

ASX Announcement



LANTERN HOTEL GROUP (ASX:LTN)

24 April 2015

Section 249N and Section 203D Notices Received

Lantern Hotel Group Limited ACN 145 967 899 (**Company**) advises that it has received from Australian Executor Trustees Limited (as custodian for the assets of the Borg Fund) (**Security Holder**), which appears to hold more than 5% of the votes that may be cast at a general meeting of the Company:

- notices under sections 203D and 249N of the Corporations Act 2001 (**Act**); and
- a notice of meeting and explanatory memorandum for a general meeting of the Company convened by the Security Holder in accordance with section 249F of the Act (**Proposed Meeting**).

The notices, issued pursuant to section 203D of the Corporations Act and section 249N of the Corporations Act, seek the removal of the following directors by ordinary resolution at the Proposed Meeting:

- Bryan Mogridge;
- Russell Naylor; and
- Deborah Cartwright.

We understand from the notices that the Security Holder is the custodian of the assets of the Borg Fund and that the trustee of the Borg Fund is Millinium Asset Services Pty Limited (**Millinium**). The notice discloses that Millinium directed the Security Holder to convene the Proposed Meeting.

To satisfy the requirements of ASX Listing Rule 3.17A.1, a copy of the notices is enclosed for release to the ASX.

The Board is considering the validity of the notices received. The Directors remain mindful of their legal obligations and will keep all shareholders informed of any updates.

Russell Naylor
Executive Director
Lantern Hotel Group
GPO Box 5337
Sydney NSW 2001
+61 2 8223 3602

Leanne Ralph
Company Secretary
Lantern Hotel Group
GPO Box 5337
Sydney NSW 2001
+61 2 8223 3602

Notices under sections 203D and 249N of the Corporations Act 2001 (Cth)

TO: Lantern Hotel Group Limited ACN 145 967 899 of Level 8, 1 York Street, Sydney NSW 2000 (**Company**)

FROM: Australian Executor Trustees Limited ACN 007 869 794, as custodian for the assets of the Borg Fund, of Level 22, of Level 22, 207 Kent Street Sydney NSW 2000 (**Security Holder**)

DATE: 22 April 2015

Notice under section 203D of the Corporations Act

The Security Holder hereby gives the Company notice under section 203D of the Corporations Act 2001 (Cth) (**Corporations Act**) of its intention to move the resolutions set out below to remove Mr Bryan Mogridge, Ms Deborah Cartwright and Mr Russell Naylor as directors of the Company at a general meeting convened by the Security Holder in accordance with section 249F of the Corporations Act.

Notice under section 249N of the Corporations Act

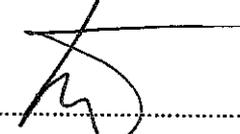
The Security Holder has more than 5% of the votes that may be cast at a general meeting of the Company on the resolutions set out below. The Security Holder hereby gives the Company notice under section 249N of the Corporations Act of its intention to move the following resolutions at a general meeting of the Company convened by the Security Holder in accordance with section 249F of the Corporations Act:

1. "That pursuant to, and in accordance with, section 203D of the Corporations Act 2001 (Cth), Brian Mogridge be removed as a director of the Company with effect from the close of the general meeting."
2. "That pursuant to, and in accordance with, section 203D of the Corporations Act 2001 (Cth), Russell Naylor be removed as a director of the Company with effect from the close of the general meeting."
3. "That pursuant to, and in accordance with, section 203D of the Corporations Act 2001 (Cth), Deborah Cartwright be removed as a director of the Company with effect from the close of the general meeting."
4. "That John Murphy, having consented to act, be elected as a director of the Company with effect from the close of the general meeting."
5. "That Graeme Campbell, having consented to act, be elected as a director of the Company with effect from the close of the general meeting."

The Common Seal of Australian Executor Trustees Limited ACN 007 869 794, as custodian for the assets of the Borg Fund, of Level 22, was affixed with the authority of:

 (signed)
Stuart Howard (print name)
Authorised Officer

 (Common Seal)

 (signed)
MARK TURNER (print name)
Authorised Officer

NOTICE OF MEETING AND EXPLANATORY MEMORANDUM

LANTERN HOTEL GROUP LIMITED

ACN 145 967 899

For a shareholder meeting to be held at 10:00 am AEST on Wednesday, 24 June 2015
at the offices of Holding Redlich, Level 65, MLC Centre, 19 Martin Place, Sydney, NSW, 2000

THIS IS AN IMPORTANT DOCUMENT

PLEASE READ THE INFORMATION IN THIS DOCUMENT CAREFULLY, IF YOU ARE IN ANY DOUBT ABOUT THE
RESOLUTIONS OR THE ACTION TO BE TAKEN YOU SHOULD SEEK PROFESSIONAL ADVICE



Dear Lantern Shareholder

Millinium Asset Services Pty Ltd ACN 145 380 972 as trustee of the Borg Fund (**Millinium**) is writing to you as a fellow shareholder in Lantern Hotel Group Limited (**Lantern or Company**). Millinium holds, through its custodian, approximately 24.31% of the Lantern shares on issue.

We urge you to read this important document carefully.

Millinium has directed its custodian to convene a general meeting of shareholders of Lantern to consider resolutions for:

- the removal of 3 non-independent Lantern directors, Mr Brian Mogridge, Mr Russell Naylor and Ms Deborah Cartwright (**Old Directors**) who each have a direct relationship with Lantern's largest shareholder, Torchlight GP Limited (**Torchlight**) (which owns 33.2% of the Lantern shares on issue); and
- the appointment of two new independent directors, being Mr John Murphy and Mr Graeme Campbell (**New Directors**).

Millinium is not proposing the removal of Lantern's independent director Mr Julian Davidson.

Millinium has grave concerns regarding its investment in Lantern:

- **Financial and operating performance:** the poor financial and operating performance of Lantern and its negative effect on the price of Lantern shares; and
- **Corporate governance:** the lack of independence of the board from Lantern's largest shareholder, Torchlight and the lack of relevant industry expertise of the Old Directors.

Millinium believes that these matters can be addressed by the appointment of the New Directors and by undertaking the strategic review of Lantern that the New Directors propose, with the aim of maximising value for all shareholders.

We are delighted that such well-qualified candidates as Mr Murphy and Mr Campbell have agreed to stand as independent directors. They bring:

- hotel, gaming and hospitality industry experience;
- a plan to maximise value for all shareholders in the short to medium term, as detailed in the attached Explanatory Memorandum; and
- independence from all of the major shareholders.

Further details are set out in the Explanatory Memorandum which was prepared by Millinium and which we urge you to read and carefully consider.

If you have any queries you can contact us by calling (02) 8012 8650 or by emailing millinium@fundbpo.com.

Yours sincerely

A handwritten signature in black ink, appearing to be "Tom Wallace".

Tom Wallace
Director

A handwritten signature in black ink, appearing to be "David Grey".

David Grey
Director

Explanatory Memorandum

1. SUMMARY

1.1 Background

This Explanatory Memorandum sets out important information concerning the resolutions for the removal of Mr Brian Mogridge, Mr Russell Naylor and Ms Deborah Cartwright (**Old Directors**) as directors of Lantern Hotel Group Limited (**Lantern or Company**) and the appointment of two new independent directors, being Mr John Murphy and Mr Graeme Campbell (**New Directors**).

The Notice of Meeting is set out at the end of this Explanatory Memorandum.

1.2 Who has called the Meeting

Millinium Asset Services Pty Ltd (as trustee of the Borg Fund) (**Millinium**) has a 24.31% shareholding in Lantern (which is held through its custodian Australian Executor Trustees Limited ACN 007 869 794).

Millinium's custodian has called a general meeting (**Meeting**) of shareholders of Lantern. The Meeting will be held at 10.00am AEST on Wednesday 24 June 2015 at the offices of Holding Redlich, Level 65, MLC Centre, 19 Martin Place, Sydney, NSW, 2000.

1.3 What is the purpose of the Meeting

The purpose of the Meeting is to consider changing the board of Lantern by removing the Old Directors and replacing them with the New Directors.

Millinium believes that the New Directors can address key areas of concern in relation to Lantern:

- **Financial and operating performance:** the poor financial and operating performance of Lantern and its negative effect on the price of Lantern securities; and
- **Corporate governance:** the lack of independence of the board from Lantern's largest shareholder, Torchlight and the lack of relevant industry expertise of the Old Directors.

Millinium believes that the New Directors are ideally suited to maximise value for all shareholders as they bring:

- deep and relevant hotel, gaming and hospitality industry experience;
- a plan to maximise value for all shareholders in the short to medium term; and
- independence from all of the major shareholders.

1.4 What are the intentions of the New Directors

If elected, the New Directors intend to:

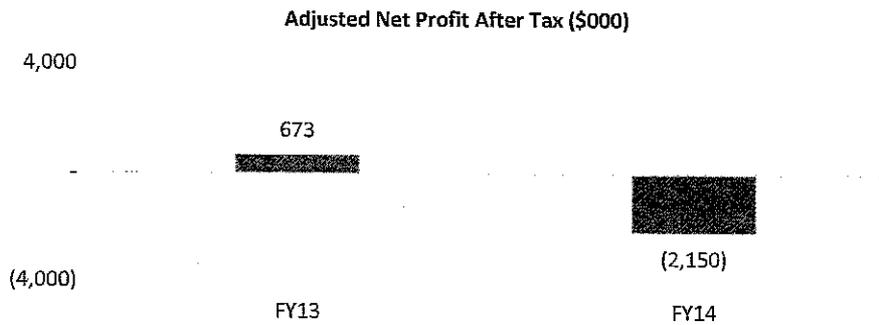
- immediately review the status of the proposed 2014 share buy-back including obtaining independent legal and financial advice;
- immediately undertake a review of Lantern's operations including the performance of each hotel, Lantern's systems and its management capabilities;
- in parallel to the operational review, undertake a strategic review of Lantern's business and financial position and performance, with the aim of improving shareholder value;
- suspend all further hotel acquisitions until the strategic review is completed;
- report on a regular basis to shareholders on progress; and
- provide a summary of the findings of the operational and strategic reviews within 6 months of the appointment of the New Directors.

2. KEY CONCERNS

2.1 Poor financial and operating performance

Financial performance

Lantern has delivered very poor financial results over the past two years. Despite having over \$97 million of net assets, under the Old Directors, Lantern delivered a loss in FY14 of \$2.15 million.



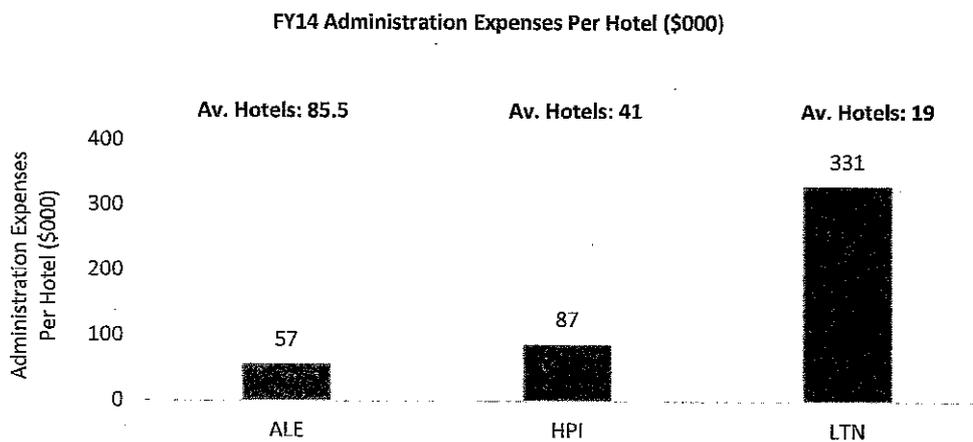
Source: Lantern 2014 Annual Report page 26. FY13 net profit after tax adjusted for \$3million profit on sale of Panthers interest.

Operating performance

Millinium believes that Lantern’s head office costs are too high for a business of its scale. In FY14 it spent \$6.3 million on management and administrative expenses, which represents \$331,000 per hotel.

By comparison the listed hotel landlords ALE Property Group (ALE) and Hotel Property Investments (HPI) have lower head office costs per hotel.

It is important to note that ALE and HPI are landlords only whereas Lantern operates the majority of its hotels. However, even taking this into account, the Old Directors have never explained the reason for the very large head office costs.



Source: ASX disclosures

Notes:

1. Number of hotels taken as average of hotels owned on 30 June 2013 and 30 June 2014.

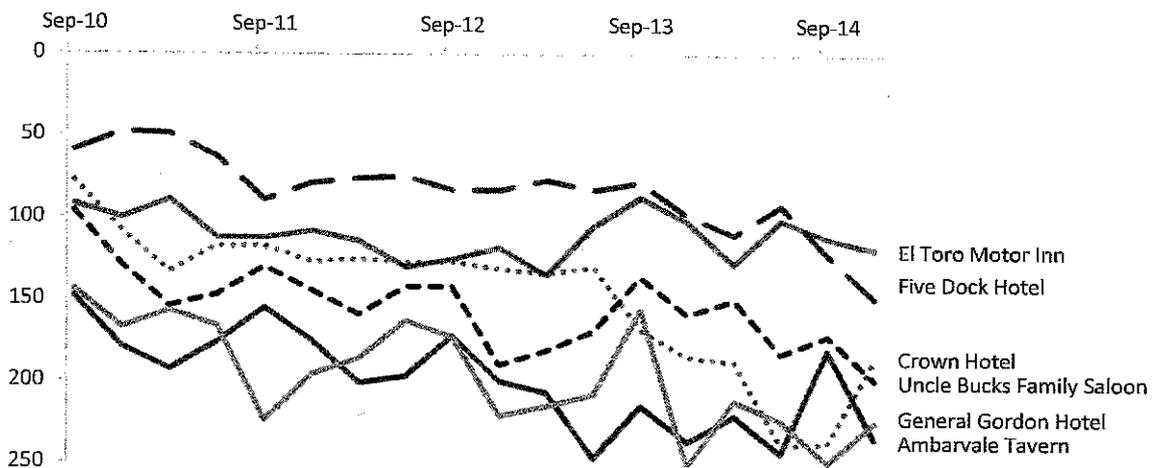
2. ALE: Other Expenses of \$4.8m (ALE 2014 Annual Report page 20), 86 hotels on 1 July 2013 and 85 hotels on 30 June 2014 (ALE Annual Report 2014 page 42-44).
3. HPI: Other Expenses, excluding one-off listing costs, of \$3.6m (HPI 2014 Annual Report page 33), 41 hotels on 1 July 2013 and 41 hotels on 30 June 2014 (HPI Annual Report 2014 page 37-38).
4. LTN: Administration expenses of \$6.3m (LTN 2014 Annual Report page 26), estimated to have 19 hotels on 1 July 2013 and 19 hotels on 30 June 2014).

It is impossible to determine the underlying performance of Lantern's hotels given the very limited public financial disclosure the Old Directors have made.

The gaming performance of the Company's top six New South Wales gaming hotels has deteriorated despite the Company investing heavily on improvements over this period. Gaming performance is a key driver of the value of these hotels. The Old Directors have not explained or addressed these trends in performance.

NSW Gaming Ranking

	Ranking as at Sep-10	Ranking as at Dec-14	Drop in ranking
Ambarvale Tavern	148	235	↓ 87
Crown Hotel	78	187	↓ 109
El Toro Motor Inn	92	119	↓ 27
Five Dock Hotel	59	149	↓ 90
General Gordon Hotel	144	225	↓ 81
Uncle Bucks Family Saloon	96	199	↓ 103

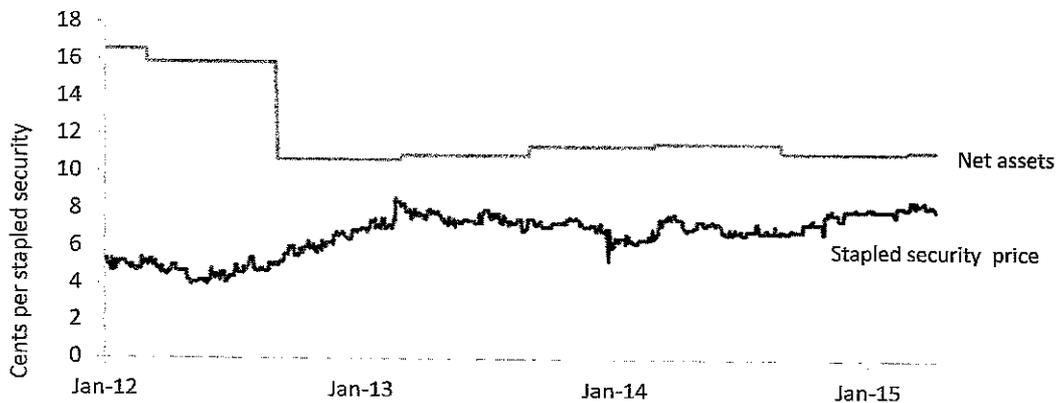


Source: Independent Liquor and Gaming Authority

Lantern share price discount to net asset value per stapled security

Millinium believes that Lantern's poor financial and operating performance have been significant factors in the trading of Lantern stapled securities at a significant and persistent discount to the stated net asset value per stapled security.

Lantern has not articulated a strategy to address this serious issue for shareholders.



Source: ASX disclosures

Notes

1. Net asset value per stapled security as disclosed in Lantern's annual reports and half-year reports. Net asset value per stapled security updated as at release date for preliminary final reports and half-year reports.

2.2 Corporate governance concerns

The Old Directors lack relevant industry experience

The Old Directors lack relevant experience in hotels and gaming, property and managing ASX listed companies, which Millinium regards as necessary to maximise shareholder value and returns. None of the Old Directors have prior experience operating hotels in the New South Wales market, in which the overwhelming majority of the assets are located. Two of the current four directors are domiciled in New Zealand.

The managing director, Mr Russell Naylor, has no prior hotel experience.

The board lacks independence

The board lacks appropriate independence from Lantern's largest shareholder Torchlight.

Millinium has sought to remove the Old Directors because of their connection with Torchlight:

- **Mr Russell Naylor**

Mr Naylor is a director of the largest shareholder Torchlight and a director of the ultimate holding company of Torchlight, Pyne Gould Corporation Limited (**Pyne Gould**) which owns 33.2% of Lantern.

- **Mr Brian Mogridge**

Lantern asserts that Mr Mogridge is an independent director. Millinium believes that the following facts demonstrate that Mr Mogridge is not independent from Torchlight:

- he is Chairman of Pyne Gould;
- he is disclosed in the Pyne Gould FY14 annual report as its fourth largest shareholder; and
- he was chairman of Pyne Gould when directors were criticised by the New Zealand Financial Markets Authority in relation to a subsidiary of Pyne Gould's related party dealings with Torchlight on another transaction:

"the circumstances in which [the investments] were made [by the subsidiary] reflects a lack of judgement and lack of understanding of its role and trustee of funds of this nature"¹.

Note 1: FMA Press Release 5 July 2012.

- **Ms Deborah Cartwright**

Lantern asserts that Ms Cartwright is an independent director. Lantern disclosed that Ms Cartwright provides professional services advice to entities associated with George Kerr who is the managing director of, and substantial shareholder in, Pyne Gould.

3. PROPOSED 2014 BUY-BACK

On 28 February 2014 Millinium granted Totem Holdings Pty Ltd (**Totem**) an option (**Totem Option**) to purchase 12.5% of the total number of Lantern shares on issue, being approximately half of Millinium's total holding of Lantern shares.

On 5 March 2014 CVC Limited (**CVC**) entered into an option in favour of CVC to acquire the remaining balance of Lantern shares held by Millinium (**CVC Option Deed**).

On 7 March 2014 Lantern sought an urgent court injunction against Millinium to prevent it from selling the shares under the Totem Option and CVC Option Deed.

On 3 April 2014 that litigation was settled, with the parties to the court action entering into a deed of settlement (**Settlement Deed**).

Lantern has disclosed some aspects of the Settlement Deed including that:

- Lantern would pay Millinium \$1.4 million to facilitate the settlement with Totem and CVC; and
- Lantern would proceed with a buy-back of Millinium's securities (**Proposed 2014 Buy-Back**) on the following basis:
 - a fixed price of 7.5 cents per stapled security (\$16.1million for all of Millinium's stapled securities);
 - to the extent the principal amount has not been paid by 31 July 2014, interest would accrue at the rate of 8% per annum and is to be paid quarterly.

Millinium urges the Old Directors to disclose the full terms of the Settlement Deed to Lantern's shareholders.

The Proposed 2014 Buy-Back has not been implemented as ASIC has refused to provide certain relief required for the buy-back to be made. Millinium believes that Lantern has failed to comply with its obligations under

the Settlement Deed and that it is entitled to significant damages. Lantern asserts that it has complied with the Settlement Deed and that the buy-back remains on foot.

The New Directors, if elected, intend to immediately review the status of the Proposed 2014 Share Buy-Back including obtaining independent legal and financial advice.

Millinium will waive any rights it has under the Settlement Deed if:

- The Old Directors are removed; and
- The New Directors are elected; and
- Lantern determines to not proceed with the Proposed 2014 Share Buy-Back by 30 June 2015.

3. NOW IS THE TIME FOR ACTION

Torchlight is seeking to consolidate its control of Lantern as demonstrated by Torchlight, Mr Naylor and Mr Mogridge acquiring more Lantern shares in recent weeks.

Millinium is concerned further shareholder value will be lost if the Old Directors are allowed to continue to govern Lantern.

If you have any queries you can contact Millinium by calling **(02) 8012 8650** or by emailing **millinium@fundbpo.com**.

NOW IS THE TIME FOR SHAREHOLDERS TO TAKE IMMEDIATE ACTION TO PROTECT SHAREHOLDER VALUE.

4. OVERVIEW OF THE NEW DIRECTORS

John Murphy

Mr John Murphy has over 30 years experience in the Australian beverage and packaging industries, culminating in the role as managing director of Coca-Cola Amatil Australia. Prior to this he was CEO of Visy Packaging and Recycling for Australasia, and served as managing director of Fosters Australia/Carlton & United Breweries after an extensive career with the company. He is non-executive chairman of PFD Food Services and is a business and strategy advisor to a range of companies in Australia and internationally.

Graeme Campbell

Mr Graeme Campbell has over 30 years experience in corporate recovery and insolvency services and is a former Director of Ferrier Hodgson Accountants specialising in the hotel and registered club industries. In 2006 Graeme left Ferrier Hodgson to set up Campbell Advisory, which provides wide ranging hospitality advice to participants within the hotel and club industries together with the major banks and other funders. He is currently the lead independent director of Ainsworth Game Technology Ltd, an independent director of Liquor Marketing Group (Bottlemart), and the independent audit chairman of the Illawarra Catholic Club Group.

NOTICE OF MEETING - LANTERN HOTEL GROUP LIMITED ACN 145 967 899

NOTICE IS GIVEN under section 249F of the Corporations Act 2001 (Cth) (**Corporations Act**) that a General Meeting of the members of Lantern Hotel Group Limited (ACN 145 967 899) (**Company**) will be held at the time, date and place detailed below to consider and vote on the resolutions referred to below.

Time: 10 am AEST

Date: Wednesday 24 June 2015

Place: Holding Redlich's office, Level 65, MLC Centre, 19 Martin Place, Sydney, NSW, 2000

The resolutions should be read in conjunction with the Explanatory Memorandum, which contains background on the resolutions.

Pursuant to section 249F of the Corporations Act, Australian Executor Trustees Limited ACN 007 869 794 (as custodian of Millinium Asset Services Pty Ltd ACN 145 380 972) who holds at least 5% of the votes that may be cast at a general meeting of the Company's shareholders in relation to the following resolutions, hereby calls a general meeting of the Company to consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. **Removal of Brian Mogridge as a director of the Company**

"That pursuant to, and in accordance with, section 203D of the Corporations Act 2001 (Cth), Brian Mogridge be removed as a director of the Company with effect from the close of the general meeting."

2. **Removal of Russell Naylor as a director of the Company**

"That pursuant to, and in accordance with, section 203D of the Corporations Act 2001 (Cth), Russell Naylor be removed as a director of the Company with effect from the close of the general meeting."

3. **Removal of Deborah Cartwright as a director of the Company**

"That pursuant to, and in accordance with, section 203D of the Corporations Act 2001 (Cth), Deborah Cartwright be removed as a director of the Company with effect from the close of the general meeting."

4. **Appointment of John Murphy as a director of a Company**

"That John Murphy, having consented to act, be elected as a director of the Company with effect from the close of the general meeting."

5. **Appointment of Graeme Campbell as a director of the Company**

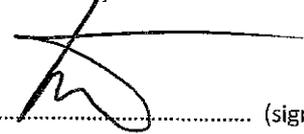
"That Graeme Campbell, having consented to act, be elected as a director of the Company with effect from the close of the general meeting."

As ordinary resolutions, the resolutions will be passed if more than 50% of the votes cast in person or by proxy are cast in favour of the resolutions.

Dated 22 April 2015

By order of Australian Executor Trustees Limited ACN 007 869 794

The Common Seal of Australian Executor Trustees Limited ACN 007 869 794 (as custodian of Millinium Asset Services Pty Ltd as trustee of the Borg Fund) was affixed with the authority of:

 (signed)  (signed)



Stuart Howard (print name) **MARK TURNER** (print name)

Authorised Officer Authorised Officer

INFORMATION FOR SHAREHOLDERS

Proxy Votes

A shareholder who is entitled to attend and vote may appoint a proxy (an individual or a body corporate) to attend and vote at the meeting on their behalf. A proxy need not be a Lantern shareholder. Shareholders who appoint proxies are not prevented from attending the meeting but if they do so the proxies' rights to speak and vote are suspended.

A shareholder entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If proportions or numbers are not specified, each proxy may exercise half the available votes. If you wish to appoint two proxies please make a copy of the attached proxy form and complete each form. If a shareholder has appointed two proxies, none may vote in a show of hands.

You should complete and return the proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) (**Proxy Documents**) to **Computershare Investor Services Pty Ltd (Computershare)** before **10 am AEST on Friday 19 June 2015**. Proxy forms may be posted or faxed to **Computershare** using a reply paid envelope or faxed to **Computershare** at the number shown on the proxy form. This will enable Computershare to return the Proxy Documents to the Company (or Link Market Services Limited (**Link**) the share registrar for the Company) 48 hours before the meeting.

As an alternative to returning the Proxy Documents to Computershare you can send your completed Proxy Documents directly to Link before 10 am AEST on 22 June 2015.

If you return your proxy form to either Computershare or Link but do not nominate a specific person to act as your proxy, the Chairman of the meeting will be your proxy and will vote on your behalf as you direct on the proxy form.

If you do not give a direction to your proxy, the proxy form provides that your proxy is directed to vote your shares in favour of each resolution.

Corporate representatives

A corporate shareholder wishing to appoint a person to act as its representative at the meeting in lieu of a proxy, may do so by providing that person with a letter or certificate, executed in accordance with the company's constitution, authorising him or her as the company's representative, or by providing the person with a copy of a resolution certified by the secretary or a director of the corporate shareholder, appointing the representative.

A body corporate which has been granted a proxy by a shareholder must also provide its representative with a copy of his or her appointment.

In either case the document of appointment must be brought to the meeting. A form of certificate may be obtained from **Computershare**.

Eligibility to vote at the meeting

For the purpose of voting at the meeting, Lantern shares are taken to be held by those shareholders registered 48 hours before the start of the meeting.

Helpline

If you have any queries you can contact Millinium by calling (02) 8012 8650 or by emailing millinium@fundbpo.com.