

# ASX Announcement



## **LANTERN HOTEL GROUP (ASX: LTN)**

21 October 2016

### **Executive incentives**

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The Boards of Lantern Hotel Group Limited and of the responsible entity of Lantern Real Estate Trust ('Lantern') established the Lantern Employee Share Incentive Plan (Lantern ESIP) in April 2016 to incentivise three senior executives to increase the market value of Lantern's stapled securities over a two-year period.

Since establishing the Lantern ESIP, the Boards have formed the view that it would be in the best interests of securityholders to obtain the flexibility of undertaking an orderly sell down of Lantern's remaining hotel properties (including all non-core and core hotels). Consequently, the securityholders will be asked to approve at the upcoming annual general meeting, for the purposes of Listing Rule 11.2 and for all other purposes, the potential sale of the entire property portfolio of Lantern. Should securityholders vote in favour of this resolution, the Boards intend to incentivise executives towards this new goal.

Accordingly, if securityholders approve the resolution to be put at the forthcoming AGM, the three senior executives' employment agreements will be amended to provide an incentive by way of cash bonus for a sell-down scenario that is broadly equivalent to the one provided under Lantern's ESIP for a going concern scenario, to maximise returns to stapled security holders through distributions by 31 August 2017 or 31 August 2018.

This initiative ensures that the interests of the Executives continue to be aligned with the current strategy of the Company, which now incorporates a sale of its main undertaking.

Refer to Annexure 1 for further details.

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## Annexure 1

This information is being provided to Securityholders in connection with the Sell Down Resolution to be voted on by Securityholders at the Company's forthcoming Annual General Meeting on 25 October 2016. The Sell Down Resolution is described in detail in the Notice of Meeting for the Annual General Meeting.

If Securityholders approve the Sell Down Resolution:

- the long-term incentives currently in place to encourage Lantern's three executives, its Chief Executive Officer, Chief Operating Officer and Financial Controller ('Executives'), to improve value will not be effective to encourage them to maximise returns to Securityholders in a sell down scenario; and
- accordingly, Lantern's Board proposes to offer to amend the employment contracts of the Executives to change their remuneration incentives to reflect Lantern's new strategy of selling its main undertaking.

### Current incentive

In addition to base pay and any annual performance bonus, the Executives currently hold options under the Lantern Employee Share Incentive Plan ('ESIP') established in April 2016. As an incentive to increase the market value of Lantern's stapled securities over a two-year period, the options will only vest if the Executive remains employed at a time when a Control Change Trigger or Trading Trigger is met at:

- 12 cents or higher in year 1 (in this case, 33% of options vest);
- 15 cents or higher in year 1 (in this case, 100% of options vest); or
- 15 cents or higher in year 2 (in this case, 67% of options vest).

This incentive is only relevant if Lantern continues as a going concern.

### New Incentive

If instead Lantern disposes of its assets in a sell down scenario, Lantern's Board considers it to be in Securityholders' interests to provide an incentive for Executives to achieve commensurate returns to Securityholders in the form of distributions (rather than through improving the value of Lantern's stapled securities).

Accordingly, the Board proposes to offer to amend the Executives' employment contracts to introduce a Sell Down Incentive Bonus, to apply in the event of a sell down scenario, that is broadly equivalent to the existing incentive. The new bonus would be based on the same 12 and 15-cent thresholds as the ESIP being met, but in the form of aggregate distributions to Securityholders by 31 August 2017 ('year 1') or 31 August 2018 ('year 2'), rather than the Control Change Trigger or Trading Trigger that applies under ESIP in relation to the 2-year period to 15 May 2018.

This initiative will ensure that the interests of the Executives will be aligned with Lantern's strategy, whether the Sell Down Resolution is approved resulting in an orderly sale of Lantern's assets, or is not approved and Lantern remains a going concern.