

ASX Announcement



LANTERN HOTEL GROUP (ASX:LTN)

2 October 2014

Board Comment on AFR Article

The Australian Financial Review (**AFR**) article about Lantern Hotel Group (**Lantern**) published on 2 October 2014 is inaccurate and misleading and appears to be sourced predominantly from information provided by Millinium Asset Services Pty Limited (**MAS**) or its related parties.

The Lantern board is very concerned that the AFR article contains information that is not factually correct and makes unsubstantiated inferences that Lantern is connected with the Van Eyk investigation, which is incorrect.

In addition to unfairly linking Lantern Hotels Group to the Van Eyk investigation, the AFR article:

- includes a quote from MAS suggesting that the Lantern board entered into a loan with Portfolio Management Holding (**PMH**) outside of its business activities - this is incorrect and further details of the previously disclosed PMH loan are set out below;
- states that Bryan Mogridge sits on the board of Torchlight Investments. This is incorrect, Mr Mogridge is not a director of Torchlight Investments; and
- omits to provide any information about MAS' interest in, and recent activity in relation to, Lantern - which is relevant to give context to MAS' current course of action.

Lantern has already disclosed all material information relating to the PMH loan

For the benefit of Lantern security holders, the Lantern board would like to clarify and correct the facts in respect of the PMH loan as follows:

1. The loan to PMH was originally made by the Bodiam RE Limited (**RE**), which at the time was owned by Torchlight, in its personal capacity and prior to the restructure in 2012 (which brought the RE into the Lantern Hotel Group and subsequently renamed

it Lantern RE Limited). All of the assets of the RE at the time the loan was made were assets held within the Torchlight Group, which was free to deal with them as they saw fit, without input from Lantern or its security holders.

2. The existence of this loan was fully disclosed in the Lantern Hotel Group Limited prospectus dated 9 March 2012 which was issued in relation to internalising the fund's management away from Torchlight. This restructure was materially to the benefit of Lantern and its security holders, including eliminating a stream of management fees that would have otherwise been paid to Torchlight Group. The restructure received significant security holder support, including from the then trustee of the Borg Fund, which voted in favour of the restructure.
3. Post stapling, the PMH loan became a non-core asset of Lantern.
4. The original PMH loan amount was \$1.4 million and this balance had been reducing progressively as the borrower (PMH) has made repayments to Lantern.
5. Consistent with Lantern's focus on an exit from non-core assets, the Lantern board recently negotiated for the sale of this asset back to Torchlight. The terms of sale were on an arms' length basis and are considered to provide a good outcome for Lantern security holders (particularly in light of fees and interest received to date and that part of the written down amount represents interest accruing (not unpaid principal)). This transaction was disclosed in Lantern's annual report released yesterday.

MAS actions destabilising Lantern

The Lantern board believes MAS' actions to date are destabilising Lantern and are impeding on its ability to implement its announced strategy for continued improvement and growth.

These actions include MAS's recent proposal to remove all of the directors on the Lantern board and MAS' conduct in relation to the proposed buy-back of the Lantern securities held by MAS on behalf of the Borg Fund.

For the benefit of security holders we have set out a statement of facts below:

- On 4 February 2014 the Borg Fund made a binding offer pursuant to which Lantern was to buy-back all of the Lantern securities held by MAS as trustee of the Borg Fund.
- Despite the binding offer, MAS entered into inconsistent call option agreements with CVC and Totem in relation to the same Lantern securities.
- Lantern commenced legal action to enforce its rights under the binding offer and agreed a settlement which, as previously disclosed, resulted in a payment of \$1.4 million by Lantern. This payment facilitated a revised agreement between all parties to allow the proposed buy-back to proceed as Lantern's board continued, and continues, to consider that buy-back transaction to be in the best interests of all security holders.

- Of the \$1.4 million, CVC and Totem were paid \$400,000 each and Millinium Capital Management (a related entity of MAS) received \$600,000. According to recent press speculation, Matt Stubbs (a director and shareholder of Totem) is likely to be put forward by MAS as a nominee director of Lantern.
- Lantern security holders supported the buy-back transaction with an approval of approximately 94%. Lantern continues to move forward with the AAT application relating to ASIC relief necessary to implement the buy-back.
- Despite Lantern security holder support for the transaction, MAS has in recent times sought further payments from Lantern and has sought to compel Lantern to dispose of certain hotel assets to MAS related entities as part of its proposed terms to complete the buy-back.

Lantern board continues to focus on improvement and growth

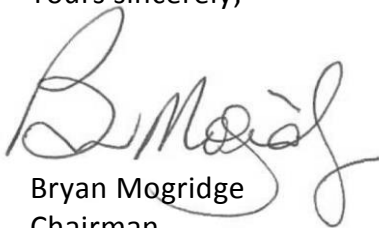
The Lantern board considers interests of MAS are not aligned with all other security holders and strongly recommends all security holders vote against the resolutions proposed by Millimum at the upcoming AGM.

The Lantern board has and will continue to act in the best interest of all security holders and is successfully implementing its articulated strategy for rebuilding the business.

Lantern remains in advanced discussions on a number of pre-screened acquisition targets which are being negatively impacted by the uncertainty created by MAS.

In order to ensure the Lantern board can continue to implement the articulated strategy for the business and to prevent ongoing destabilisation during the period leading up to the AGM, Lantern will be seeking statements of support and voting intent from all other major shareholders.

Yours sincerely,



Bryan Mogridge
Chairman
Lantern Hotel Group
GPO Box 5337
Sydney NSW 2001
+61 2 8223 3602