

Chairman's Address



Lantern Hotel Group Limited Annual General Meeting 25 October 2016

Chairman's Address

Good morning ladies and gentlemen, I would like to welcome you here today – for the holding of two consecutive meetings – The General Meeting of Lantern Real Estate Trust and the Annual General Meeting of Lantern Hotel Group.

My name is Graeme Campbell and I am the Independent, Non-Executive Chairman of the Group.

It is now just past 10.00am, the nominated time for the commencement of the meetings. I have been informed that a quorum is present and I am pleased to declare the General Meeting of Lantern Real Estate Trust open.

There are three components to today's meetings.

Firstly, I will make an address which will focus on the Sell Down Resolution outlined in the Notice of Meeting after which our CEO, John Osborne, will provide an update on the implementation of the transformation plan including an overview of the Group's financial performance and progress with the sale of non-core hotels.

Secondly, we will progress to the formal business of the meetings, where the resolutions provided in the Notice of Meeting will be put to Securityholders.

Lastly, at the conclusion of the meeting, I would like to invite you to join the directors and management for morning tea in the foyer, outside this room.

I would like to introduce to you the current directors of the Group.

- Shirley Liew, Non-Executive Director and Chair of the Audit & Risk Committee; and
- Matthew Stubbs, Non-Executive Director.

Also present are John Osborne, CEO, Leanne Ralph, Company Secretary, representatives from Norton Rose Fulbright, the Group's legal advisors, representatives from our auditors HLB Mann Judd, representatives from Link Market Services, the Group's Share Registry, and representatives from Lantern Group's management team.

2016 FULL YEAR RESULTS

I am pleased to report a very strong turnaround in the Group's financial performance, resulting from the successful implementation of the transformation plan which was commenced in November 2015 following the last AGM.

The turnaround has produced a profit for the year of \$7.0m compared to a loss of \$8.9m for the prior year. This result was driven by improved operating performance in the June half from the core gaming led hotels and the successful divestment of a number of non-core hotels from November 2015.

The momentum achieved in the June half has continued into the new financial year and John Osborne will elaborate further on this remarkable turnaround during his address.

I am particularly pleased to report that Securityholders have benefitted from the Group's improved financial position. As at the date of this AGM Securityholders have received a return of capital equivalent to 2.5c per security and the security price has improved over the last year.

POTENTIAL SALE OF THE GROUP'S PROPERTY PORTFOLIO (SELL DOWN RESOLUTION)

I would now like to refer you to the Sell Down Resolution detailed in the Explanatory Notes contained in the Notice of Meeting and draw your attention to a number of key points.

The improved operating performance and a more stable capital structure has allowed the Board to focus on establishing a strategic direction for the Group.

As part of the strategic review, the Board has considered the various strategic options available to the Group to maximise Securityholder value.

These options include:

- retaining and investing in the core hotels;
- creating further scale through the acquisition of further hotels that meet the strategic criteria of the Group;
- a sale of the Group, or the business and assets of the Group; and
- expanding the current divestment programme to include the core hotels.

Having extensively considered the various strategic options, the Board has formed the view that it would be in the best interests of the Group to obtain the flexibility of selling its main undertaking including the orderly sell down of the Group's property portfolio. This is referred to in the Notice of Meeting as the Sell Down Strategy.

Given the strong market for gaming led hotels, the Board believes there currently exists a real opportunity to realise premium value on the Group's property portfolio.

Subject to the assumptions outlined in the Notice of Meeting, the Board's aim would be to complete the divestment of the Group's property portfolio through the Sell Down Strategy, within 12 months.

The passing of the Sell Down Resolution is intended to give the Board maximum flexibility to consider all offers that it may receive from interested third parties, including the option of selling the Group's entire property portfolio.

If the Group sells all of its properties, the Board will then consider the options for the Group and, if required, seek further approval from Securityholders for further actions, which may include delisting from ASX and winding up of the Group.

In summary there are numerous reasons why the Board unanimously recommends that you vote in favour of the Sell Down Resolution. These include:

1. The Group is currently sub-scale given the required infrastructure to support the corporate and listed structure that is in place.
2. The core hotels have historically been under invested. Substantial capital expenditure would be required to significantly improve the performance of the core hotels. Any return on such capital expenditure cannot be guaranteed. Even following such an investment programme, the Group would still be sub-scale.
3. Gaming led hotels that meet the stated strategic criteria for the Group are rarely placed on the market, and if they are they tend to be fully priced. Growth via acquisition that yields an appropriate return on investment would therefore be difficult to achieve in the current strong and tightly held market for this asset class.
4. The Group's core hotels are highly sought after gaming led hotels with considerable upside potential and therefore may achieve sale values well above book value. While the improved performance of the core hotels has enhanced value, further value enhancement is unlikely without significant additional investment.
5. You may receive cash distributions in excess of the current ASX trading price in the event a successful sell down of all properties is achieved.

I would also like to point out that as with all decisions there may be potential disadvantages of the proposed Sell Down Resolution. The Board has included a number of potential disadvantages in the Explanatory Notes contained in the Notice of Meeting.

If the Sell Down Strategy is implemented, consistent with the practice already adopted in relation to the sale of non-core hotels, the Board intends to continue to make distributions to Securityholders progressively, funded from the net proceeds received from the sale of hotels.

The Explanatory Notes to the Notice of Meeting present the potential distributions per security if the Group sells 100% of its Property Portfolio and winds up its property ownership and management business. The potential distributions are based on the premium to book value achieved. A combined premium to book value of 14.6% has been achieved for the non-core hotels to date, and the sale of the core hotels is expected to achieve at least the same combined premium to book value.

UNANIMOUS RECOMMENDATION OF THE BOARD

Having regard to the potential advantages and disadvantages of the Sell Down Resolution, the Directors are of the opinion that the Sell Down Resolution provides the Board with the flexibility it needs in the current market and is in the best interests of Securityholders as a whole.

Consequently, the Directors unanimously recommend that you vote in favour of Sell Down Resolution.

THANK YOU

The past year has been both challenging and rewarding. At the time of appointment of the new Board in late June 2015, the Lantern Group was in disarray. Firstly there was an impending covenant breach from the group's principal bankers, the group property portfolio was mixed both in terms of asset quality and geographic spread and the majority of the operating hotels had not been optimally maintained. As a result the Group was trading significantly below accepted industry benchmark levels in terms of profitability with excessive levels of direct and overhead costs.

The turnaround in just over 12 months has been very significant.

Specific mention must be given to our former Chairman, John Murphy who set the platform for the regrowth and shouldered a lot of the heavy lifting in the turnaround plan. The work of the management team led by CEO, John Osborne ably assisted by Mark Ronfeldt and Michael Thaler has been exemplary and their dedication directly attributed to the outstanding results achieved.

I will now hand you over to John Osborne who will take you through the CEO overview.

ENDS: