



Lantern Hotel Group – Annual General Meeting

Chairman's Address

As outlined in our annual report we continue to make positive progress in rebuilding Lantern to become a sustainable and growing profitable business. Our Managing Director, Russell Naylor, will speak in more detail on this subject following me.

However, today's meeting is unusual in that despite very positive progress with Lantern's business (which Russell Naylor your executive director will cover in his address next) there are 4 resolutions (numbers 3, 4, 5 and 6) which collectively seek to remove all the existing directors for no apparent sound reason.

To provide you with the background as to how it appears these resolutions came about and your director's view of them, I will take the liberty of reading to you what your directors outlined within the notice for this meeting(although updated to reflect some recent, material developments).

3.1 Reasons for Resolutions

The Company received notices under sections 203D and 249N of the Corporations Act from Millinium Asset Services Pty Ltd (MAS) as trustee of the Borg Fund to consider MAS' proposed resolutions to remove Mr Bryan Mogridge, Mr Russell Naylor, Ms Deborah Cartwright and Mr Julian Davidson as directors. At the time the Company believed MAS to be the registered holder of at least 5% of the votes that may be cast at a general meeting and on that basis the Company confirmed that the notices received are valid and included the resolutions in the Notice of Meeting to be put before shareholders.

On Wednesday this week, the Company's registry – Link Market Services – made the Company aware that MAS is not, in fact, a security holder in Lantern and that Aurora Funds Management Limited (the previous trustee of the Borg Fund) is the holder of the 24.3% interest the Company previously believed was held by MAS. The Company is in the process of seeking advice and further information on this new development

In accordance with the Notice of Meeting, the persons eligible to vote at the Meeting are those who are registered securityholders of the Group as at Wednesday 12 November 2014 at 10:30 am (Entitlement Time) and on this basis MAS is not entitled to vote on any resolutions at this AGM, although Aurora can in respect of those securities.

The Company notes that each of the resolutions under items 3, 4, 5 and 5 for the removal of all the directors of the Company has been proposed by MAS, NOT by the Company Board.

The Company believes, on the grounds set out in section 3.2 below, that it would not be in the interests of the Company as a whole if all the directors of the Company are removed from office.

3.2 Reasons not to vote in favour of the resolutions under items 3, 4, 5 and 6

Lantern Hotel Group Limited (ABN 145 967 899), part of the Lantern Hotel Group

Lantern Hotel Group, a stapled entity comprising Lantern Hotel Group Limited (ABN 71 145 967 899) and Lantern Real Estate Trust (ARSN 108 982 627) and their subsidiaries. Lantern RE Ltd (ABN 54 145 968 574 Licence 386569) is the responsible entity of Lantern Real Estate Trust.

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3.2.1 Concerns regarding MAS' conduct in relation to the Company

The Company has concerns about MAS' conduct in relation to the Company. The manner in which notices have been served without the provision of any reasons, proposed replacement Board, strategy and direction for the Company, appears to be with the intent of destabilising the Group. The Company believes it is important for all stakeholders that the business is not left directionless or departs from the articulated strategy that has been endorsed by all stakeholders and the current Board is implementing.

As disclosed to ASX through various announcements, the Borg Fund (of which MAS is trustee) made a binding offer to the Group on 4 February 2014 pursuant to which the Group was to buy-back all of the Lantern securities held by MAS.

Despite the binding offer, in on 28 February 2014 and 5 March 2014 MAS entered into inconsistent call option agreements with Totem Holdings Pty Limited and CVC Limited, respectively, in relation to the same Lantern securities.

On 7 March 2014, the Group 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 the Group. This payment facilitated a revised agreement between all parties to allow the proposed buy-back to proceed as the Group's Board continued, and continues, to consider that buy-back transaction to be in the best interests of all securityholders. Of the \$1.4 million, Totem Holdings Pty Limited and CVC Limited were paid \$400,000 each and Millinium Capital Management (a related entity of MAS) received \$600,000.

Lantern securityholders supported the buy-back transaction with an approval of approximately 94% at the general meetings held on 31 July 2014. The Group continues to move forward with the Administrative Appeals Tribunal application relating to ASIC relief necessary to implement the buy-back.

The Company will now also seek advice on the implications on the above transactions of the revelation that MAS is not, and never was, a registered holder of securities in the Group.

3.2.2 Strategy and future direction of the Group's business

The Group's Board is successfully implementing its articulated strategy for rebuilding the business.

Plans to upgrade the Group's venues are well ahead of schedule with renovations completed at six of the Group's hotels and renovations underway at a further two hotels. These renovations are now beginning to contribute the earnings anticipated, after falling short for a period due to the natural disturbance to business that occurs when capital works are in progress. Further, the Group is building its promotional and support base for all its hotels, creating a platform for each hotel that once refurbished can gain immediate profitable operational and promotional benefits.

The Group has fully recovered the Panthers assets and has undertaken a full debt restructuring with its main banker, CBA and is also in favourable discussions with another banker, St George, to renew and extend the Group's existing loan. The overall gearing level remains low and is anticipated to progressively increase to a target level of 40%-50% as additional acquisitions are made.

In the past financial year, the Group purchased the Crown Hotel in Surry Hills and since the balance date has purchased the Waterworks Hotel in Botany and has entered into an unconditional



agreement to purchase the Beaumont Exchange Hotel in Hamilton, Newcastle. These hotels are well positioned to add value to the Group. The Board of directors continue to undertake due diligence on a number of pre-screened quality assets.

In summary, the Group is well positioned for solid profit growth in the next 3 years due to the completed and planned renovations delivering the returns anticipated and growth in the Group 's portfolio through strategic acquisitions.

If you vote in favour of removing all the current directors of the Board, this will have an unknown impact on the anticipated profit growth that the Group is positioned for.

As outlined in our recent market update on 11 September 2014, the focus of the Board over the coming financial year is –

- Incremental margin improvement.
- Optimising growth and operating performance from completed venues.
- Continued reinvestment in the existing portfolio (majority considered expansionary in nature).
- Acquisitions – disciplined approach being maintained but strong pre-screened quality pipeline.
- Finalise exit from New Zealand.
- Ongoing capital management via buybacks.

3.3 Risks to the Company if the resolutions under items 3, 4, 5 and 6 are approved

3.3.1 Risk of withdrawal of support from CBA and St George

The Group is concerned about the potential for the relationship with CBA and St George to be adversely affected if the resolutions under items 4, 5, 6 and 7 are passed. It should not be assumed that CBA or St George will provide any continuing support in the event of a change of Board or in strategic direction of the Group.

3.3.2 Risk of losing key experienced employees and directors

If the resolutions under items 3, 4, 5 and 6 are approved, there is a very real risk that staff members may depart due to the change in composition of the Board. This would result in a loss of business know-how and may result in a loss of relationships with relevant customers and suppliers which would be detrimental to the Group 's growth and returns for shareholders.

The Managing Director has focused on building a quality team of experienced industry professionals who are likely to explore other opportunities if there is a change in Board or strategic direction of the Group.

3.3.4 Lack of strategy

No strategy or reasons for wholesale change of Board, is set out in MAS' notices to the Company. The Company is concerned that MAS, if it does become a security holder, will pursue strategies that are inconsistent with the current planned strategy and future direction for profit growth . Any such activities present a risk to shareholders in respect of, amongst other things, returns, profitability and effectiveness.

MAS conduct to date does not demonstrate alignment with the interests of all other securityholders.



We have already raised some of our concerns in our announcement "Board comment on AFR Article" released to ASX on 2 October 2014.

Under s201A(2) of the Corporations Act 2001 (Cth), a public company like the Company must have at least 3 directors at all times. This requirement is also included in the Company's constitution.

If two or more of the resolutions under items 3 to 6 are passed, then the Company will be in breach of the Act and may be fined or prosecuted by ASIC for a breach of the Corporations Act.

Further, ASX has confirmed that if as a result of the passing of resolutions at this AGM the Company has less than 3 directors then the ASX may suspend the Company until the situation is rectified.

I would now like to hand over to Lantern's Managing Director director Russell Naylor to provide you with an update on the business and its prospects...

