Half year ended 31 December 2016
Investor update

22 February 2017

Highlights

- Successful implementation of the Sell Down Strategy[1] that was approved by securityholders at the AGM on 25 October 2016. All hotels have now been sold, with the final two hotels expected to complete in March 2017
- Continued strong results for the hotel operations which has led to the achievement of premium sales values for the hotels sold. This is particularly the case for the gaming led hotels which, once complete, will realise $137m at a 47% premium to book value
- The sale of the non-gaming led hotels, completed in the half year, has also realised $69m at a 14% premium to book value, making the total realised from hotel sales in the last 12 months of $206m at a 34% premium to book value
- Bank debt of $11.9m at 31 December 2016 to be fully repaid by March 2017
- Distributions paid and declared of 9.5c per security ($83.9m). Subject to the completion of the final hotel sales in March 2017, the Board expects to declare a distribution in the order of 4.5c per security in April 2017
- Going forward the Board will rapidly explore options for the Lantern shell, while minimising ongoing costs

1: The Sell Down Strategy, and the associated Sell Down Resolution voted on by securityholders, is detailed in the Notice of Meeting issued to securityholders on 19 September 2016

Half Year Results

Strong gaming led hotel performance has continued

Stapled Entity Consolidated	6 months to December FY2017 $'000	6 months to December FY2016 $'000	Change %
Revenue for continuing hotels [1]			
Gaming	9,813	7,581	29.4%
Beverage	3,884	3,404	14.1%
Food	745	983	(24.2%)
Other	450	426	5.6%
Total revenue for continuing hotels	**14,892**	**12,394**	**20.2%**
EBITDA for continuing hotels [1]	**4,607**	**3,268**	**41.0%**
EBITDA margin for continuing hotels	*30.9%*	*26.4%*	
EBITDA for divested hotels [2]	1,352	3,188	(57.6%)
Total hotel EBITDA	**5,959**	**6,456**	**(7.7%)**
Central support services expenses	(1,390)	(1,307)	6.4%
Operating EBITDA	**4,569**	**5,149**	**(11.3%)**
Rental income [3]	1,080	1,273	(15.2%)
Corporate & fund expenses	(1,393)	(1,012)	37.6%
Group EBITDA	**4,256**	**5,410**	**(21.3%)**

Notes:

1. Continuning hotels represents hotels opetrating for the full period, being Crown, Five Dock, General Gordon, Uncle Bucks & Waterworks
2. Divested hotels represent Ambarvale (sold Dec-16), Commodore (sold Nov-16), Courthouse (sold Nov-16), Exchange (sold Aug-16) & Lawson Park (sold Sep-16)
3. Since the prior year the GPO, Central and Brisbane hotels have been sold, reducing rental income received

Half Year Results

Strong gaming led hotel performance has continued

- The half year has seen a continued improvement in the performance of the hotel portfolio when compared to the PCP. For those hotels held for the full six months to 31 December 2016 the results showed:
  - ✓ Total operating revenue up by 20.2%
  - ✓ Gaming revenue up by 29.4%
  - ✓ EBITDA up by 41.0%
- Corporate and fund expenses for the September quarter are higher than the PCP due to a number of one off costs associated with restructuring and strategic projects
- A reconciliation of the Group EBITDA to the reported results is included in Appendix 1

Financial Position

Balance sheet prepared on a liquidation basis of accounting

Lantern hotels

Stapled Entity Consolidated	31 December 2016 $'000	30 June 2016 $'000
Cash	21,979	12,011
Held for sale assets [1]	80,479	18,601
Other current assets	1,576	1,890
Total current assets	**104,034**	**32,502**
Investment properties	-	16,250
Other non-current assets	-	97,233
Total non-current assets	**-**	**113,483**
Total assets	**104,034**	**145,985**
Current borrowings [1]	-	14,149
Liabilities associated with assets held for sale [1][2]	14,025	472
Distributions payable	17,664	-
Other current liabilities [3]	5,063	7,675
Total current liabilities	**36,752**	**22,296**
Non-current borrowings	-	26,267
Other non-current liabilities	-	2,200
Total non-current liabilities	**-**	**28,467**
Total liabilities	**36,752**	**50,763**
Net assets	**67,282**	**95,222**

Notes:

1. Borrowings of $11.9m at 31 December 2016 classified within liabilities associated with assets held for sale
2. All hotel assets and associated liabilities are classified as held for sale
3. Other current liabilities includes a provision of $2.2m for costs associated with the wind down of Lantern, including $0.4m lease incentive liabilities brought forward from the prior period and reclassified to provisions

Financial Position

Balance sheet prepared on a liquidation basis of accounting

Lantern hotels

- Following securityholder approval of the Sell Down Strategy, accounting standards require the financial statements of Lantern be prepared on a liquidation basis:
  - All assets and liabilities classified as current
  - Hotel related assets and liabilities classified as held for sale
  - Provision for estimated future wind down costs of $2.2m
- The provision of $2.2m recognised for future wind down costs reflects an estimate of the costs that will arise that are directly related to the wind down of the Lantern Group following the sale of all of the hotels. This does not include ongoing operating costs for the Group, including central support services and corporate costs, or future tax liabilities that may be incurred
- Remaining bank debt of $11.9m is classified as part of assets and liabilities held for sale. $6.3m of this debt was repaid in February 2017 with the remaining $5.6m to be repaid following completion of the remaining hotel sales in March 2017

Divestment of Gaming led Hotels

Gaming led hotel sales due to complete in March 2017
$137m in proceeds at 47% premium to book value

Hotel	Price $000	Premium to book value	Completed
Ambarvale	21,200	50.2%	December 2016
Uncle Bucks	25,300	30.5%	February 2017
Five Dock	28,750	37.9%	February 2017
Waterworks	17,228	65.3%	February 2017
General Gordon	18,100	68.7%	Expected March 2017
Crown	26,100	50.5%	Expected March 2017
Total	**136,678**	**47.2%**	

- Lantern has completed thorough sale processes for all of the hotels held by the Group and achieved a very strong outcome overall
- Lantern has sold all of the gaming led hotels at a significant premium to book value

Divestment of Other Hotels

Non-gaming led hotel sales completed in December 2016
$69m in proceeds at 14% premium to book value

Hotel	Price $000	Premium to book value	Completed
Albert, NZ	NZ$3,400[1]	-	February 2016
Dolphin	11,150	10.9%	March 2016
GPO	5,250	28.0%	June 2016
Bowral	6,350	21.6%	June 2016
Exchange	6,625	6.7%	August 2016
Lawson Park	4,050	-0.2%	September 2016
Courthouse	6,250	27.6%	November 2016
Commodore	14,500	46.5%	November 2016
Central	1,950	-22.0%	December 2016
Brisbane	9,500	-5.0%	December 2016
Total	**68,825[1]**	**14.4%**	

1: NZ$ converted to A$ in the total shown

- Lantern successfully completed the sale of all of the non-gaming led hotels within the current half year achieving an overall premium to book value

Distributions

Paid and declared distributions of 9.5c per security
Further distribution to be made after remaining hotel sales

- Since commencing the sell down of the Lantern hotels and after repaying an appropriate amount of debt, surplus funds have been returned to security holders
- Total distributions paid from August 2016 to January 2017 amount to 4.5c per security. A further distribution of 5.0c per security was declared on 14 February 2017 to be paid on 3 March 2017
- Following completion of the remaining hotel sales and repayment of remaining debt (expected by the end of March 2017), the Board will again determine the level of surplus cash that is available that can be returned to securityholders, after retaining an appropriate amount to cover future liabilities and expenses
- Subject to the completion of the final hotel sales in March 2017, the Board expects to declare a distribution in the order of 4.5c per security in April 2017
- Further distributions after this, if any, will only be determined following conclusion of all remaining obligations of the Lantern Group, including the settlement of all remaining liabilities

Future intentions for Lantern

Lantern hotels

- Following completion of the remaining hotel sales the Board will rapidly explore options for the Lantern shell, while minimising ongoing costs
- Key ongoing and future activities include:
    - Minimising staffing to conduct critical activities
    - Settle all liabilities, including tax
    - Progressively wind up the entities within the Group
- The Board will also explore the possible sale or re-purposing of the Group entities. Securityholder approval will be sought, where applicable, in the event an alternative option for the Lantern shell is identified

Appendix 1

Reconciliation of reported results

Stapled Entity Consolidated	6 months to December FY2017 $'000	6 months to December FY2016 $'000
Group EBITDA	**4,256**	**5,410**
Depreciation and amortisation	(1,235)	(1,546)
Net interest expense (1)(2)	(829)	(3,028)
Income tax benefit/(expense)	164	-
Net profit before significant items	**2,356**	**836**
Change in fair value of PPE	-	(470)
Change in fair value of investment properties	-	(420)
Write off of goodwill	-	(1,116)
Change in fair value of interest rate swaps	-	1,239
Profit/(loss) on sale of fixed assets (3)	11,304	(33)
Provision for costs of wind down (4)	(1,800)	-
Impairment of rental income receivables (5)	(356)	-
Other items	(141)	(137)
Reported profit/(loss) after tax	**11,363**	**(101)**

Notes:

1. The lower net interest expense is due to the removal of the out of the money interest rate swaps and the pay down of debt from hotel sales
2. Interest expense is shown net of interest income, and excludes the change in the fair value of interest rate swaps (classified as a significant item)
3. Profit/(loss) on sale of fixed assets arising from the sale of hotels in the half year
4. Estimate of future costs directly associated with the wind down of Lantern Group
5. Relates to unrecoverable rental income for the Central Hotel which was sold during the half year

Disclaimer

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