

ASX Announcement



LANTERN HOTEL GROUP (ASX:LTN)

25 May 2015

Letter from Julian Davidson

Please find attached letter from Julian Davidson.

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



25 May 2015

To the shareholders of the Lantern Hotel Group,

My name is Julian Davidson, I am an Independent, Non-Executive Director of the Lantern Hotel Group, and I am the one director of Lantern that Millinium Asset Services Pty Ltd does not propose to remove from the board of Lantern.

That fact may encourage you to believe that I support their proposals to remove the other 3 directors of Lantern, and replace them with their 2 nominees, but the truth is;

**I DO NOT SUPPORT MILLINIUM'S PROPOSALS
and encourage you to vote AGAINST all 5 of the Millinium resolutions.**

In making this recommendation it is very important that you understand my background and experience, plus my reasons for saying you should oppose these suggested Board changes.

My Background:

- (1) I have a history in the liquor industry in Australia, especially in NSW, where I was the Managing Director of Tooheys (1999 – 2002) and prior to that was the Finance Director for Lion Australia (1996 – 1999)
- (2) I have directly owned pubs / hotels – a group of 12 pubs in New Zealand, where I was the sole investor, the CEO, and ran the group through a structure similar to that which Lantern now employs.
- (3) I have a total of 25 years involved in the liquor industry in Australasia.
- (4) I have strong financial and strategic skills, which are applied to the Lantern business. I am also able to strongly support and contribute to the Audit Committee function with a 7 year history in chartered accounting, most of which was spent in Audit.

What attracted me to the Board opportunity at Lantern was the opportunity to play a role in turning around a group of very broken, dysfunctional, hotels which were in receivership (the Icon Group, which Lantern acquired in 2012), and add substantial value to shareholders.

It should be noted that the Lantern Board inherited:

- (1) Properties with rental arrears that had simply been forgiven or ignored
- (2) Properties that failed to meet multiple regulatory certification requirements
- (3) Properties that had received minimal to nil capital expenditure over a sustained period of time
- (4) Properties that had a history of deferred maintenance
- (5) Hotel operations that included out of date / antiquated gaming products
- (6) Hotel operations that had little or no food offerings
- (7) Hotel operations that provided minimal standard of amenities to its customers – eg. no air-conditioning in some cases
- (8) Hotel operations that failed to provide smoking solutions to patrons

Unfortunately hotels that are allowed to operate in this fashion attract a type of clientele that may inhibit future growth, by making the venues unattractive to people with greater levels of disposable income.

Faced with this situation across the group the Lantern Board had to undertake major redevelopments throughout the hotel portfolio which created a high level of disruption, in order to stabilise and rebuild for profit growth. This strategy has been explained to shareholders on a number of occasions and it

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.

GPO Box 5337 Sydney NSW 2001 | +61 2 8223 3602 | info@lanternhotels.com.au | lanternhotels.com.au

pleases me greatly that the results are now starting to show the benefits of this investment and profit focus. While this significant rebuilding takes time, in my view Lantern is either on or ahead of schedule for the profit growth we have planned when we started the project after taking over from ING.

In essence we have made our venues attractive to an entirely new group of patrons, with customer numbers in all the pubs increasing, weekly food sales increasing, overall revenue increasing, and margins increasing.

It has been vital to the future of Lantern to get the environment of the hotels right , attract better patrons and provide those important customers with a place they will enjoy coming to on a regular basis. As a consequence our results across the group have started to rise, especially in gaming, and this highlights a solid trend to underpin future growth in profit.

Over the last 3 years, we have begun to centralise purchasing to drive improved margins, we have employed better people, we have installed Point of Sale systems allowing us to control and grow margins, we have installed wage systems allowing us to either lower wage costs, or at least be fully informed as we look to bring revenue up to meet minimal labour / staffing levels. We have improved corporate governance, we have acquired new venues to drive future growth, we have successfully restructured the Panthers deal we inherited from ING to provide capital for refurbishments, capital for acquisitions, and capital for new gaming machines.

I believe we are on the correct path to providing a portfolio of property and hotel operations that operate at or better than established industry norms that will deliver appropriate dividend and capital growth over time. I know that the current board share that view.

I have the full confidence in my fellow Board members, and endorse them to continue the turnaround of the Lantern Hotel group that we commenced together 3 years ago.

The current Lantern board operates as a collaborative and effective team with a good balance of skillsets and knowledge and a strong focus on future performance. This enables the development and implementation of well-planned strategies aimed at building long term value for shareholders.

Russell Naylor is both a board member and the Managing Director. His proposed removal is short-sighted with no management plans having been put forward as to how the Lantern Group is proposed to be run. Neither of the nominated replacements are proposed as being executive management, which in my opinion, would be incredibly detrimental to shareholder value.

As regards the independence of Bryan Mogridge and Deborah Cartwright, I regard them as totally independent directors and have seen no evidence in their behaviour during the past 3 years to suggest otherwise.

I would like to reinforce my view that you should leave the existing board intact and vote AGAINST all 5 of the Millinium resolutions proposed.

Yours Sincerely



Julian Davidson

Non-Executive Independent Director of Lantern Hotel Group Limited

To vote or to update your previous vote, go to www.linkmarketservices.com.au, Investor Centre and login using your HIN/SRN and post code.

