings per stapled security	18	**(8.4)**	(11.9)
Basic earnings per stapled security	18	**(8.4)**	(11.9)
Diluted earnings per stapled security	18	**(8.4)**	(11.9)

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

Compass Hotel Group Limited
Preliminary 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	4	**2,465**	2,677
Trade and other receivables	5	**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		**100,824**	116,304
Total non-current assets		**100,849**	116,328
Total assets		**106,219**	127,538
LIABILITIES			
Current liabilities			
Trade and other payables	6	**4,210**	5,312
Borrowings	7	**92,192**	96,052
Derivative financial instruments		**8,938**	6,866
Provisions	8	**188**	313
Total current liabilities		**105,528**	108,543
Non-current liabilities			
Borrowings	9	**48**	99
Provisions	10	**14**	12
Total non-current liabilities		**62**	111
Total liabilities		**105,590**	108,654
Net assets		**629**	18,884
EQUITY			
Contributed equity	11	**24,087**	24,087
Retained earnings	12(a)	**(18,752)**	(8,252)
Equity attributable to security holders of Compass Hotel Group Limited		**5,335**	15,835
Minority interest	13	**(4,706)**	3,049
Total equity		**629**	18,884

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

Consolidated	Notes	Attributable to members of Compass Hotel Group Limited			
		Contributed equity $'000	**Retained earnings $'000**	**Minority interest $'000**	**Total $'000**
Balance at 30 June 2008		**24,087**	**6,511**	**87,505**	**118,103**
Total recognised income and expense for the period	1(n)	-	(14,763)	(84,456)	(99,219)
Restated total comprehensive income for the period		**-**	**(14,763)**	**(84,456)**	**(99,219)**
Balance at 28 June 2009		**24,087**	**(8,252)**	**3,049**	**18,884**
Balance at 28 June 2009		**24,087**	**(8,252)**	**3,049**	**18,884**
Total recognised income and expense for the period	12	-	(10,500)	(7,755)	(18,255)
Balance at 28 June 2010		**24,087**	**(18,752)**	**(4,706)**	**629**

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

	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)		**(64,289)**	(71,782)
		5,943	6,637
Interest received		**61**	271
Interest & other finance costs paid		**(7,616)**	(7,709)
Net cash outflow (inflow) from operating activities		**(1,612)**	(801)
Cash flows from investing activities			
Payments for property, plant and equipment		**(143)**	(1,768)
Proceeds from sale of investment property		**5,452**	22
Net cash (outflow) inflow from investing activities		**5,309**	(1,746)
Cash flows from financing activities			
Proceeds from/(Repayment of) borrowings net of borrowing costs	9	**(3,909)**	1,752
Dividends/distributions paid to Company's securityholders		**-**	(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	4	**2,465**	2,677
Financing arrangements	9		

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

1 Summary of significant accounting policies

(a) Basis of preparation

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

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

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

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

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

Going concern
At 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. As a result, as at 30 June 2010, the consolidated entity had a working capital deficiency of $100m. The consolidated entity generated positive cash flows from operating activities for the period ended 30 June 2010 of $3.6m and as at the date of this report, the gearing of the Group remains in excess of the maximum threshold allowed under its lending facility. However in August 2010, the Group received confirmation from the relevant financial institution that all prior covenants to 30 June 2010 have been waived, that the financial institution will not call any amounts as due outside of the previously agreed upon debt repayment schedule.

Due to the present financial circumstances of the Group as noted above there is an inherent material uncertainty in relation to the 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.

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

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 preliminary consolidated income statement, preliminary consolidated statement of comprehensive income, preliminary consolidated of changes in equity and preliminary consolidated balance sheet respectively.

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

(c) Segment 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.

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

(d) Revenue recognition

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

1 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

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.

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.

1 Summary of significant accounting policies (continued)

(e) Income tax (continued)

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

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

(f) Leases

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

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases 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.

1 Summary of significant accounting policies (continued)

(i) Cash and cash equivalents

For the purpose of presentation in the preliminary 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 preliminary consolidated balance sheet.

(j) Trade receivables

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the 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) Inventories

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

(l) Derivatives and hedging activities

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

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

(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.

1 Summary of significant accounting policies (continued)

(m) Property, plant and equipment (continued)

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

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

	2010
- 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 avaliable, the Group uses alternative valuations methods such as recent prices in less active markets or discounted cash flow projections. These valuation 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.

1 Summary of significant accounting policies (continued)

(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 preliminary 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.

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) Borrowing costs

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

(s) Provisions

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the 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) Employee 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) Contributed 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.

1 Summary of significant accounting policies (continued)

(v) Dividends and distributions

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

(w) Earnings per security

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

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

(x) Maintenance and repairs

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

(y) Goods and Services Tax (GST)

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the preliminary 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) Parent entity financial information

The financial information for the parent entity, Compass Hotel Group Limited, disclosed in note 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 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.

1 Summary of significant accounting policies (continued)

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 inrelation 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 Revenue

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
From continuing operations		
Sales revenue		
Beverage	**50,978**	60,165
Food	**10,784**	13,523
Other	**1,371**	1,638
	63,133	75,326

3 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

4 Current assets - Cash and cash equivalents

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
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 preliminary consolidated statement of cash flows	**2,465**	2,677

5 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

6 Current liabilities - Trade and other payables

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Trade payables	**3,467**	4,160
PAYG Payable	**21**	53
Accrued expenses	**352**	431
Net GST Payable	**255**	553
Other payables	**115**	116
	4,210	5,312

7 Current liabilities - Borrowings

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Secured		
Bank loans	**92,173**	96,052
Lease liabilities	**19**	-
Total secured current borrowings	**92,192**	96,052
Total current borrowings	**92,192**	96,052

(a) Security

Information about the security relating to each of the secured liabilities and further information on the bank overdrafts and bank loans are set out in note 9.

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 $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 all prior covenants to 30 June 2010 have been waived and that the financial institution will not call any amounts as due outside of the previously agreed upon debt repayment schedule.

8 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.

9 Non-current liabilities - Borrowings

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Lease liabilities	**48**	99

(a) Secured liabilities and assets pledged as security

Bank overdrafts and bank loans	**92,173**	96,052
Lease liabilities	**48**	99
Total secured liabilities	**92,221**	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.

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

	Consolidated	
	28 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		
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.

10 Non-current liabilities - Provisions

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

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

(continued)

	Consolidated	
	28 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%

12 Reserves and retained earnings

(a) Retained 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 profit/(loss) for the period	**(10,500)**	(14,763)
Balance 28 June	**(18,752)**	(8,252)

13 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)
Retained profits	**(98,985)**	(89,993)
Distribution provided	**-**	(1,237)
	(4,706)	3,049

14 Dividends and distributions

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

15 Valuation of land and buildings

The Group's hotel portfolio is a single cash generating unit which comprises freehold land and buildings and property 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 upon hotel revenues and earnings, estimated market yields for hotel assets and with reference to recent market transaction 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. This has resulted in the Group recording an impairment charge of $13,297m in the income statement.

16 Contingencies

(a) Contingent 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.

17 Events occurring after the balance sheet date

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 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 as at 30 June 2010. In August 2010, the Group received confirmation from the relevant financial institution that they will not take any action in respect to the covenant breaches and will not presently recall any amounts as due outside of the previously agreed upon debt repayment schedule.

18 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	**(8.4)**	(11.9)
(b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the	**(8.4)**	(11.9)

company

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

	Consolidated	
	30 June 2010 $'000	28 June 2009 $'000
Basic earnings per share		
Profit from continuing operations		
Profit from continuing operations attributable to minority interests	**(10,500)**	(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	**123,731,000**	123,731,100
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	**124,389,333**	124,389,433

COMPASS HOTEL GROUP LIMITED
AND CONTROLLED ENTITIES

APPENDIX - 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)	(13,297)	(24,679)	(13,297)	(83,089)
Profit before income tax													(18,255)	(99,219)
ASSETS														
Segment assets									6,732	7,719	99,487	119,819	106,219	127,538
Total assets													106,219	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