



COMPASS ANNUAL REPORT | 08

2008



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C H A I R M A N ' S L E T T E R

Dear Securityholder,

Welcome to our first Annual Report for Compass Hotel Group Ltd and the Compass Hotel Group Trust (the Group) (ASX:CXH).

After listing on the Australian Securities Exchange on 3 January 2008, the Group settled 12 hotels and taverns, a rental tavern and an associated property attached to the Gosnells Hotel in the period from late January through to April 2008. All of the properties and businesses are located in Western Australia (WA), a state which has experienced unprecedented growth over the past 5 years.

The Group capitalised on the ability of its management team to negotiate the purchase of some of the most strategically important hotel and tavern assets located in the Perth and Mandurah suburban areas and the assets are now the basis of a stable revenue stream and a strong platform for further organic and margin growth.

The completion of these settlements during the course of the 2007/2008 financial period follows the programme outlined in the Prospectus and Product Disclosure Statement (PDS) dated 23 November 2007. As the largest freehold tavern and operating business owner in WA, the Group has fast-tracked its growth aspirations. Our focus in the first 6 months has been on integrating the acquisitions to extract operating synergies, streamline practices and systems and to utilise the strength of group buying power to ensure that the total portfolio of assets achieves its potential.

The Group has quality hotels and taverns in the growth areas in Perth and Mandurah and we now operate some of the top food and beverage venues in the sector in WA. While integration and utilising the experience of our management team is a key short-term initiative, we will also continue to investigate development and acquisition opportunities where it will add value to the Group. All acquisitions must be earnings accretive and provide opportunities to lift revenue through the application of the Company's operational expertise.

I would particularly like to acknowledge the contribution of Bryan Northcote, our Chief Executive Officer and Managing Director who has been responsible for the philosophies behind the setup and subsequent operation of the Group and has set a solid foundation for future success. Bryan has extensive experience in the hotel and tavern industry and an in-depth knowledge of food and beverage operations utilising his widespread history in the industry.

Peter Kadar and Roland Hill have made significant contributions during the startup phase of the Group and I thank them both for their commitment and contribution as well as the breadth of skills and experience that they bring to the Company Board.

I would like to thank all securityholders for their continued support and look forward to an exciting year ahead.



Rick Jones
Chairman

C H I E F E X E C U T I V E O F F I C E R R E P O R T

Dear Securityholder,

Compass Hotel Group (the Group) comprising Compass Hotel Group Limited and its subsidiaries (the Company) and Compass Hotel Group Trust (the Trust) listed on the Australian Securities Exchange on 3rd January 2008. The fact that the IPO was oversubscribed in what can only be described as a very difficult market was and continues to be confirmation of the encouraging prospects for the business model with which the Group was established.

The past six months since listing have been a period of implementation of the strategy and vision for the Group business model. During this time, in accordance with the list set out in the Prospectus and Product Disclosure Statement (PDS) dated 23 November 2007 the Group has settled 12 hotels and taverns, a rental tavern and an associated property attached to the Gosnells Hotel.

As a result, the Group is now the largest freehold tavern and operating business owner in Western Australia (WA), employing over 550 people across these 14 operations.

The forecast dates for completion of the settlements were to commence in early January 2008 and continue on a staggered basis over the following months. Delays due to liquor licensing transfers resulted in a more compressed settlement process that ran through February, March and April of 2008.

Despite this truncated process and that sometimes several hotels and taverns would settle on the same day, our processes and hard working personnel ensured that all businesses continued operating and that the transition was as smooth as possible.

The short period post settlements has been one of transition and consolidation. The major area of focus has included:

- Set up of WA Operations with reporting lines based on divisional management structure;
- Establishing a Retail Off Premise Liquor division (drive thru bottleshops) in May 2008, as a consolidated buying group;
- Consolidation of food buying practices under the Group's Tavern Bistro and Brasserie operations;
- Implementation and continued refinement of internal controls established at individual sites;
- Establishment of daily, weekly and monthly detailed management reporting systems;
- Consolidation of 13 individual stock data bases into a centralised stock data base stock control software system. Roll out was completed by July 2008;
- Establishment of a centralised marketing infrastructure overseeing marketing initiatives at individual venues focusing on F & B revenue initiatives; and
- Completion of preferred supply agreements with food and liquor suppliers across the Group.

The Group has also substantially advanced a number of high return business enhancement opportunities. Many of these are expected to result in securing a better utilisation of the existing assets via redevelopment.

Accordingly, the Company is entering into a development agreement with the Trust to investigate and progress these potential opportunities and has aligned itself with third party consultants to facilitate development applications where appropriate.

The various sites that have been identified as opportunities to increase rental income and operating revenues through redevelopment and/or refurbishment are:

1. Gosnells Hotel and Gosnells Railway Markets, Gosnells (land amalgamation completed June 2008)
2. Albion Hotel, Cottesloe
3. Princess Road Tavern, Balga
4. Peninsula Tavern, Maylands
5. Carine Glades Tavern, Duncraig
6. Lakers Tavern, Thornlie

While Western Australia is experiencing record economic conditions, recent months have shown that it is not immune to the economic forces prevalent in the Australian economy. The challenge for the coming financial year is the softening economy.

The Group is positioning itself to weather the fall in discretionary spending currently evident in the Australian economy through the initiatives implemented above. With these initiatives in terms of operating cost consolidation, and an expected easing of interest rates in response to the current weaker economic retail climate, the Group is maintaining previous guidance for the coming financial year.



Bryan Northcote
Chief Executive Officer/Managing Director

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 2008.

Compass Hotel Group Limited was registered on 9 October 2007.

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 (Appointed 9 October 2007)

R. Hill (Appointed 9 October 2007)

P. Kadar (Appointed 25 November 2007)

B. Northcote (Appointed 9 October 2007)

Principal activities

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

- (a) negotiating and settling contracts for the purchase of hotel and tavern properties and businesses;
- (b) preparing the Group to list on the Australian Stock Exchange;
- (c) the Company entered into a stapling deed with the Trust on 23 November 2007. As a result the Company's shares may only be traded in conjunction with the Trust's units;
- (d) operating hotel and tavern businesses in Western Australia (WA); and
- (e) managing investment properties in WA.

Dividends – Compass Hotel Group Limited

No dividends were paid to members during the financial period.

On 23 June 2008 the directors announced the payment of a final ordinary distribution of \$1,237,310 (1 cent per fully paid stapled security) which was paid on 28 August 2008 out of retained profits at 30 June 2008.

Review of operations

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

	Results 30 June 2008 \$'000
Net hotel operating revenue	29,822
Other	3,822
Total continuing operations	33,644
Total expenses	(33,328)
Profit before income tax expense	316
Income tax benefit	658
Profit for the period	974
Profit/(loss) attributable to unitholders of Compass Hotel Group Trust	(5,537)
Profit/(loss) attributable to security holders of Compass Hotel Group Limited	6,511

DIRECTORS' REPORT

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

(a) **Hotel operations**

During January to April 2008, the 12 hotel and tavern properties identified in the Product Disclosure Statement (PDS) dated 23 November 2007 were acquired and an additional tavern lease was signed.

In the initial months of operations, management have implemented their strategies for improved management operating practices and administrative and reporting procedures. Synergies have been gained through the consolidation of individual businesses into a large portfolio and contracts have been signed with major suppliers to take advantage of the buying power of the Group.

A Retail Off Premise Liquor division (including drive thru bottleshops) was also established in May 2008 to take advantage of the positioning and size of the properties in the portfolio.

(b) **Other activities**

The Group has also substantially advanced a number of high return business enhancement opportunities. Many of these are expected to result in securing a better utilisation of the existing assets via redevelopment. Accordingly, the Company is entering into a development agreement with the Trust to investigate and progress these potential opportunities and has aligned itself with third party consultants to facilitate development applications where appropriate. Various sites have been identified as opportunities to increase rental income and operating revenues through redevelopment and/or refurbishment.

Earnings per stapled security

	30 June 2008 Cents
(a) Basic earnings per stapled security	
Profit from continuing operations attributable to the stapled security holders of the Group	5.3
(b) Diluted earnings per stapled security	
Profit from continuing operations attributable to the stapled security holders of the Group	5.2

Dividends and distributions

A final distribution for the period ended 30 June 2008 of 1.0 cent per fully paid stapled security was declared on 23 June 2008 with a record date of 30 June 2008. The payment of this distribution was made on 28 August 2008. The Distribution Reinvestment Plan is currently not in operation.

Significant changes in the state of affairs

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

The Group finalised settlement of the hotels, taverns and markets businesses and properties it had contracted to purchase as outlined in the Prospectus and PDS dated 23 November 2007 and commenced operations of these businesses.

Matters subsequent to the end of the financial period

Since 30 June 2008 the Group has commenced proceedings to change the Responsible Entity of the Trust as outlined in the PDS dated 23 November 2007. The change of Responsible Entity will be from Primary Securities Limited to Primary Compass Limited and correspondence has been circulated to security holders informing them of the recommended change and offering the opportunity to call a meeting should they object to the change.

At 30 June 2008, the Group was in technical breach of two of its borrowing covenants with respect to its long-term finance facility. As a result, the Group has reclassified \$94.3m 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 2008. In August 2008, the Group received confirmation from the relevant financial institution that all prior covenants to 30 June 2008 have been waived, that the financial institution will not recall any amounts as due outside of the previously agreed upon debt repayment schedule and that calculation of covenant requirements going forward would be clarified in good faith. The Group expects that the financial institution will complete a review of the calculation criteria of its covenants and financial requirements prior to 30 September 2008.

DIRECTORS' REPORT

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

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

Additional comments on expected results of certain operations of the Group are included in this annual report under the review of operations and activities on pages 4 and 5.

Environmental regulation

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

Information on directors

R. Jones, LLB Chairman

Experience and expertise

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

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

Other Current Public Company Directorships

Nil.

Former Public Company Directorships in last 3 years

Nil

Special responsibilities

Chairman of the Board.

Member of the Audit & Risk Management Committee.

Chairman of the Nomination Committee.

Chairman of the Remuneration Committee.

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

DIRECTORS' REPORT

Former Public Company Directorships in last 3 years

Nil.

Special responsibilities

Member of the Audit & Risk Management Committee.

Member of the Nomination Committee.

P. Kadar Director

Experience and expertise

Peter is 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

Experience and expertise

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

Other Current Public Company Directorships

Nil.

Former Public Company Directorships in last 3 years

Nil.

Special responsibilities

Member of the Remuneration Committee.

DIRECTORS' REPORT

Company secretary (Joint)

R. King, BA, LLB

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

Rhonda is currently a member of the board and company secretary for The Brisbane Lions Foundation.

R. Cheriton, B.Comm, CPA, ACIS, Chief Financial Officer

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

Meetings of directors

The number of meetings of the Company's Board of directors and of each Board committee held during the period ended 30 June 2008, and the number of meetings attended by each director were:

	Full meetings of directors		Audit		Meetings of committees		Remuneration	
	A	B	A	B	A	B	A	B
R. Jones (Appointed 9 October 2007)	8	8	4	4			1	1
R. Hill (Appointed 9 October 2007)	6	8	4	4			**	**
P. Kadar (Appointed 25 November 2007)	8	8	4	4			1	1
B. Northcote (Appointed 9 October 2007)	8	8	**	**	**	**	1	1

A = Number of meetings attended

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

** = Not a member of the relevant committee

Remuneration report

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

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D 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*.

A Principles used to determine the nature and amount of remuneration

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

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

DIRECTORS' REPORT

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

Non-executive directors

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

Directors' fees

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

The Company's 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.

From 9 October 2007

Base fees

Chairman	\$61,313
Other non-executive directors	\$73,664
	<hr/>
	\$134,977

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 2009.

Base pay

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

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

There are no guaranteed base pay increases included in any executive's contract.

Benefits

Executives receive benefits including car allowances.

Superannuation

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

DIRECTORS' REPORT

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 overperformance.

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 2008, there were no STI or long-term incentive plans in place for the Group.

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

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

The STI performance targets are reviewed annually.

Long-term incentives

Long-term incentives are provided to certain employees via the Employee Option Plan.

B Details of remuneration

Amounts of remuneration

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

The key management personnel of the Group includes the directors as per pages 6 to 7 above and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entities:

- B. Jenkins Chief Operating Officer (from 10 December 2007)
- R. Cheriton Chief Financial Officer (from 3 March 2008)
- G. Mack Chief Financial Officer (from 10 December 2007 to 3 March 2008)
- F. Mastroianni General Manager Retail Off Premise (from 14 April 2008)

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

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

DIRECTORS' REPORT

C Service agreements

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

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

B. Northcote, Director, Chief Executive Officer

Term of agreement 5 years commencing 10 December 2007.

Base salary for the period ended 30 June 2008 (annualised) 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 stapled 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.

B. Jenkins, Chief Operating Officer

Term of agreement 5 years commencing 10 December 2007.

Base salary for the period ended 30 June 2008 (annualised) of \$200,000 plus superannuation, plus Car Allowances of \$30,000 to be reviewed annually by the remuneration committee.

Contract includes a termination benefit of the issue of 1,250,000 fully paid stapled 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.

R. Cheriton, Chief Financial Officer (from 3 March 2008)

Term of agreement ongoing, commencing 3 March 2008.

Base salary, inclusive of superannuation, for the period ending 30 June 2008 (annualised) of \$190,000, to be reviewed after 6 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.

G. Mack, Chief Financial Officer (from 10 December 2007 until 3 March 2008)

Agreement terminated on 3 March 2008.

Base salary for the period (annualised) of \$200,000 plus superannuation.

F. Mastroianni General Manager Retail Off Premise (from 14 April 2008)

Term of agreement ongoing, commencing 14 April 2008.

Base salary, inclusive of superannuation and motor vehicle, for the period ending 30 June 2008 (annualised) of \$210,000, to be reviewed after 6 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.

DIRECTORS' REPORT

D Stapled security based compensation

To 30 June 2008 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 June 30 2008.

Insurance of officers

During the period ended 30 June 2008 the Group paid a premium of \$29,015 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 the Company or its subsidiaries, 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 June 30, 2008 the Company entered into an agreement to indemnify the directors and officers of the Company and its subsidiaries.

The indemnity relates to any liability:

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

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

Proceedings on behalf of the company

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

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

ASX Statement

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

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.

DIRECTORS' REPORT

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 2008 \$
1. Audit services	
PricewaterhouseCoopers Australian firm:	
Audit and review of financial reports	143,000
Total remuneration for audit services	143,000
2. Non-audit services	
PricewaterhouseCoopers Australian firm:	
Due diligence services	148,000
Tax compliance services	15,000
Accounting services	12,000
Total remuneration for non-audit services	175,000

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 14.

Rounding of amounts

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

Auditor

In accordance with section 327A(2) of the *Corporations Act 2001*, PricewaterhouseCoopers hold office until the forthcoming Combined General meeting. A motion regarding their re-appointment will be put to the security holders at that meeting.

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



R Jones
Chairman

Sydney
29 August, 2008

A U D I T O R ' S I N D E P E N D E N C E D E C L A R A T I O N



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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 2008, 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, including the Compass Hotel Group Trust.

A handwritten signature in black ink, appearing to read 'G. Winter'.

G. Winter
Partner
PricewaterhouseCoopers

Sydney
29th August 2008

Liability limited by a scheme approved under Professional Standards Legislation.

C O R P O R A T E G O V E R N A N C E S T A T E M E N T

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

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

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

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

The Board of directors

The Board operates in accordance with the broad principles set out in the Directors' Charter which is available from the corporate governance information subsection of the Investor section of the Company's 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.

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 20);
 - 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 Chief Financial Officer (CFO);

C O R P O R A T E G O V E R N A N C E S T A T E M E N T

- ensuring there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the organisation;
- overseeing the operation of the Company's system for compliance and risk management reporting to holders of stapled securities.

Board members

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

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; and
- 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 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 holders of stapled securities understanding of the director's performance.

Term of office

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

Chairman and Chief Executive Officer

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

The CEO is responsible for implementing Company strategies and policies.

Commitment

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

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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 2008, and the number of meetings attended by each director is disclosed on page 8.

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 2008.

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 23 to the financial statements. In accordance with the Board charter, the directors concerned declared their interests in those dealings to the Company and took no part in decisions relating to them or the preceding discussions.

Independent professional advice

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

Performance assessment

The Board undertakes an annual self assessment of its collective performance, the performance of the Chairman and of its committees. Management are invited to contribute to this appraisal process which is facilitated by an independent third party. The results and any action plans are documented together with specific performance goals which are agreed for the coming year. This assessment is planned for November 2008.

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

Corporate reporting

The CEO and CFO have made the following certifications to the board:

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

Board committees

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

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company's 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 consists of the following directors:

R. Jones (Chairman)

P. Kadar

R. Hill

No meetings of the nominations committee have been required during the period from listing to 30 June 2008.

The nomination committee operates in accordance with its charter which is available on the Company's 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 shortlist 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.

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

Remuneration committee

The remuneration committee consists of the following directors:

R. Jones (Chairman)

P. Kadar

B. Northcote

Details of these directors' attendance at remuneration committee meetings are set out in the Directors' report on page 8.

The remuneration committee operates in accordance with its charter which is available on the Company's 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.

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

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

Audit & risk management committee

The audit & risk management committee consists of the following directors and the CFO of the Company:

P. Kadar (Chairman)

R. Jones

R. Hill

Details of these directors' qualifications and attendance at audit & risk management committee meetings are set out in the directors' report on pages 6-8.

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's 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
- report to the Board on matters relevant to the committee's role and responsibilities.

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

- receives regular reports from management and external auditors;
- meets with the external auditors at least twice a year, or more frequently if necessary;
- reviews the processes the CEO and CFO 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 breakdown of fees for non-audit services, is provided in the directors' report and in note 24 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit & risk management committee.

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

Risk assessment and management

The Board, through the audit & risk management committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. These policies are available on the Company's 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 below) is required at all times and the Board actively promotes a culture of quality and integrity.

Code of Conduct

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

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

The purchase and sale of the Group's stapled 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's website.

Continuous disclosure and communication

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

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A summary of these policies and procedures is available on the Company's 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 coordinating 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 website 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 website. 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 are entitled to 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's website.

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

FINANCIAL REPORT

30 JUNE 2008

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I N C O M E S T A T E M E N T S

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	Notes	Consolidated 30 June 2008 \$'000	Parent 30 June 2008 \$'000
Revenue from continuing operations	3	29,822	–
Other income	4	3,822	242
Purchases of inventories and changes in inventories (net)		(16,696)	–
Cleaning		(369)	(1)
Depreciation & amortisation		(716)	(36)
Light & power		(401)	(1)
Employment costs		(7,815)	(654)
Entertaining patrons		(348)	–
Insurance		(202)	(49)
Other expenses		(2,965)	(622)
Repairs & maintenance		(297)	(3)
Security		(506)	–
Investment property acquisition costs		(457)	–
Finance costs		(2,556)	(87)
Profit/(loss) before income tax		316	(1,211)
Income tax benefits	5	658	381
Profit/(loss) for the period		974	(830)
Profit/(loss) is attributable to:			
Shareholders of Compass Hotel Group Limited		6,511	(830)
Unitholders of Compass Hotel Group Trust		(5,537)	–
		974	(830)
		Cents	
Earnings per stapled security for profit attributable to the equity holders of the Company:			
Basic earnings per stapled security	31	5.3	
Diluted earnings per stapled security	31	5.2	

The above income statements should be read in conjunction with the accompanying notes.

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2008

	Notes	Consolidated 30 June 2008 \$'000	Parent 30 June 2008 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	6	4,709	1,614
Trade and other receivables	7	623	163
Inventories		3,186	–
Other		228	81
Total current assets		8,746	1,858
Non-current assets			
Receivables		24	4
Other financial assets	8	2,481	–
Property, plant and equipment	9	141,213	475
Investment properties	10	6,950	–
Deferred tax assets	11	1,223	946
Intangible assets	12	58,451	–
Other non-current assets	13	–	22,504
Total non-current assets		210,342	23,651
Total assets		219,088	25,787
LIABILITIES			
Current liabilities			
Trade and other payables	14	6,405	203
Borrowings	15	94,298	–
Provisions	16	167	27
Total current liabilities		100,870	230
Non-current liabilities			
Borrowings	17	100	2,300
Provisions	18	15	–
Total non-current liabilities		115	2,300
Total liabilities		100,985	2,530
Net assets		118,103	23,257
EQUITY			
Contributed equity	19	24,087	24,087
Retained profits/(accumulated losses)	20(a)	6,511	(830)
Equity attributable to security holders of Compass Hotel Group Limited		30,598	23,257
Parent entity interest		30,598	23,257
Minority interest	21	87,505	–
Total equity		118,103	23,257

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

STATEMENTS OF CHANGE IN EQUITY

FROM 9 OCTOBER 2007 TO 30 JUNE 2008

Consolidated	Notes	Attributable to members of Compass Hotel Group Limited			Total \$000
		Contributed equity \$000	Retained earnings \$000	Minority interest \$000	
Beginning balance		–	–	–	–
Issue of securities under IPO		25,453	–	100,659	126,112
Equity raising costs		(1,366)	–	(6,380)	(7,746)
Profit/(loss) for period		–	6,511	(5,537)	974
Total recognised income and expense for the period		–	6,511	(5,537)	974
Dividends and distributions provided for or paid	22	–	–	(1,237)	(1,237)
Balance at 30 June 2008		24,087	6,511	87,505	118,103
Parent	Notes	Ordinary shares \$000	Retained earnings \$000	Minority interest \$000	Total \$000
Beginning balance		–	–	–	–
Issue of securities under IPO	19	25,453	–	–	25,453
Equity raising costs	19	(1,366)	–	–	(1,366)
Restated total equity at the beginning of the financial period		24,087	–	–	24,087
Profit/(loss) for period		–	(830)	–	(830)
Total interest recognised and expense for the period		–	(830)	–	(830)
Balance at 30 June 2008		24,087	(830)	–	23,257

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

STATEMENTS OF CASH FLOWS

FROM 9 OCTOBER 2007 TO 30 JUNE 2008

Notes	Consolidated 30 June 2008 \$'000	Parent 30 June 2008 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	32,557	1,033
Payments to suppliers and employees (inclusive of goods and services tax)	(27,119)	(2,382)
	5,438	(1,349)
Interest received	1,109	242
Interest & other finance costs paid	(3,276)	(87)
Income taxes paid	-	-
Net cash (outflow) inflow from operating activities	30	(1,194)
Cash flows from investing activities		
Payment for purchase of hotels and taverns, net of cash acquired	27	(199,755)
Payments for property, plant and equipment	(1,675)	(511)
Payments for investment property	27	(6,950)
Loans to related parties	-	(21,797)
Net cash (outflow) inflow from investing activities	(208,380)	(22,308)
Cash flows from financing activities		
Proceeds from issues of stapled securities and other equity securities net of issue costs	115,420	22,816
Proceeds from borrowings net of borrowing costs	94,398	2,300
Net cash inflow (outflow) from financing activities	209,818	25,116
Net increase (decrease) in cash and cash equivalents	4,709	1,614
Cash and cash equivalents at the beginning of the financial period	-	-
Cash and cash equivalents at end of period	6	1,614
Financing arrangements	17	

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

1 Summary of significant accounting policies

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

(a) Basis of preparation

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

Compliance with IFRS

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

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and 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 reasonable 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 12 for details of these assumptions and the potential impact of changes to the assumptions.

Going concern

At 30 June 2008, the Group was in technical breach of two of its borrowing covenants with respect to its long-term finance facility. As a result, the Group has reclassified \$94.3m 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 2008. However in August 2008, the Group received confirmation from the relevant financial institution that all prior covenants to 30 June 2008 have been waived, that the financial institution will not call any amounts as due outside of the previously agreed upon debt repayment schedule and that calculation of covenant requirements going forward would be clarified in good faith. The Group expects that the financial institution will complete a review of the calculation criteria of its covenants and financial requirements prior to 30 September 2008.

As at 30 June 2008, the consolidated entity had a working capital deficiency of \$92.1m due to the reclassification of borrowings to current. The consolidated entity generated positive cash flows from operating activities for the period ended 30 June 2008 of \$3.27m and has access to additional financing facilities of \$1.6m.

The Directors are of the opinion that there exists reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due. The annual report has been prepared on a going concern basis.

(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 2008 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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

1 Summary of significant accounting policies 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 securityholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

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

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

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

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

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

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

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

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

(c) Segment reporting

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

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

(d) Revenue recognition

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

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

Revenue is recognised for the major business activities as follows:

(i) Sale of goods – retail

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

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(ii) Rental income

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

(iii) Interest income

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

(e) Income tax

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

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

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

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

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

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

The Group has implemented the tax consolidation legislation.

Tax consolidation legislation

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

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

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

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

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

(f) Leases

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

NOTES TO THE FINANCIAL STATEMENTS

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1 Summary of significant accounting policies continued

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 26). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (note 4).

(g) Business combinations

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

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

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

(h) Impairment of assets

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

(i) Cash and cash equivalents

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

(j) Trade receivables

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

NOTES TO THE FINANCIAL STATEMENTS

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

(k) Inventories

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 are shown at cost less subsequent depreciation for buildings. 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probably that future economic benefits associated with the item will follow to the Group and the cost of the item can be measured reliably.

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

Buildings	25-45 years
Machinery	10-15 years
Vehicles	3-5 years
Furniture, fittings and equipment	3-8 years
Leasehold improvements	10 years
Leased plant and equipment	10-15 years

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

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

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

(n) Investment property

Investment property, principally comprising a freehold market building, is held for long term rental yields and is not occupied by the Group. Investment property is carried at fair value, which is based on active market prices, adjusted, if necessary, for any differences in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuations methods such as recent prices in less active markets or discounted cash flow projections. These 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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

1 Summary of significant accounting policies continued

(o) Intangible assets

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

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

(p) Trade and other payables

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

(q) Borrowings

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

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

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

(r) Borrowing costs

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

(s) Provisions

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

(t) Employee benefits

(i) Wages and salaries, annual leave

Liabilities for wages and salaries, including non-monetary benefits, 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) Long service leave

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

NOTES TO THE FINANCIAL STATEMENTS

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(iii) Profit-sharing and bonus plans

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

(u) Contributed equity

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

(v) Dividends and distributions

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

(w) Earnings per security

(i) Basic earnings per security

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

(ii) Diluted earnings per security

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

(x) Maintenance and repairs

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

(y) Goods and Services Tax (GST)

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

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

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

(z) Rounding of amounts

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

(aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

1 Summary of significant accounting policies continued

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

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

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

(iii) *Revised AASB 3 Business combination*

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

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

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

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 nonderivative financial instruments, and investment of excess liquidity.

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

	Consolidated 30 June 2008 \$'000	Parent 30 June 2008 \$'000
Financial assets		
Cash and cash equivalents	4,709	1,614
Trade and other receivables	647	167
Intercompany loans	–	22,504
Derivative financial instruments	2,481	–
	7,837	24,285
Financial liabilities		
Trade and other payable	6,405	203
Borrowings	94,398	2,300
	100,803	2,503

NOTES TO THE FINANCIAL STATEMENTS

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(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 2008 the Group's borrowings at variable rate were denominated in Australian Dollars.

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

	Weighted average interest rate %	Balance \$'000
Bank overdraft and loans	8.4%	94,298
Interest rate swaps (notional principal amount)	7.0%	(94,000)
Net exposure to cash flow interest rate risk		298

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

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

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

Group sensitivity

At 30 June 2008, if interest rates had changed by ± 100 basis points from the period end rates with all other variables held constant, post tax profit for the period would have been \$16,000 lower/higher, mainly as a result of higher/lower interest income from cash and cash equivalents. Post tax profit for the period would have been \$10,000 lower/higher mainly as a result of an increase/decrease in the cash flow of unhedged borrowings.

Parent entity sensitivity

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

(b) Credit risk

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

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

The Group's trade and other receivables are all within their terms of trade at 30 June 2008.

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

(c) Liquidity risk

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

NOTES TO THE FINANCIAL STATEMENTS

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2 Financial risk management continued

Financing arrangements

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

	Consolidated 30 June 2008 \$'000	Parent 30 June 2008 \$'000
Floating rate		
Expiring beyond one year (bank loans)	1,622	–
	1,622	–

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

Maturities of financial liabilities

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

Group – At 30 June 2008	Less than 6 months \$'000	6-12 months \$'000	Between 1-2 years \$'000	Between 2-5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying Amount (assets)/ liabilities \$'000
Non-derivatives							
Non-interest bearing	6,405	–	–	–	–	6,405	6,405
Variable rate	95,378	–	–	–	–	95,378	94,298
Fixed rate	–	–	–	–	–	–	–
Total non-derivatives	101,783	–	–	–	–	101,783	100,703
Derivatives							
Net settled (interest rate swaps)	(334)	(334)	(668)	(2,004)	(3,006)	(6,346)	(2,481)
Gross settled							
(inflow)	–	–	–	–	–	–	–
outflow	–	–	–	–	–	–	–
Total derivatives	(334)	(334)	(668)	(2,004)	(3,006)	(6,346)	(2,481)

The parent's financial liabilities consist of trade and other payables due for settlement within 6 months and related party borrowings maturing in 4.5 years.

(d) Fair value estimation

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

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

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	Consolidated 30 June 2008 \$'000	Parent 30 June 2008 \$'000
3 Revenue		
From continuing operations		
Sales revenue		
Beverage	23,622	–
Food	5,691	–
Other	509	–
	29,822	–
4 Other income		
Fair value gains on derivative financial instruments	2,481	–
Interest	925	242
Rental income	416	–
	3,822	242
5 Income tax expense		
(a) Income tax expense/(benefit)		
Current tax	(491)	(475)
Deferred tax	(167)	94
	(658)	(381)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense	316	(1,211)
Tax at the Australian tax rate of 30%	95	(363)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Interest rate swap	(744)	–
Compass Hotel Group Trust interest income	(145)	–
Investment property acquisition costs	137	–
Sundry items	(1)	(18)
Income tax expense/(benefit)	(658)	(381)

(c) Tax consolidation legislation

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

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

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

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as non-current intercompany receivables or payables (see note 13).

NOTES TO THE FINANCIAL STATEMENTS

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	Consolidated 30 June 2008 \$'000	Parent 30 June 2008 \$'000
6 Current assets – Cash and cash equivalents		
Cash on hand	1,356	–
Cash at bank	2,321	582
Term deposits	1,032	1,032
	4,709	1,614

(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:

Balances as above	4,709	1,614
Bank overdrafts (note 15)	–	–
Balances per statement of cash flows	4,709	1,614

7 Current assets – Trade and other receivables

Trade Receivables

Trade Debtors	451	–
Other Debtors	139	145
	590	145

Prepayments

Interest Receivable

Interest Receivable	33	18
	623	163

8 Non-current assets – Other financial assets

Interest rate swaps	2,481	–
	2,481	–

These financial assets are carried at fair value with movement recognised in the Income statement. Refer to note 17(c).

9 Non-current assets – Property, plant and equipment

Consolidated	Freehold land \$'000	Freehold buildings \$'000	Plant and equipment \$'000	Other \$'000	Total \$'000
Period ended 30 June 2008					
Opening net book amount	–	–	–	–	–
Additions	–	–	147	1,528	1,675
Acquired through business combination	83,901	53,399	2,946	17	140,263
Disposals	–	–	(7)	(3)	(10)
Depreciation charge	–	(447)	(157)	(112)	(716)
Closing net book amount	83,901	52,952	2,929	1,430	141,212
At 30 June 2008					
Cost or fair value	83,901	53,399	3,086	1,542	141,928
Valuation	–	–	–	–	–
Accumulated depreciation	–	(447)	(157)	(111)	(715)
Net book amount	83,901	52,952	2,929	1,431	141,213

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

Parent	Plant and equipment \$'000	Other \$'000	Total \$'000
Period ended 30 June 2008			
Opening net book amount	–	–	–
Additions	6	505	511
Depreciation charge	–	(36)	(36)
Closing net book amount	6	469	475
At 30 June 2008			
Cost or fair value	6	505	511
Accumulated depreciation	–	(36)	(36)
Net book amount	6	469	475

	Consolidated 30 June 2008 \$'000	Parent 30 June 2008 \$'000
10 Non-current assets Investment properties		
At fair value		
Opening balance at 1 July	–	–
Acquisitions	6,950	–
Changes in valuation	–	–
	6,950	–
At fair value		
Closing balance as at 30 June	6,950	–
	6,950	–

11 Non-current assets Deferred tax assets

The balance comprises temporary differences attributable to:

Employee benefits	99	13
Property, plant & equipment	164	11
Carried forward tax losses	491	476
Accrued expenses	23	–
	777	500
Other		
Security issue expenses	452	452
Total deferred tax assets	1,229	952
Set-off of deferred tax liabilities pursuant to setoff provisions	(6)	(6)
Net deferred tax assets	1,223	946
Movements:		
Opening balance at 1 July	–	–
Credited/(charged) to the income statement (note 5)	658	381
Credited/(charged) to equity	565	565
Acquisition of subsidiary (note 27)	–	–
Closing balance at 30 June	1,223	946
Deferred tax assets to be recovered within 12 months	604	589
Deferred tax assets to be recovered after more than 12 months	619	357
	1,223	946

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

12 Non-current assets – Intangible assets

Consolidated	Goodwill \$'000
Period ended 30 June 2008	
Opening net book amount	–
Acquisition of businesses	58,451
Closing net book amount	58,451
Cost	58,451

(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 a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

In performing the value-in-use calculations for each CGU, the Group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rate is 13.7%. The growth rates applied for these calculations were 4.5% on property rental return and 5.0% on hotel and tavern operations.

	Consolidated 30 June 2008 \$'000	Parent 30 June 2008 \$'000
Intercompany loans	–	22,504
	–	22,504

13 Non-current assets – Other non-current assets

14 Current liabilities – Trade and other payables

Trade payables	4,214	76
Distribution payable	1,237	–
PAYG Payable	163	43
Accrued expenses	237	94
Net GST Payable	470	(47)
Other payables	84	37
	6,405	203

15 Current liabilities – Borrowings

Secured		
Bank loans	94,298	–
Total secured current borrowings	94,298	–
Total current borrowings	94,298	–

(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 17.

At 30 June 2008, the Group was in technical breach of two of its borrowing covenants with respect to its long-term finance facility. As a result, the Group has reclassified \$94.3m 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 2008. In August 2008, the Group received confirmation from the relevant financial institution that all prior covenants to 30 June 2008 have been waived, that the financial institution will not call any amounts as due outside of the previously agreed upon debt repayment schedule and that calculation of covenant requirements going forward would be clarified in good faith. The Group expects that the financial institution will complete a review of the calculation criteria of its covenants and financial requirements prior to 30 September 2008.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

Notes	Consolidated 30 June 2008 \$'000	Parent 30 June 2008 \$'000
16 Current liabilities Provisions		
Employee leave entitlements	167	27
	<u>167</u>	<u>27</u>

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

17 Non-current liabilities – Borrowings

Secured		
Lease liabilities (note 26)	100	–
Other loans	–	2,300
Total secured non-current borrowings	<u>100</u>	<u>2,300</u>

(a) Secured liabilities and assets pledged as security

Bank overdrafts and bank loans (see note 15)	94,298	–
Lease liabilities	100	–
Other loans	–	2,300
Total secured liabilities	<u>94,398</u>	<u>2,300</u>

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

Ongoing conditions are:

- (i) maximum Loan to Value Ratio is not to exceed 57% 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) revenue shown for each hotel is not to be less than 80% of the revenue shown in the last valuation report for each respective hotel.

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

Current

Floating charge			
Cash and cash equivalents	6	4,709	1,614
Receivables	7	623	163
Total current assets pledged as security		<u>5,332</u>	<u>1,777</u>

Non-current

First mortgage			
Freehold land and buildings	9,10	143,803	–
Intangibles	12	58,451	–
		<u>202,254</u>	<u>–</u>
Floating charge			
Other financial assets	8	2,481	–
Plant and equipment	9	4,360	475
		<u>6,841</u>	<u>475</u>
Total non-current assets pledged as security		<u>209,095</u>	<u>475</u>
Total assets pledged as security		<u>214,427</u>	<u>2,252</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

17 Non-current liabilities – Borrowings continued

(b) Bank loans and bank overdraft

The bank loan facility is a Commercial Bill Acceptance Facility with a limit of \$97,000,000 (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 draw-down 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%.

18 Non-current liabilities – Provisions

	Consolidated 30 June 2008 \$'000	Parent 30 June 2008 \$'000
Employee leave entitlements	15	–
	15	–

19 Contributed equity

	Consolidated and Parent entity 30 June 2008 Stapled Securities	Consolidated and Parent entity 30 June 2008 \$'000
(a) Share capital		
Ordinary fully paid shares	123,731,000	25,453
Cost of raising equity		(1,366)
		24,087
Minority interest		
Fully paid units in Compass Hotel Group Trust	123,731,000	100,659
Cost of raising equity		(6,380)
Minority interest		94,279
Total consolidated contributed equity		118,366
(b) Movements in ordinary share capital:		
9 October 2007		
Opening balance	–	–
Initial public offering	123,731,000	126,112
Cost of raising equity	–	(7,746)
30 June 2008	123,731,000	118,366

(c) Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of distributions paid to securityholders, return capital to securityholders, issue new stapled securities or sell assets to reduce debt.

Consistent with others in the industry the Group and the parent entity monitor capital on the basis of the gearing ratio, this ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings and trade and other payables as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as equity as shown in the balance sheet (including minority interest) plus net debt. The gearing ratio's at 30 June 2008 were as follows:

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

	Notes	Consolidated 30 June 2008 \$'000	Parent 30 June 2008 \$'000
Total borrowings	14,15 & 17	100,803	2,503
Less cash and cash equivalents	6	(4,709)	(1,614)
Net debt		96,094	889
Total equity		118,103	23,257
Total capital		214,197	24,146
Gearing ratio		45%	4%

20 Reserves and retained profits

(a) Retained profits/(accumulated losses)

Movements in retained profits/(accumulated losses) were as follows:

Beginning balance			
Profit/(loss) attributable to security holders of the Group		6,511	(830)
Balance 30 June		6,511	(830)

21 Minority interest

Interest in:

Units in Compass Hotel Group Trust		100,659	–
Cost of raising equity		(6,380)	–
Share of net profit/(loss)		(5,537)	–
Distribution provided		(1,237)	–
		87,505	–

22 Dividends and distributions

30 June 2008
\$'000

(a) Stapled Securities

Final distribution for the period ended 30 June 2008 of 1.0 cent per fully paid stapled security paid on 28 August 2008

1,237

23 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.

	Consolidated 30 June 2008 \$'000	Parent 30 June 2008 \$'000
(a) Key management personnel compensation		
Short-term employee benefits	654,801	621,181
Post-employment benefits	95,720	91,333
	750,521	712,514

The Company has taken advantage of the relief provided by AASB 2008-4 *Amendments to Australian Accounting Standard-key management personnel disclosures by disclosing entities* and has transferred the detailed remuneration disclosures to the Directors' report. The relevant information can be found in sections A-D of the remuneration report on pages 10 to 11.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

23 Key management personnel disclosures continued

(b) Equity instrument disclosures relating to key management personnel

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

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 (Appointed 9 October 2007)	–	–	305,000	305,000
R. Hill (Appointed 9 October 2007)	–	–	99,098	99,098
P. Kadar (Appointed 25 November 2007)	–	–	50,000	50,000
B. Northcote (Appointed 9 October 2007)	–	–	285,100	285,100
Other key management personnel of the Group				
Stapled securities				
B. Jenkins	–	–	129,500	129,500
G. Mack	–	–	50,000	50,000
R. Cheriton	–	–	–	–
F. Mastroianni	–	–	–	–

(c) Other transactions with key management personnel

R. Jones, B. Northcote and R. Hill are all directors and shareholders of CHTG Pty Ltd. Compass entered into a contract with CHTG Pty Ltd to provide facilitation, set up and acquisition services for the IPO and acquisition of the hotels. This contract was based on normal commercial terms and conditions.

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

The Chairman, Mr R. Jones, is a consultant to Mills Oakley Lawyers and previously was the principal in the firm of Rick Jones & Associates, Solicitors. Rick Jones & Associates provided legal services to the Group during the period on normal commercial terms and conditions.

Stapled security purchases

R. Jones, indirectly through Milyara Pty Ltd as trustee for the KJ Superannuation Fund, purchased 60,000 stapled securities during the financial period.

B. Northcote, indirectly through Migan Pty Ltd as trustee for the Bryan Northcote Family Trust, purchased 80,000 stapled securities during the financial period.

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

	30 June 2008 \$
Amounts recognised as expense	
Legal fees	141,000
Administration fees	269,000
Facilitation of IPO fees	587,000
Setup/acquisition costs	3,110,000
Total Expenses	4,107,000

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

	Consolidated 30 June 2008 \$'000	Parent 30 June 2008 \$'000
--	--	----------------------------------

24 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:

(a) Audit services

PricewaterhouseCoopers Australian firm

Audit and review of financial reports	143,000	143,000
Other audit work under the <i>Corporations Act 2001</i>	-	-
Total remuneration for audit services	143,000	143,000

(b) Non-audit services

PricewaterhouseCoopers Australian firm

Due diligence services	148,000	148,000
Taxation services		
Tax compliance services	15,000	15,000
Other services		
Accounting services	12,000	12,000
Total remuneration for non-audit services	175,000	175,000
	318,000	318,000

25 Contingencies

(a) Contingent liabilities

Guarantees

The parent entity has provided a guarantee for \$1,000,000 to preserve the "net tangible assets" above the regulatory requirement assumed by Primary Securities 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 2060.

26 Commitments

(a) Lease commitments : Group as lessee

(i) Non-cancellable operating leases

The Group has a lease over various office and certain 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.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year	536	69
Later than one year but not later than five years	868	71
Later than five years	2,210	-
	3,614	140

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

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

Within one year	711	-
Later than one year and not later than five years	819	-
Later than five years	-	-
	1,530	-

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

27 Business combination

Current period

(a) Summary of acquisition

The Group acquired the following portfolio of hotels, taverns and markets during the period ended 30 June 2008:

29 January 2008: Albion Hotel, Gosnells Hotel;

4 February 2008: Kalamunda Hotel, Carine Glades Tavern, Princess Rd Tavern, Peninsula Tavern, Cobblers Tavern (Leasehold);

5 February 2008: Brighton Hotel, Peel Alehouse;

7 February 2008: Herdsman Lake Tavern;

14 February 2008: Gosnells Markets;

21 February 2008: Lakers Tavern;

25 February 2008: Greenwood Hotel; and

16 April 2008: Belmont Tavern.

The acquired portfolio of businesses contributed revenues of \$30,234,000 and net loss before tax of \$2,807,000 to the Group for the period from 29 January 2008 to 30 June 2008, with settlement of the portfolio of businesses occurring during the period detailed above. Due to the staggered settlement of the portfolio of businesses and the seasonality associated with the hotel and tavern industry, it is not practical to reliably determine the impact on revenues or net profit from 9 October 2007 (incorporation date).

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	\$'000
Purchase consideration	
Cash paid	193,953
Direct costs relating to the acquisition	15,084
Total purchase consideration	209,037
Fair value of net identifiable assets acquired	150,586
Goodwill (note 12)	58,451

(b) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Fair value \$'000
Cash	38
Inventory	3,343
Land and Buildings	137,300
Plant and equipment	2,963
Investment property	6,950
Provision for employee benefits	(8)
Net identifiable assets acquired	150,586
Intangible assets: goodwill	58,451
Total purchase consideration	209,037

Given the nature of the portfolio of assets acquired, the Group has no reliable means of determining the carrying amount of the assets as previously stated in the accounts of the acquirees.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

28 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):

Name of entity	Country of incorporation	Class of stapled securities	Equity holding 2008
Kalamunda Hotel (WA) Pty Ltd	Australia	Ordinary	100
Carine Glades Tavern (WA) Pty Ltd	Australia	Ordinary	100
Princess Rd (WA) Pty Ltd	Australia	Ordinary	100
Peninsula Tavern (WA) Pty Ltd	Australia	Ordinary	100
Brighton Hotel (WA) Pty Ltd	Australia	Ordinary	100
Peel Alehouse (WA) Pty Ltd	Australia	Ordinary	100
Belmont Tavern (WA) Pty Ltd	Australia	Ordinary	100
Herdsmen Lake Tavern (WA) Pty Ltd	Australia	Ordinary	100
Albion Hotel (WA) Pty Ltd	Australia	Ordinary	100
Gosnells Hotel (WA) Pty Ltd	Australia	Ordinary	100
Greenwood Hotel (WA) Pty Ltd	Australia	Ordinary	100
Gosnells Markets (WA) Pty Ltd	Australia	Ordinary	100
Lakers Tavern (WA) Pty Ltd	Australia	Ordinary	100
Cobblers Tavern (WA) Pty Ltd	Australia	Ordinary	100
Compass Hotel Operations (WA) Pty Ltd	Australia	Ordinary	100
CHTG 12 Pty Ltd	Australia	Ordinary	100
CHTG 16 Pty Ltd	Australia	Ordinary	100
CHTG 17 Pty Ltd	Australia	Ordinary	100
CHTG 18 Pty Ltd	Australia	Ordinary	100
CHTG 19 Pty Ltd	Australia	Ordinary	100

29 Events occurring after the balance sheet date

At 30 June 2008, the Group was in technical breach of two of its borrowing covenants with respect to its long-term finance facility. As a result, the Group has reclassified \$94.3m 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 2008. In August 2008, the Group received confirmation from the relevant financial institution that all prior covenants to 30 June 2008 have been waived, that the financial institution will not call any amounts as due outside of the previously agreed upon debt repayment schedule and that calculation of covenant requirements going forward would be clarified in good faith. The Group expects that the financial institution will complete a review of the calculation criteria of its covenants and financial requirements prior to 30 September 2008.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

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

	Consolidated 30 June 2008 \$'000	Parent 30 June 2008 \$'000
Profit for the period	974	(830)
Interest rate swap	(2,481)	–
Depreciation and amortisation	716	36
Acquisition costs	87	–
Decrease/(Increase) in trade debtors and bills of exchange	(623)	(163)
Decrease/(Increase) in inventories	157	–
(Increase)/ decrease in deferred tax assets	(655)	(378)
(Increase) /decrease in other operating assets	(253)	(89)
(Decrease)/ increase in trade creditors	5,167	203
Increase /(decrease) in other provisions	182	27
Net cash (outflow)/inflow from operating activities	3,271	(1,194)

31 Earnings per stapled security

	Consolidated 30 June 2008 Cents
(a) Basic earnings per stapled security	
Profit from continuing operations attributable to the ordinary equity holders of the company	5.3
Profit attributable to the ordinary equity holders of the company	5.3
(b) Diluted earnings per stapled security	
Profit from continuing operations attributable to the ordinary equity holders of the company	5.2
Profit attributable to the ordinary equity holders of the company	5.2
(c) Reconciliation of earnings used in calculating earnings per stapled security	
	Consolidated 30 June 2008 \$'000
<i>Basic and diluted earnings per stapled security</i>	
Profit attributable to security holders of the Group	6,511
(d) Weighted average number of stapled securities used as the denominator	
	Consolidated 30 June 2008 Number
Weighted average number of stapled securities used as the denominator in calculating basic earnings per stapled security	123,731,100
Potential securities issued to CHTG Pty Ltd (see note 32)	658,333
Weighted average number of stapled securities and potential stapled securities used as the denominator in calculating diluted earnings per stapled security	124,389,433

32 Stapled security-based payments

The Group has agreed to issue up to 6 million stapled securities to CHTG Pty Ltd in exchange for services provided to the Group relating to the acquisition of the Group's hotel and tavern portfolio. The vesting of 5,341,667 securities is subject to the achievement of certain performance targets over the period to 30 June 2011.

The stapled securities have been attributed a fair value of \$2.4 million, representing the fair value of services provided by CHTG Pty Ltd to the Group.

The fair value of the services has been capitalised as part of the cost of the acquired assets.

DIRECTOR'S DECLARATION

30 JUNE 2008

In the directors' opinion:

- (a) the financial statements and notes set out on pages 23 to 48 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 2008 and of their performance for the period ended on that date; and
- (b) there are reasonable grounds to believe that the Company's and consolidated entity's including the Trust will be able to pay its debts as and when they become due and payable.

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

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



R. Jones
Chairman

Sydney

29 August 2008



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 2008, and the income statement, statement of changes in equity and cash flow statement for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Compass Hotel Group Limited and the Compass Hotel Group, which includes the Compass Hotel Group Trust (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 compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Liability limited by a scheme approved under Professional Standards Legislation.

A U D I T R E P O R T



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.

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Compass Hotel Group Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their 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 also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 12 of the directors' report for the period ended 30 June 2008. 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 period ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in cursive script that reads "G. Winter".

PricewaterhouseCoopers

A handwritten signature in cursive script that reads "G. Winter".

G. Winter
Partner

Sydney
29th August 2008

SHAREHOLDER INFORMATION

30 JUNE 2008

The holders of stapled securities information set out below was applicable as at 22 August 2008.

A. Distribution of stapled securities

Analysis of numbers of stapled security holders by size of holding:	Total Holders	Units	% Issued Capital
1 – 1000	20	13,234	0.01
1,001 – 5,000	169	515,971	0.42
5,001 – 10,000	74	681,397	0.55
10,001 – 100,000	130	4,401,072	3.56
100,001 and over	29	118,119,426	95.46
	422	123,731,100	100.00

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

B. Stapled security holders

The names of the twenty largest holders of quoted stapled securities are listed below:	Number of stapled securities held	% of issued stapled securities
1. National Nominees Limited	41,020,995	33.15
2. J P Morgan Nominees Australia Limited	21,239,718	17.17
3. AMP Life Limited	11,871,253	9.59
4. HSBC Custody Nominees (Australia) Limited	11,015,730	8.90
5. Cogent Nominees Pty Limited <SMP Accounts>	9,802,748	7.92
6. RBC Dexia Investor Services Australia Nominees Pty Limited (GSJBW A/C>	4,422,285	3.57
7. Gain Capital Management Pty Ltd	4,360,000	3.52
8. Citicorp Nominees Pty Limited <CFSIL CWLTH Property 6 A/C>	3,456,217	2.79
9. Citicorp Nominees Pty Limited	2,296,061	1.86
10. Cogent Nominees Pty Limited	1,931,432	1.56
11. Queensland Investment Corporation	1,252,913	1.01
12. Mrs Ada Kornhauser	1,000,000	0.81
13. Merrill Lynch (Australia) Nominees Pty Limited <Berndale A/C>	748,458	0.60
14. ANZ Nominees Limited <Cash Income A/C>	733,719	0.59
15. Kinabalu Holdings Pty Ltd <Kinabalu A/C>	474,000	0.38
16. Migan Pty Ltd <Bryan Northcote Family A/C>	300,000	0.24
17. Milyara Pty Ltd <KJ Superannuation Fund>	260,000	0.21
18. Worldwide Finances Holding Pty Ltd <The Arijambi S/F A/C>	225,000	0.18
19. RBC Dexia Investor Services Australia Nominees Pty Limited <BKCUST A/C>	208,759	0.17
20. Bond Street Custodians Limited <CPCPL TU0022 A/C>	200,000	0.16
	116,819,288	94.38

C. Substantial holders

Substantial holders in the company are set out below:

1. AMP Limited	23,704,338	19.16%
2. Challenger Financial Services Group Limited	19,009,241	15.36%
3. UBS Nominees Pty Ltd	17,862,300	14.44%
4. Deutsche Bank AG	13,880,000	11.22%
5. The Goldman Sachs Group Inc	12,652,392	10.23%
6. National Australia Bank Limited	9,566,204	7.73%
7. National Nominees Limited	7,236,223	5.85%
8. Northcape Capital Pty Ltd	6,624,600	5.35%
	110,535,298	89.34%

D. Voting rights

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

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

C O R P O R A T E D I R E C T O R Y

Directors	R. Jones (Appointed 9 October 2007) Chairman R. Hill (Appointed 9 October 2007) P. Kadar (Appointed 25 November 2007) B. Northcote (Appointed 9 October 2007)
Joint Company Secretaries	R. King (Appointed 9 October 2007) R. Cheriton (Appointed 1 May 2008)
Chief Executive Officer	B. Northcote
Chief Operating Officer	B. Jenkins
Chief Financial Officer	R. Cheriton
Principal registered office in Australia	Suite 803, Level 8 275 Alfred Street North Sydney NSW 2060
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 Securities Ltd AFSL 224107 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.
Website address	www.compasshotel.com.au