

Via ASX Online

ASX ANNOUNCEMENT – 28 August 2020

ASX Market Announcements Office
ASX Limited

ASX Code: EAS

2020 Annual General Meeting

In accordance with Listing Rule 3.17, I attach a copy of the following documents:

1. A Letter to Shareholders regarding arrangements for the 2020 Annual General Meeting as despatched to Shareholders in lieu of the Notice of Meeting;
2. Notice of Meeting 2020; and
3. Proxy Form

Yours faithfully

Belinda Cleminson
Company Secretary

Authorised for release by Kevin White, Chairman.

28 August 2020

**Annual General Meeting of Easton Investments Limited
to be held on 1 October 2020 at 10:30am AEST**

Dear Shareholder

I am pleased to advise that the Annual General Meeting (“AGM”) of Easton Investments Limited will be held at 10:30am (AEST) on Thursday, 1 October 2020 via Zoom teleconference.

Due to the COVID-19 pandemic and related issues, the AGM will be held virtually through the Zoom online portal. Details of how to participate in the meeting are as follows:

To join Zoom Meeting, please click on the link below and then enter meeting ID: **860 5418 4893**

Join Zoom Meeting: <https://us02web.zoom.us/j/86054184893>

Meeting ID: **860 5418 4893**

Dial by your location:

+61 731 853 730 Australia

+61 861 193 900 Australia

+61 8 7150 1149 Australia

+61 2 8015 6011 Australia

+61 3 7018 2005 Australia

Find your local number: <https://us02web.zoom.us/u/kcjGzaHJcD>

In accordance with section 5(1) of the Corporations (Coronavirus Economic Response) Determination (No.1) 2020 made by the Commonwealth Treasurer on 5 May 2020, the Notice of AGM, accompanying explanatory statement and annexures (“the Meeting Materials”) are being made available to shareholders electronically. You will be able to access the Meeting Materials using the links below.

To view the **Notice of Annual General Meeting**, please use the following link:

<https://www.eastoninvestments.com.au/investors>

To view the **2020 Annual Report**, please use the following link:

<https://www.eastoninvestments.com.au/investors>



VOTING IS NOW OPEN. To vote online, please follow the instructions below:

STEP 1: Visit www.linkmarketservices.com.au

STEP 2: Enter your Securityholder Reference Number (SRN) – as contained in the attached proxy

STEP 3: Enter your Postcode (if within Australia) OR Country of Residence (if outside Australia)

STEP 4: Follow the prompts to vote on each resolution.

I encourage shareholders to vote by completing and submitting your Proxy Form as soon as possible, even if you intend to attend the Virtual AGM.

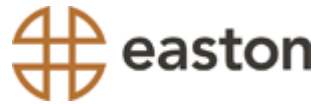
Important Note: For your voting instructions to be valid and counted towards this meeting, please ensure that your online lodgement is received no later than **10:30 (AEST) on Tuesday, 29 September 2020**. Voting instructions received after this time will not be valid for the scheduled meeting.

You can also update your communications preferences to ensure that you receive all communications from the Company electronically in the future by updating your shareholder details online via Link Market Services www.linkmarketservices.com.au. To log in you will need your SRN and postcode (or country for overseas residents).

Should you have any queries regarding your holding or the upcoming Easton Investments Limited Annual General Meeting, please contact Link Market Services Limited on 1300 554 474.

Kevin White
Chairman
Easton Investments Limited





Easton Investments Limited
ACN 111 695 357

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (**AGM**) of Easton Investments Limited (**Easton** or the **Company**) will be held as follows:

Date: **Thursday, 1 October 2020**

Time: **10.30am (AEST)**

Venue: **Online only**

How to join online

Easton advises that due to the Australian Government's recent restrictions with respect to indoor gatherings (in response to the COVID-19 pandemic), Easton has determined that it would be prudent for the AGM to be held online only.

The AGM will be held virtually via a live ZOOM Teleconference with strictly no Shareholders in physical attendance.

The Board encourages Shareholders to monitor the ASX and the Company's website for any updates in relation to the AGM that may need to be provided. In the meantime, the Board encourages Shareholders to submit their proxies as early as possible, even if they intend to attend the Virtual AGM, as the situation may change (e.g. there may be restrictions on how the meeting itself may be held or conducted).

Shareholders will be able to attend the AGM by going to <https://us02web.zoom.us/j/86054184893> using their web browser or internet enabled device.

To join Zoom Meeting, please click on the link below and then enter meeting ID: **860 5418 4893**

Join Zoom Meeting:

<https://us02web.zoom.us/j/86054184893>

Meeting ID: **860 5418 4893**

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+61 2 8015 6011 Australia

+61 3 7018 2005 Australia

Find your local number: <https://us02web.zoom.us/u/kcjGzaHJcD>

Attendee registration by ZOOM Teleconference facility will be available between 10:00am and 10:30am AEST on the day of the AGM which will be conducted via Zoom online.

In order to provide for an efficient virtual AGM, we request that any questions from Shareholders are provided to the Company Secretary at least 24 hours in advance of the AGM. We also strongly recommend that all Shareholders lodge their votes via the Company's share register platform prior to 10.30am on Tuesday 29 September 2020.

Ordinary Business

Annual financial and other reports

To receive and consider the Company's financial report, Directors' Report and Auditor's Report for the financial year ended 30 June 2020.

Resolution 1 — Adoption of Remuneration Report

To consider, and if thought fit, pass the following resolution as a **non-binding ordinary resolution**:

"That for the purposes of section 250R (2) of the Corporations Act 2001 the Remuneration Report of the Company for the year ended 30 June 2020 be adopted."

Note: The Remuneration Report is set out in the Company's 2020 Annual Report. The vote on this resolution is advisory only and does not bind the Company or the Directors of the Company.

Resolution 2 — Re-election of Mr Kevin White

To consider, and if thought fit, pass the following resolution as an **ordinary resolution**:

"That Mr White, who retires by rotation in accordance with rule 7.1(g) of the Company's Constitution and, being eligible, stands for re-election, be re-elected as a Director of the Company."

Resolution 3 — Re-election of Mr Grahame Evans

To consider, and if thought fit, pass the following resolution as an **ordinary resolution**:

"That Mr Evans, who retires by rotation in accordance with rule 7.1(g) of the Company's Constitution and, being eligible, stands for re-election, be re-elected as a Director of the Company."

Resolution 4 – Appointment of Auditor

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution**:

"That, subject to ASIC granting its consent to the resignation of the Company's current Auditor, BDO East Coast Partnership Pty Ltd, in accordance with section 327B(1)(a) of the Corporations Act 2001 (Cth) and for all other purposes, BDO Audit Pty Ltd having been nominated by a Shareholder and consented in writing to act in the capacity of Auditor, be appointed as the Auditor of Easton Investments Limited."

Resolution 5 — Approval of Sale to a Related Party

To consider and if thought fit pass the following resolution as an **ordinary resolution**:

“That, for the purposes of Rule 10.1 of the ASX Listing Rules and for all other purposes, approval is given for Easton Accounting & Tax Pty Ltd ACN 167 184 081 (**EAT**), a wholly owned subsidiary of Easton, to dispose of a substantial asset, being its 33.3% shareholding in Hayes Knight (NSW) Pty Limited (**HKNSW**) and the Affiliated Interests, to:

- (a) the other current shareholders in HKNSW, which include Mr John Gregory Hayes, Easton’s managing director and an associate of his, as to 52% of EAT’s interests in HKNSW; and
- (b) HKNSW itself under a selective buy-back of its own shares, as to the remaining 48% of EAT’s interests in HKNSW, and
- (c) HKNSW, as to all of the Affiliated Interests –

for an aggregate sale consideration of \$2.45 million in cash and on the terms and conditions as described in the Explanatory Statement accompanying the Notice of Meeting.”

Independent Expert’s Report: Shareholders should carefully consider the Independent Expert’s Report prepared for the purposes of Shareholder approval under Listing Rule 10.1 of the ASX Listing Rules, which is included in Annexure 1.

A further copy is available on Easton's website at www.eastoninvestments.com.au.

In the opinion of the Independent Expert, the Proposed Sale is fair and reasonable to the Shareholders entitled to vote at the meeting.

Dated: 28 August 2020

By order of the Board



Mark Licciardo
Company Secretary

Notes:

1. A Shareholder entitled to attend and vote at this meeting is entitled to appoint one proxy or, if the Shareholder is entitled to cast two or more votes at the meeting, two proxies to attend and vote on behalf and instead of the Shareholder.
2. Where two proxies are appointed, a Shareholder may specify the proportion or number of votes each proxy is appointed to exercise. Where the appointment does not specify the proportion or number of the Shareholder's votes each proxy may exercise, each proxy may exercise half of the votes.
3. A proxy need not be a Shareholder.
4. Proxy vote if appointment specifies way to vote:

Section 250BB of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, if it does:

- (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way;
 - (b) if the proxy has two or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands;
 - (c) if the proxy is the chair person of the meeting at which the resolution is voted on, the proxy must vote on a poll, and must vote that way (i.e. as directed); and
 - (d) if the proxy is not the chair person of the meeting, the proxy need not vote on the poll, but if the proxy does so, the proxy must vote in the way directed.
5. Transfer of non-chair proxy to chair person of the meeting in certain circumstances:

Section 250BC of the Corporations Act provides that, if:

- (a) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's Shareholders;
- (b) the appointed proxy is not the chairperson of the meeting;
- (c) at the meeting, a poll is demanded on the resolution; and
- (d) either of the following applies:
 - (1) the proxy is not recorded as attending the meeting; or
 - (2) the proxy does not vote on the resolution,

the chair person of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at that meeting.

6. A proxy form accompanies this notice. To be valid it must be received together with the power of attorney or other authority (if any) under which the form is signed, or a certified

copy of that power or authority, not less than 48 hours before the time for holding the meeting, namely by 10.30am (Sydney time) on Tuesday 29 September 2020:

At Link Market Services Limited:

- (1) hand delivery to 1A Homebush Bay Drive, Rhodes, NSW, 2138 or Level 12, 680 George Street, Sydney, NSW, 2000;
- (2) post to C/-Link Market Services Limited, Locked Bag A14, Sydney South NSW, 1235 Australia; or
- (3) facsimile on +61 2 9287 0309.

7. Regulation 7.11.37 determination:

A determination has been made by the Board under regulation 7.11.37 of the *Corporations Regulations* 2001 (Cth) that those persons who are registered as the holders of shares in the Company as at 7.00pm (Sydney time) on Tuesday 29 September 2020 will be taken to be the holders of shares for the purposes of determining voting entitlements at the AGM.

Voting exclusion statements:

The Company will disregard any votes cast in favour of:

1. Resolution 1 (Adoption of Remuneration Report) by or on behalf of a member of the Key Management Personnel for the Company (details of whose remuneration are included in the remuneration report, including each Director) (**KMP Member**), or a closely related party (as that term is defined in the Corporations Act, which includes certain family members, dependents and companies KMP Members control) (**Closely Related Party**) of a KMP Member or by a KMP Member or a Closely Related Party of a KMP Member as proxy;

However, the Company need not disregard a vote in relation to Resolution 1 if it is cast by:

- (a) a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
 - (b) the person chairing the meeting as proxy for a person who is entitled to vote and the chair person has received express authority to vote undirected proxies as the chair person sees fit (even if the resolution is connected directly or indirectly with the remuneration of a KMP Member).
2. Resolution 5 (Approval of Sale to a Related Party) by or on behalf of:
 - the person disposing of the substantial asset to, or acquiring the substantial asset from, the entity and any other person who will obtain a material benefit as a result of the transaction (except a benefit solely by reason of being a holder of ordinary securities in the entity); or
 - an associate of any of those persons.

However, the Company need not disregard a vote cast in favour by:

- (a) a person as proxy or attorney for a person who is entitled to vote on Resolution 5, in accordance with directions given to the proxy or attorney to vote on Resolution 5 in that way; or
- (b) the chair of the meeting as proxy or attorney for a person who is entitled to vote on Resolution 5, in accordance with a direction given to the chair to vote on Resolution 5 as the chair decides; or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on Resolution 5; and
 - the holder votes on Resolution 5 in accordance with directions given by the beneficiary to the holder to vote in that way.

Explanatory Statement

General information

This Explanatory Statement is an important document and should be read carefully. It comprises part of, and should be read in conjunction with, the Notice of the AGM of the Company to be held on Thursday 1 October 2020.

If you have any questions regarding the matters referred to in this Explanatory Statement (or elsewhere in the Notice), please contact the Company, or your stockbroker or other professional adviser.

Annual financial and other reports

The Corporations Act requires that the financial report (which includes the financial statements and Directors' Declaration), the Directors' Report and Independent Auditor's Report be laid before the AGM. There is no requirement either in the Corporations Act or the Company's Constitution for Shareholders to approve the financial report, the Directors' Report or the Independent Auditor's Report. Shareholders will be given a reasonable opportunity at the meeting to ask questions and make comments on these reports however.

Resolution 1 – Adoption of Remuneration Report

Board recommendation and undirected proxies. The Board recommends that Shareholders vote in **FAVOUR** of Resolution 1. The Chairman of the meeting intends to vote undirected proxies in **FAVOUR** of Resolution 1.

There will be an opportunity for Shareholders at the meeting to comment on and ask questions about the Remuneration Report, which appears in the Company's 2020 Annual Report.

The vote on the proposed Resolution adopting the Remuneration Report is advisory only and will not bind the Company or its Directors. However, the Board will take the outcome of the vote into consideration when reviewing the Company's remuneration policy and practices.

The Corporations Act contains a 'two strikes' rule in relation to remuneration reports. Briefly, if at two consecutive AGMs, 25% or more votes were cast against the resolution that the Company's remuneration report be adopted, a 'spill resolution' must be put to the vote at that AGM. If 50% or more of eligible votes cast are in favour of the spill resolution, the Company must convene a general meeting (spill meeting) within 90 days of the AGM. All of the Directors who were in office when the 2020 Directors' Report was approved, other than the Managing Director, will need to stand for re-election at the spill meeting.

At the Company's 2019 AGM, less than 25% of votes were cast against the resolution that the Remuneration Report be adopted. Accordingly, there is no requirement to allow for a possible spill resolution at this year's AGM.

Resolution 2 — Re-election of Mr Kevin White

Board recommendation and undirected proxies. The Board recommends that Shareholders vote in **FAVOUR** of Resolution 2. The Chairman of the meeting intends to vote undirected proxies in **FAVOUR** of Resolution 2.

In accordance with rule 7.1(g) of the Company's Constitution, Mr White retires at this year's AGM and, being eligible, stands for re-election. Mr White has been a Director of the Company since 2013 and is a Chair of the Nomination and Remuneration Committee and Member of the Audit and Risk Committee.

Mr White graduated as a professional engineer in 1973 and has spent the majority of his working life in the financial services industry. He was the founder and Managing Director of Crowe Horwath Australasia Limited (formerly WHK Group Limited) from 1996 to 2011 and has a successful track record in building and leading ASX listed companies operating in the financial services sector.

Resolution 3 — Re-election of Mr Grahame Evans

Board recommendation and undirected proxies. The Board recommends that Shareholders vote in **FAVOUR** of Resolution 3. The Chairman of the meeting intends to vote undirected proxies in **FAVOUR** of Resolution 3.

In accordance with rule 7.1(g) of the Company's Constitution, Mr Evans retires at this year's AGM and, being eligible, stands for re-election. Mr Evans has been an Executive Director of the Company since 2017.

Mr Evans has been extensively involved with the financial services industry for over 30 years. He has held a variety of board positions including Chairman of Australian, Canadian, Singaporean & Chinese investment & advice businesses and also as a director of Malaysian and New Zealand companies. He is a regular speaker at conferences both in Australia and overseas and holds an MBA from the prestigious Australian Graduate School of Management. Grahame's executive roles have included CEO Investments for Tower Australia, Managing Director, AMP Consulting and Group Managing Director of Centrepont Wealth.

Resolution 4 – Appointment of Auditor

Board recommendation and undirected proxies. The Board recommends that Shareholders vote in **FAVOUR** of Resolution 4. The Chairman of the meeting intends to vote all available undirected proxies in **FAVOUR** of Resolution 4.

In accordance with section 327C of the Corporations Act, the Board appointed BDO Audit Pty Ltd as Auditor of the Company, subject to ASIC's consent to the resignation of BDO East Coast Partnership Pty Ltd as Auditor of the Company under section 329(5) of the Corporations Act.

Following the appointment in accordance with 327C(2) of the Corporations Act, BDO Audit Pty Ltd holds office as Auditor of the Company until the Company's next annual general meeting, being the AGM the subject of this Notice.

In accordance with section 327B(1)(b) of the Corporations Act, the Company now seeks shareholder approval for the ongoing appointment of BDO Audit Pty Ltd as Auditor of the Company. Shareholder approval for the appointment of BDO Audit Pty Ltd as the Auditor for the Company whose tenure as Auditor ceases at this, the Company's AGM.

The appointment of BDO Audit Pty Ltd is as a result of the national integration of BDO practices which includes transitioning its audit engagements from BDO East Coast Partnership to BDO Audit Pty Ltd.

A copy of the nomination is included at Annexure 2 to this Explanatory Memorandum. In accordance with section 328B(3) of the Corporations Act, all persons to whom notice of the nomination must be made have been notified.

Resolution 5 — Approval of Sale to a Related Party

1. Background to Resolution 5

1.1 The Proposed Sale

On 20 July 2020, the Directors announced that EAT, a wholly owned subsidiary of the Company, had entered into a conditional sale agreement to sell its 33.3% interest in HKNSW, and also the Affiliated Interests, for an aggregate cash consideration of \$2.45 million.

The Proposed Sale is conditional on the approval of Shareholders and involves the sale to:

- (a) the other current shareholders in HKNSW, which include Mr John Gregory Hayes, Easton's managing director, and an associate of his, of 52% of EAT's shares in HKNSW; and
- (b) HKNSW itself under a Buy Back, of the remaining 48% of EAT's shares in HKNSW, and
- (c) HKNSW, of all of the Affiliated Interests.

1.2 Related Party Transaction

As the HKNSW shareholding is a significant asset of Easton (i.e. it represents more than 5% of Easton's total net assets) and the Buyers include Easton's managing director, Mr John Gregory Hayes and an associate of his, the proposed sale is being treated as a related party transaction for the purposes of the ASX Listing Rules.

As a consequence, the Proposed Sale is conditional on Easton obtaining the approval of Resolution 5 by Shareholders. If the Shareholders entitled to vote at the meeting do not by majority support Resolution 5 then the Proposed Sale cannot go ahead and the Company

will not receive the benefits (outlined below), that the Directors anticipate from the Transaction.

To help Shareholders with their assessment, a report from an independent expert as to the fairness and reasonableness of the Proposed Sale is provided at Annexure 1 hereto.

Further details in relation to the Proposed Sale are set out in the following section of this Explanatory Statement.

2. Resolution 5 – Details

2.1 Background to the Proposed Sale

Easton acquired its minority interest in HKNSW (and the Affiliated Interests) in 2014 as part of a larger “Hayes Knight” transaction, which also involved the purchase of 100% of both Knowledge Shop and Merit Wealth. While the latter two businesses have grown earnings steadily over this period, HKNSW has contributed relatively flat normalised earnings (EBITA) of around \$400k annually on an equity accounted basis, although earnings were lower in FY20 as a result of COVID-19.

A relevant consideration at the time of the “Hayes Knight” transaction was the support services provided by HKNSW to the other two acquired entities under a services agreement which covered a range of services, importantly including technical and overflow support for Knowledge Shop. Certain of the administrative services were extended to Easton to avoid cost duplication. A new, amended and restated services agreement has been entered into (conditional on the Proposed Sale proceeding), on similar arm's length commercial terms, which provides for continuation of the arrangements that exist currently on a business-as-usual approach for defined periods to allow for an on-going, progressive reduction in contracted services from HKNSW as commercial and economic factors dictate.

Whilst an equity stake in HKNSW was considered to be prudent at the time of the original “Hayes Knight” transaction, the Easton Group’s reliance on HKNSW has lessened significantly over time and Easton no longer considers itself to be a natural owner of a minority interest in HKNSW, nor is HKNSW a core asset of Easton.

The Proposed Sale represents a further important step in simplifying the Company’s asset holdings and positioning the Company with a more concentrated strategy on growth assets. It follows the divestment of the Company’s 25% interest in First Financial which was completed on 31 July 2020.

2.2 About the Transaction and Related Matters

The sale price of \$2.45 million is based on a multiple of earnings before interest, tax and amortisation (**EBITA**) of 6 times – this multiple is considered to represent an appropriate capitalisation rate for a minority stake in what in substance is a mid-sized public accounting practice.

A final fully franked dividend of \$200k will also be paid to Easton by HKNSW.

Subject to approval of Resolution 5, Completion is to occur within 5 business days after the AGM.

The sale proceeds are to be paid in cash on Completion and will initially be applied to debt reduction.

The Proposed Sale includes the Affiliated Interests, being Easton's equity interests in two entities closely affiliated with HKNSW and is subject to certain conditions precedent, including the approval of Shareholders.

As noted above, a new, amended and restated services agreement has also been entered into on arm's length commercial terms and with a business-as-usual approach, between HKNSW, Easton and Easton's subsidiary Knowledge Shop, which is conditional on Completion of the Proposed Sale.

The Share Sale and Purchase Agreement for the Proposed Sale:

- contains no warranties or representations by EAT, except as to title to the interests being sold;
- contains acknowledgement from the Buyers that they are relying exclusively on their own enquiries;
- provides for the payment of the agreed final HKNSW dividend to EAT, on Completion;
- provides for the simultaneous completion of all aspects of the Transaction;
- provides for the resignation of Mr Kevin White, EAT's nominee to the board of HKNSW, at Completion; and
- otherwise has provisions of the usual and typical nature, in relation to completion of the Proposed Sale.

An impairment charge of \$1.30 million will be recognised in the Company's financial statements at 30 June 2020 in anticipation of the Proposed Sale being approved by Shareholders and completed.

Notwithstanding this impairment charge, being a one-off, non-cash item, the Independent Directors consider this transaction to be in the best interests of Shareholders for both financial and non-financial reasons.

2.3 Rationale

The completion of the Proposed Sale of the Company's non-controlling interest in HKNSW (and of the Affiliated Interests) follows the sale of the Company's minority interest in First Financial in August 2020 and together will:

- (a) significantly strengthen the Company's balance sheet:
 - net debt on a pro forma basis will be reduced from c. \$8 million to c. \$2 million
- (b) remove minority interests which are non-core assets and simplify the Company's asset holdings:
 - the Company will have no non-controlled equity interests post the Proposed Sale (other than a minor interest in EWAF, a small finance broking operation where Easton has recently sold down its equity interest from 70% to 10% as part of business simplification)
 - cash flow from operations and reported earnings are expected to be more closely aligned - in the absence of minority interests, in connection with which cash received by Easton is largely dependent on dividends paid on the minority interests post financial year-end
- (c) allow the Company to focus on and provide scope for further investment in core businesses and capital management initiatives:
 - importantly, the Company holds attractively priced call options to move to 100% ownership of Taxbytes Pty Limited (65% owned currently and call option exercisable in January 2021) and Tax Banter Pty Limited (60% owned currently and call option exercisable in January 2022), which will both involve capital investment over the next 18 months
 - the recent acquisition of a 60% interest in Tax Banter is expected to largely offset the loss of earnings (EBITA) from the proposed divestments, including the EWAF sell-down
 - the anticipated significant reduction in net debt combined with the incremental earnings from Tax Banter will provide increased scope for capital management in the form of dividends and on-market share buy-backs.

2.4 Rule 10.1 of the ASX Listing Rules

Rule 10.1 of the ASX Listing Rules relevantly provides that an entity (or any of its subsidiaries) must not dispose of a substantial asset to a related party or a substantial shareholder, or an associate of either, without shareholder approval.

Mr John Gregory Hayes is a related party under Listing Rule 10.1.1 by virtue of being the managing director of Easton, a shareholder of HKNSW and, along also with an associate, one of the Buyers. Mr Hayes is also a substantial shareholder in Easton as he and his associates hold more than 10% of the Company's shares (voting securities) on issue.

If the Proposed Sale (which includes the Buy Back) is approved, the aggregate of Mr Hayes' and his associate's interests in HKNSW will increase from 22.0% to 34.3%.

A “substantial asset” is an asset valued at greater than 5% of the equity interests of a company as set out in the latest accounts given to ASX under the Listing Rules. The aggregate consideration for the Proposed Sale exceeds this threshold.

Accordingly, Shareholders are being asked to approve the Proposed Sale in accordance with Rule 10.1 of the ASX Listing Rules by passing Resolution 5.

2.5 Independent Expert’s Report

In accordance with Rule 10.5 of the ASX Listing Rules, accompanying this Notice and Explanatory Statement is an Independent Expert’s Report prepared by PKF Melbourne Corporate.

The Independent Expert’s Report concludes that the Proposed Sale is fair and reasonable to the Company’s Shareholders who are entitled to vote at the meeting.

Please refer to the Independent Expert’s Report at Annexure 1 of this Explanatory Statement for further details.

2.6 Independent Directors' Recommendation

Recommendation and undirected proxies. For the reasons outlined at section 2.3 above and having regard to the opinion of the Independent Expert, the Independent Directors recommend that Shareholders vote in **FAVOUR** of Resolution 5. The Chairman of the meeting intends to vote all available undirected proxies in **FAVOUR** of Resolution 5.

The Independent Directors also advise that they intend to vote in favour of Resolution 5 for their own shares and those of their associates.

Questions and Comments by Shareholders at the Meeting

In accordance with the Corporations Act, a reasonable opportunity will be given to Shareholders - as a whole - to ask questions or make comments on the management of the Company at the AGM.

Similarly, a reasonable opportunity will be given to Shareholders - as a whole - to ask questions of the Company’s external Auditor, BDO Audit Pty Ltd (**BDO**), relevant to:

- (a) the conduct of the audit;
- (b) the preparation and contents of the audit;
- (c) the accounting policies adopted by the Company in relation to the preparation of its financial statements; and
- (d) the independence of the Auditor in relation to the conduct of the audit.

Shareholders may also submit a written question to BDO if the question is relevant to the content of BDO audit report or the conduct of its audit of the Company's financial report for the year ended 30 June 2020.

Relevant written questions to BDO must be made no later than 5:00pm (Sydney time) on 24 September 2020. A list of those questions will be made available to Shareholders attending the meeting. BDO will either answer questions at the meeting or table written answers to them at the meeting. If written answers are tabled at the meeting, they will be made available to Shareholders as soon as practicable after the meeting.

Please send written questions for BDO to the Company Secretary:

By email - belindac@mertons.com.au

by no later than 5:00pm (Sydney time) on 24 September 2020.

Glossary of terms

In this Notice and Explanatory Statement, the following terms have the following meanings, unless context otherwise requires:

Affiliated Interests	A 33.3% interest in HKNSW Services and a 100% interest in Hayes Knight National Group.
AGM	The annual general meeting of the Company to be held on 1 October 2020
ASX	ASX Limited.
associate	(In respect of a person), has the same meaning as in the ASX Listing Rules
Board	The Directors of the Company
Buy Back	A selective buy back by HKNSW of certain of HKNSW's own shares, from EAT – in conformity with the <i>Corporations Act</i> .
Buyers	Each of the current shareholders in HKNSW, other than EAT, being: <ul style="list-style-type: none">○ John Gregory Hayes○ Mario Raciti○ Large Possum Pty Limited○ Craig Andrew Rosen○ Ramaya Pty Ltd○ JH Acuity Pty Ltd

- Lisa Marie Armstrong

in various proportions.

Company or Easton	Easton Investments Limited ACN 008 723 591.
Completion	Completion under the Share Sale and Purchase Agreement and which will occur within 5 business days after the AGM, subject to the transaction being approved by Shareholders at the AGM.
Corporations Act	<i>Corporations Act 2001 (Cth)</i> .
EBITA	Earnings before interest, tax and amortisation.
Easton Group	Easton and the entities its controls.
EAT	Easton Accounting & Tax Pty Limited ACN 167 184 081, a wholly owned subsidiary of Easton.
EAT's Interests	EAT's shareholdings in HKNSW and the Affiliated Interests
Explanatory Statement	This statement, which accompanies the Notice.
First Financial	First Financial Pty Limited ACN 167 177 817.
Hayes Knight National Group	Hayes Knight National Group Pty Limited ACN 077 726 722, a non-operating company which owns the " <i>Hayes Knight</i> " brand nationally.
HKNSW	Hayes Knight (NSW) Pty Ltd ACN 125 243 692, an operating company carrying on business as a public accounting practice.
HKNSW Services	Hayes Knight Services (NSW) Pty Ltd ACN 125 244 162, an operating company providing staff and administrative services to HKNSW.
Independent Directors	The Directors of the Company, other than Mr John Gregory Hayes.
Independent Expert	PKF Melbourne Corporate.
Independent Expert's Report	The report prepared by the Independent Expert relating to Resolution 5 for the purposes of obtaining Shareholder approval under Rule 10.1 of the ASX Listing Rules dated 21 August 2020, included as Annexure 1.
Knowledge Shop	Knowledge Shop Pty Ltd ACN 107 532 945.
Merit Wealth	Merit Wealth Pty Ltd ACN 125 557 002.

Notice	The Notice of Annual General Meeting which this Explanatory Statement accompanies.
PKF Melbourne Corporate	PKF Melbourne Corporate Pty Ltd ACN 063 564 045 and operating under Australian Financial Services Licence number 222050.
Proposed Sale	The proposed sale of EAT's interests in HKNSW and the Affiliated Interests.
Resolution(s)	Each of the resolutions and any one of them that Shareholders are to vote upon as set out in the Notice and referenced in the Explanatory Statement.
Share Sale and Purchase Agreement	The agreement of that name dated 20 July 2020 between EAT, the Buyers and HKNSW, entered into to provide for and effect the Transaction.
Shareholders	Shareholders of the Company.
Transaction	The Proposed Sale.



Easton Investments Limited

Independent Expert’s Report
21 August 2020

21 August 2020

The Directors
Easton Investments Limited
Level 2, 115 Pitt Street
Sydney, NSW, 2000

Dear Directors

RE: Independent Expert's Report

1. Introduction

The independent directors of Easton Investments Limited ("Easton") have requested PKF Melbourne Corporate Pty Ltd ("PKF Corporate") to prepare an Independent Expert's Report ("IER") in respect of the proposed transaction described below.

We understand that the proposed transaction (the "Proposed Transaction") will incorporate Easton selling a number of assets, as listed below, to parties (the "Acquirers") which include Easton's Managing Director, Mr Greg Hayes for a sum of \$2.45 million to be paid in cash, plus a dividend of \$200,000. The assets that are to be sold are as follows:

- 33.3% of Hayes Knight (NSW) Pty Limited ("HKNSW");
- 33.3% of Hayes Knight Services (NSW) Pty Limited ("HK Services"); and
- 100.0% of Hayes Knight National Group Pty Limited ("HKNG").

Completion of the Proposed Transaction would result in Easton ceasing to hold any investment in HKNSW, HK Services or HKNG.

As the Proposed Transaction involves selling substantial assets to parties including Mr Greg Hayes, a related party of Easton, the ASX Listing Rule 10.1 requires prior approval by the Non Associated Shareholders (all shareholders entitled to vote on the Proposed Transaction).

2. Proposed Transaction

2.1. Background

As part of a larger transaction in 2014, Easton invested in a number of entities, which are part of the Hayes Knight accounting firm. As a result of this, Easton via its wholly owned subsidiary Easton Accounting & Tax Pty Ltd ("EAT") now owns:

- 33.3% of HKNSW;
- 33.3% of HK Services; and
- 100.0% of HKNG.

Collectively we have referred to in this report the underlying business of HKNSW, HK Services and HKNG as "Hayes Knight", and the shares in these companies which are owned by Easton via EAT as the "Sale Assets".

We note that both HKNSW and HK Services have subsidiaries, but the data presented in this report has been provided to us on a consolidated basis, thus it includes the financial position and performance of the subsidiaries.

PKF Melbourne Corporate Pty Ltd
ACN 063 564 045
AFSL 222050

Melbourne
Level 12, 440 Collins St
Melbourne VIC 3000 Australia
p +61 3 9679 2222
f +61 3 9679 2288

PKF Melbourne Corporate Pty Limited is a member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.

For our office locations visit www.pkf.com.au

Easton is seeking to sell the Sale Assets as it no longer considers itself to be a natural owner of a minority interest in Hayes Knight or that such an asset is a core asset of Easton.

Please refer to Section 3 of the Notice of Meeting for further details regarding the background to the Proposed Transaction.

2.2. Proposed resolutions to be approved by shareholders

The Notice of Meeting includes one resolution as detailed below:

That, for the purposes of Rule 10.1 of the ASX Listing Rules and for all other purposes, approval is given for Easton Accounting & Tax Pty Ltd ACN 167 184 081 (EAT), a wholly owned subsidiary of Easton, to dispose of a substantial asset, being its 33.3% shareholding in Hayes Knight (NSW) Pty Limited (HKNSW) and the Affiliated Interests, to:

- (a) the other current shareholders in HKNSW, which include Mr John Gregory Hayes, Easton's managing director and an associate of his, as to 52% of EAT's interests in HKNSW; and*
- (b) HKNSW itself under a selective buy-back of its own shares, as to the remaining 48% of EAT's interests in HKNSW, and*
- (c) HKNSW, as to all of the Affiliated Interests –*

for an aggregate sale consideration of \$2.45 million in cash and on the terms and conditions as described in the Explanatory Statement accompanying the Notice of Meeting.

2.3. Impact of the Proposed Transaction

The Proposed Transaction will, amongst other things, result in Easton:

- Selling the following:
 - 33.3% of HKNSW;
 - 33.3% of HK Services; and
 - 100.0% of HKNG;
- Receiving cash of \$2.45 million, plus a dividend of \$200,000.

3. Summary Opinion

In our opinion, the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders. Our principal reasons for reaching this opinion are:

Fairness:

- We have assessed the value of the Sale Assets to be between \$1.84 million and \$2.09 million, which is less than the consideration being offered by the Acquirers of \$2.45 million plus a dividend of \$200,000, we have therefore concluded that the Proposed Transaction is fair.

Reasonableness:

The key reasons for assessing the Proposed Transaction as reasonable are:

- We have assessed the Proposed Transaction to be fair.
- Approval of the Proposed Transaction will result in Easton being able to sell an asset which the Easton Board considers has not performed as well as expected and is no longer a core asset of the Easton business.

- Approval of the Proposed Transaction will also result in Easton receiving \$2.45 million plus a dividend of \$200,000.
- Clients of accounting firms tend to develop relationships of trust with the people they deal with at the accounting firm. As a result, should a key member of an accounting firm, who has built such relationships of trust with his or her clients, chose to leave the accounting firm, clients may wish to follow that person to their next firm. We note that although the directors of Hayes Knight have restraint agreements in place which limits this, it still poses a risk, thus potentially impacting the ability for Hayes Knight to keep its clients should such an employee/director leave.

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4. Purpose of the Report

This report has been prepared to meet the following regulatory requirements:

4.1. ASX - Listing Rules 10.1 and 10.2

Listing Rules 10.1 and 10.2 require a company to obtain shareholder approval at a general meeting when the sale or acquisition of an asset, which has a value in excess of 5% of the shareholders' funds as set out in the latest financial statements given to the ASX under the listing rules, is to be made to or from:

- (i) a related party;
- (ii) a subsidiary;
- (iii) a substantial shareholder who is entitled to at least 10% of the voting securities, or a person who was a substantial shareholder entitled to at least 10% of the voting securities at any time in the 6 months before the transaction;
- (iv) an associate of a person referred to in paragraphs (i), (ii) or (iii) above; or
- (v) a person whose relationship to the entity or a person referred to above is such that, in the ASX's opinion, the transaction should be approved by security holders.

Mr Greg Hayes is deemed to be a related party as he is the Managing Director of Easton and is also part of the group of parties that are to acquire the Sale Assets in the Proposed Transaction.

As the value of the consideration payable to acquire Hayes Knight (\$2.45m) exceeds 5% of Easton's shareholders funds as at 31 December 2019, Listing Rule 10.1 will apply to the Proposed Transaction.

4.2. ASIC Regulatory Guides

The terms "fair" and "reasonable" are not defined in the Corporations Act 2001 (the "Act"), however, guidance as to the meaning of these terms is provided by ASIC in Regulatory Guide 111. For the purpose of this report, we have defined them as follows:

Fairness	the Proposed Transaction is "fair" if the value of the Sale Assets is equal to or less than the consideration being offered.
Reasonableness	the Proposed Transaction is "reasonable" if it is fair. It may also be "reasonable" if, despite not being "fair" but after considering other significant factors, we consider that the advantages of proceeding with the Proposed Transaction outweigh the disadvantages of proceeding.

In determining whether the Proposed Transaction is fair, we have:

- Valued the Sales Assets; and
- Compared the value of the Sale Assets with the consideration offered by the Acquirers of \$2.45 million plus a dividend of \$200,000.

In determining whether the Proposed Transaction is reasonable we have analysed other significant factors, which shareholders should consider prior to accepting or rejecting the Proposed Transaction.

5. Sale Assets – Key Information

5.1. Hayes Knight (NSW) Pty Limited

Background

HKNSW is an entity from which accounting services under the brand Hayes Knight are provided to a range of clients. The firm is based in Pitt St, Sydney NSW.

Directors

The directors of HKNSW as at the date of this report are shown below.

Table 1: Directors of HKNSW

Directors	Role
Greg Hayes	Chairman
Mario Raciti	Executive director
Craig Rosen	Executive director
Stephen Maze	Executive director
Ray Itaoui	Executive director
Linda Jing	Executive director
Lisa Armstrong	Non-executive director
Kevin White	Non-executive director

Source: Management information

Share Capital

HKNSW has 12,199 shares on issue, the shareholdings are as follows:

Table 2: Shareholders of HKNSW

Shareholders	Shares	Percentage held
Easton Accounting & Tax Pty Ltd	4,061	33.3%
Greg Hayes	2,679	22.0%
Ray Itaoui	610	5.0%
Linda Jing	610	5.0%
Stephen Maze	500	4.1%
Craig Rosen	784	6.4%
Lisa Armstrong	378	3.1%
Mario Raciti	2,577	21.1%
	12,199	100.0%

Source: ASIC Search

Statements of Profit or Loss

The profit and loss statements of HKNSW for the years ended 30 June 2018, 30 June 2019 and 30 June 2020 are shown below.

Table 3: Profit and Loss of HKNSW

	FY18 (\$)	FY19 (\$)	FY20 (\$)
Income	6,567,904	6,448,042	6,054,259
Cost of sales	(193,907)	(191,848)	(178,493)
Gross profit	6,373,997	6,256,194	5,875,766
Other income	78	1,872	41,535
Administrative expenses	(5,172,582)	(5,091,878)	(5,055,754)
EBITDA	1,201,493	1,166,188	861,546
Depreciation	-	-	-
Amortisation	-	-	-
EBIT	1,201,493	1,166,188	861,546
Interest income	78	-	-
Interest expense	(25,147)	(19,559)	(13,137)
Profit before tax	1,176,424	1,146,629	848,409

Source: Management accounts

Statements of Financial Position

The Statements of financial position of HKNSW for 30 June 2018, 30 June 2019 and 30 June 2020 are shown below.

Table 4: Statements of financial position of HKNSW

	Jun-18 (\$)	Jun-19 (\$)	Jun-20 (\$)
Current assets			
Cash and cash equivalents	201,834	53,002	616,681
Trade and other receivables	1,809,876	2,122,433	1,746,581
Work in progress	442,000	473,400	509,400
Other assets	63,217	30,048	58,479
	<u>2,516,927</u>	<u>2,678,883</u>	<u>2,931,141</u>
Non current assets			
Loans with related parties	298,436	291,720	373,912
Goodwill	3,131,844	3,131,844	3,131,844
Other assets	15,565	15,565	15,565
	<u>3,445,845</u>	<u>3,439,129</u>	<u>3,521,321</u>
Current liabilities			
Trade and other payables	(270,933)	(377,753)	(360,120)
GST and tax liabilities	(123,081)	(204,288)	(167,362)
Other liabilities	(179,424)	(2,973)	(13,091)
	<u>(573,438)</u>	<u>(585,014)</u>	<u>(540,573)</u>
Non current liabilities			
Tax balances	(84,870)	(84,870)	(84,870)
Loans payable	(24,602)	(24,602)	(24,602)
	<u>(109,472)</u>	<u>(109,472)</u>	<u>(109,472)</u>
Net assets	5,279,862	5,423,526	5,802,417
Equity			
Issued capital	2,416,204	2,416,204	2,416,204
Retained earnings	2,863,658	3,007,322	3,386,213
Total equity	5,279,862	5,423,526	5,802,417

Source: Management accounts

Statement of Cash Flows

We understand general purpose financial statements are not prepared for HKNSW, as a result only the income statement and statement of financial position were available.

5.2. Hayes Knight Services (NSW) Pty Limited

Background

HK Services is a services entity that employs staff and leases the premises from which it and HKNSW operate, as well as incurs other costs of operation. HK Services generates its revenue by charging HKNSW for services, which HKNSW then charges on to its clients.

Directors

The directors of HK Services as at the date of this report are shown below.

Table 5: Directors of HK Services

Directors	Role
Greg Hayes	Chairman
Mario Raciti	Executive director
Craig Rosen	Executive director
Stephen Maze	Executive director
Ray Itaoui	Executive director
Linda Jing	Executive director
Lisa Armstrong	Non-executive director
Kevin White	Non-executive director

Source: Management information

Share Capital

HK Services has 12,199 shares on issue, the shareholdings are as follows:

Table 6: Shareholders of HK Services

Shareholders	Shares	Percentage held
Easton Accounting & Tax Pty Ltd	4,061	33.3%
Greg Hayes	2,679	22.0%
Ray Itaoui	610	5.0%
Linda Jing	610	5.0%
Stephen Maze	500	4.1%
Craig Rosen	784	6.4%
Lisa Armstrong	378	3.1%
Abbie Rose Pty Ltd	378	3.1%
Mario Raciti	2,199	18.0%
	12,199	100.0%

Source: ASIC Search

Statements of Profit or Loss

The profit and loss statements of HK Services for the years ended 30 June 2018, 30 June 2019 and 30 June 2020 are shown below.

Table 7: Profit and Loss of HK Services

	FY18 (\$)	FY19 (\$)	FY20 (\$)
Income	4,414,550	4,882,596	4,761,274
Cost of sales	(359,748)	(369,073)	(376,722)
Gross profit	4,054,802	4,513,523	4,384,552
Other income	86	609	50,000
Administrative expenses	(3,962,798)	(4,478,031)	(4,271,147)
Loss on disposal of assets	-	(892)	-
EBITDA	92,090	35,209	163,405
Depreciation	(23,615)	(34,324)	(29,055)
EBIT	68,475	885	134,350
Interest income	86	-	-
Interest expense	(329)	(286)	(242)
Profit before tax	68,232	599	134,108

Source: Management accounts

Statements of Financial Position

The Statements of financial position of HK Services for 30 June 2018, 30 June 2019 and 30 June 2020 are shown below.

Table 8: Statements of financial position of HK Services

	Jun-18 (\$)	Jun-19 (\$)	Jun-20 (\$)
Current assets			
Cash and cash equivalents	3,438	3,429	7,987
Trade and other receivables	254,104	402,320	473,394
	<u>257,542</u>	<u>405,749</u>	<u>481,381</u>
Non current assets			
Loans with related parties	23,656	24,602	24,602
PPE and software	128,263	127,787	128,166
Other assets	44,127	46,972	37,283
	<u>196,046</u>	<u>199,361</u>	<u>190,051</u>
Current liabilities			
Trade and other payables	(163,402)	(208,434)	(192,130)
GST and tax liabilities	(40,202)	(95,480)	(34,482)
Other liabilities	(389,063)	(432,240)	(440,148)
	<u>(592,667)</u>	<u>(736,154)</u>	<u>(666,760)</u>
Non current liabilities			
Other liabilities	(33,647)	(66,554)	(71,189)
	<u>(33,647)</u>	<u>(66,554)</u>	<u>(71,189)</u>
Net assets	(172,726)	(197,598)	(66,517)
Equity			
Issued capital	1,933	1,933	1,933
Retained earnings	(174,659)	(199,531)	(68,450)
Total equity	(172,726)	(197,598)	(66,517)

Source: Management accounts

Statement of Cash Flows

Similar to HKNSW, general purpose financial statements are not prepared for HK Services, as a result only the income statement and statement of financial position were available.

5.3. Hayes Knight National Group Pty Limited

Background

HKNG owns the brand name 'Hayes Knight'. No royalty fees are paid for the use of the brand name although we note the costs of registering the brand name have been capitalised.

Directors

The directors of HKNG as at the date of this report are shown below.

Table 9: Directors of HKNG

Directors
Greg Hayes
Kevin White

Source: Management information

Share Capital

All of HKNG's share capital is owned by Easton.

Statements of Profit or Loss

The profit and loss statements of HKNG for the years ended 30 June 2018, 30 June 2019 and 30 June 2020 are shown below.

Table 10: Profit and Loss of HKNG

	FY18 (\$)	FY19 (\$)	FY20 (\$)
Income	-	-	-
Administrative expenses	(140)	-	-
Total expenditure	(140)	-	-
EBITDA	(140)	-	-
Depreciation	-	-	-
EBIT	(140)	-	-

Source: Management accounts

Statements of Financial Position

The Statements of financial position of HKNG for 30 June 2018, 30 June 2019 and 30 June 2020 are shown below.

Table 11: Statements of financial position of HKNG

	Jun-18 (\$)	Jun-19 (\$)	Jun-20 (\$)
Assets			
Cash and cash equivalents	5	5	5
Trademarks and brand name	8,930	8,930	8,930
Loan receivable	11,391	11,391	11,391
	<u>20,326</u>	<u>20,326</u>	<u>20,326</u>
Liabilities			
Traded and other payables	(1,232)	(1,232)	(1,232)
	<u>(1,232)</u>	<u>(1,232)</u>	<u>(1,232)</u>
Net assets	19,094	19,094	19,094
Equity			
Issued capital	5	5	5
Retained earnings	19,089	19,089	19,089
Total equity	19,094	19,094	19,094

Source: Management accounts

Statement of Cash Flows

Similar to both HKNSW and HK Services, general purpose financial statements are not prepared for HKNG, as a result only the income statement and statement of financial position were available.

6. Valuation of the Sale Assets before the Proposed Transaction

6.1. Value definition

PKF Corporate's valuation of the Sale Assets is on the basis of 'fair market value', defined as:

'the price that could be realized in an open market over a reasonable period of time given the current market conditions and currently available information, assuming that potential buyers have full information, in a transaction between a willing but not anxious seller and a willing but not anxious buyer acting at arm's length'.

6.2. Valuation methodologies

In selecting appropriate valuation methodologies, we considered the applicability of a range of generally accepted valuation methodologies. These included:

- capitalisation of future maintainable earnings;
- net present value of future cash flows;
- share price history;
- asset based methods;
- comparable market transactions; and
- alternate acquirer.

6.3. Capitalisation of future maintainable earnings

Capitalisation of earnings is a method commonly used for valuing businesses currently generating profitable returns. This method involves capitalising the earnings of a business at a multiple which reflects the risks of the business and its ability to earn future profits. There are different definitions of earnings to which a multiple can be applied. The traditional method is to use net profit after tax. Another common method is to use Earnings Before Interest and Tax, or EBIT. One advantage of using EBIT is that it enables a valuation to be determined which is independent of the financing and tax structure of the business. Different owners of the same business may have different funding strategies and these strategies should not alter the fundamental value of the business. Another variation to EBIT includes 'Earnings Before Interest, Tax, Depreciation and Amortisation' – EBITDA.

As discussed in Section 5, HKNSW and HK Services operate together, with HK Services primarily providing services to HKNSW in order for it to be able to provide services to its clients, therefore the profitability of the two should be assessed on a combined basis. We consider that as HKNG has not had any revenue or expenditure since FY18, this entity does not have maintainable earnings and therefore its value cannot be assessed using this methodology.

Assessment of maintainable earnings

The table below shows the amalgamation of the EBIT of HKNSW and HK Services. We note that there are a number of transactions between HKNSW and HK Services, however as the cost in one is represented by income in the other, they net off when combined, therefore the amalgamation of the two avoids the issue of ensuring transactions are conducted at market rates.

Table 12: EBIT for HKNSW and HK Services

	FY18 (\$)	FY19 (\$)	FY20 (\$)
EBIT			
HKNSW	1,201,493	1,166,188	861,546
HK Services	68,475	885	134,349
Total EBIT	1,269,968	1,167,073	995,895

Source: Management accounts

We are informed that the FY20 financial performance of HKNSW and HK Services has been impacted by Covid19, resulting in revenue being lower than that achieved in FY19. In order to investigate this, we have assessed quarterly reports for HKNSW and confirmed that quarterly revenue for HKNSW was greater in the six months to December 2019, in comparison to the six months to June 2020. We also note that the revenue in the June 2020 quarter was lower than in March 2020, which is consistent with the impact of Covid19 beginning to take effect during February and March 2020 in Australia. (We note quarterly performance was not available for FY18 and FY19, thus comparison to these years was not possible.)

In order to assist businesses with the impact of Covid19, the government provided assistance by way of the JobKeeper program, which Hayes Knight was able to obtain. This has had the following impacts:

- As HK Services employs staff it was able to obtain JobKeeper. Therefore although the income it received from HKNSW for services provided was lower than in previous years, it received funding under the JobKeeper program. This gave rise to the higher EBIT for HK Services in FY20 in comparison to previous years.
- For HKNSW however, as it does not employ staff it was therefore not entitled to JobKeeper. Its revenue from customers reduced in FY20 in comparison to the previous years, as noted above. This resulted in the EBIT of HKNSW being lower than in previous years.

As a result of the points noted above, we consider the financial performance of FY20 to be less reflective of the maintainable earnings of Hayes Knight than FY19. Furthermore, we also consider the FY18 results to be less reflective due to the time which has subsequently passed. As a result we have applied a weighting to the respective years, whereby one quarter has been applied to FY18, two quarters (or half) to FY19 and one quarter to FY20. This can be seen in the table below.

Table 13: Weighted average EBIT

	FY18 (\$)	FY19 (\$)	FY20 (\$)
EBIT			
HKNSW	1,201,493	1,166,188	861,546
HK Services	68,475	885	134,349
	1,269,968	1,167,073	995,895
Weighting	1	2	1
Weighted average EBIT			1,150,002
Say			1,150,000

Source: Management accounts and PKF analysis

Capitalisation multiple

In selecting an appropriate capitalisation rate to apply to the maintainable EBIT we have had regard to the following:

- Hayes Knight is a privately owned business controlled by the directors who are engaged in the business.
- The business has been operating for a number of years and has been consistently profitable.
- Hayes Knight is not reliant on any one customer or supplier.
- There are relatively low barriers to entry for competitors however whilst the directors could leave and set up in competition, they are subject to restraint clauses which limits them from doing this.
- We have searched the Capital IQ and MergerMarket databases to identify comparable transactions involving financial services businesses in Australia and confirm that a number of acquisitions of accounting firms have occurred in recent years, however due to the private nature of many of these transactions very limited data is publicly available. As a result we have not been able to use EBIT multiples from recent comparable transactions.
- The Capital IQ database provided us with the following comparable listed Australian company benchmarks.

Table 14: Comparable listed companies

	Stock Code ASX	Market ¹ Cap \$ m	Enterprise ² Value \$ m	LTM EBIT \$ m	Implied EBIT multiple
Prime Financial Group Limited	ASX:PFG	13.2	28.3	2.8	10.0
Countplus Limited	ASX:CUP	93.7	105.5	3.3	31.7
Kelly Partners Group Holdings Limited	ASX:KPG	43.1	80.0	12.1	6.6
WT Financial Group Limited	ASX:WTL	5.3	6.7	0.2	40.3
Average³					8.3
Median³					8.3

Source: Capital IQ, PKF Corporate analysis

LTM - Last twelve months

Note 1 - Share prices used to determine the market capitalisation of each of the comparable companies were closing share prices as at 27 July 2020

Note 2 - Enterprise value = Market Capitalisation – Cash + Debt – Preferred Equity + Minority Interest

Note 3 - Grey highlighted multiples are excluded from our calculations of average and median as they are considered to be outliers

Control premium and minority discount

A control premium represents the difference between the price that would have to be paid for a share to which a controlling interest attaches and the price at which a share which does not carry with it control of the company could be acquired. The actual control premium paid is transaction specific and depends on a range of factors, such as the level of synergies available to the purchaser, the level of competition for the assets and the strategic importance of the assets. A minority discount reflects the inverse of a control premium.

The above trading multiples are based on company values derived from minority trades on a public stock exchange, therefore they do not include a control premium. Furthermore, we are valuing a 33.3% share in HKNSW and HK Services, thus also a minority holding, we have not adjusted for a control premium or minority discount.

Marketability discount

Shareholders, whether controlling or non-controlling, in a private company have no ready market for their shares. As such, they do not have the ability to quickly, at low cost, and with some degree of certainty, convert their shareholding to cash.

There are in fact two levels of marketability discount. One applies to an unlisted company as a whole and the other applies to the shares held by an individual minority shareholder.

Shareholders, whether controlling or non-controlling, in a private company have no ready market for their shares. As such they do not have the ability to quickly, at low cost, and with some degree of certainty, convert their shareholding to cash. The lack of marketability of a controlling shareholder is due to the absence of a ready private market and the transaction costs to achieve liquidity through either a sale or a public offering. This marketability discount would typically amount to 25%.

On the other hand, a marketability discount attaching to a minority shareholding in an unlisted company would typically be higher as it is difficult to find a buyer willing to accept a minority position in an unlisted company with no ability to exit their shareholding.

To provide a better understanding of marketability discounts, we have included Appendix 3, which provides an outline of this issue.

Therefore, based on this information, we have applied a marketability discount range of 25% to 40%, this is reflected in Table 16 below.

Size discount

Shares in larger companies tend to be more valuable than smaller companies. The smaller the size of the business the lower the income flows and therefore the greater risk for the shareholders. We note that the comparable companies used above tend to be larger than Hayes Knight, thus supporting a discount to allow for size and access to capital not enjoyed by Hayes Knight.

Pepperdine University has performed a study assessing multiples by sector and EBITDA, which provides an indication of the discount that should be applied for size. The table below summarises the results. Based on these results we have considered a size discount in the range of 20% to 25%. (We note the research has been performed using EBITDA, however we consider these discounts to be comparable to those on an EBIT basis.)

Table 15: Size discount – Pepperdine University

Publication	Key Criteria ¹	EBITDA multiples		Size Discount
		Low	High	
2019 Private Capital Markets Report	Financial Services EBITDA range \$1m - \$4.99m vs \$5m - \$9.99m	6.0	7.5	20.00%

Source: Pepperdine University and PKF Corporate analysis

Note 1 - Selected based on the financial performance of Hayes Knight and the comparable companies

In the table below we have applied the relevant discounts resulting in an EBIT multiple range of 3.7 to 5.0, with an average of 4.4.

Table 16: EBITDA multiples analysis with discounts for marketability and size

EBIT multiples analysis	EBIT multiples	
	Low	High
Multiple from the basket of companies	8.3	8.3
Discount for marketability for controlling interests	40%	25%
Revised multiple range	5.0	6.2
Discount for size	25%	20%
Revised multiple range	3.7	5.0

Source: PKF Corporate analysis

In the table below, we have applied the above multiples to the weighted average EBIT, previously calculated to arrive at an enterprise value of HKNSW and HK Services.

Table 17: Enterprise value of HKNSW and HK Services

	Low	High
Weighted average EBIT (\$)	1,150,000	1,150,000
Multiple	3.7	5.0
Value (\$)	4,255,000	5,750,000
Say (\$)	4,260,000	5,750,000

Source: Management information and PKF analysis

Based on the above assessment the combined enterprise value of HKNSW and HK Services under this methodology is between \$4.26 million and \$5.75 million with a midpoint of \$5.0 million.

In order to calculate the equity value of HKNSW and HK Services, the enterprise value must be adjusted for non-operating assets and net debt. We are informed that there are no non-operating assets of HKNSW and HK Services, therefore we have adjusted for the cash, loans payable and loans receivable (i.e. net debt) in the table below.

Table 18: Equity value of HKNSW and HK Services

	Low (\$)	High (\$)
Enterprise value	4,260,000	5,750,000
Adjustments for:		
Net cash	624,668	624,668
Surplus assets	345,276	345,276
	969,944	969,944
Total	5,229,944	6,719,944
Say	5,230,000	6,720,000

Source: Management information and PKF analysis

Based on this methodology and the workings set out above, we have assessed the equity value of HKNSW and HK Services to be in a range of \$5.23 million to \$6.72 million.

6.4. Net present value of future cash flows

An analysis of the net present value of the projected cash flows of a business and/or asset (or discounted cash flow technique) is based on the premise that the value of the business and/or asset is the net present value of its future cash flows. This methodology requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value of the business and/or asset remaining at the end of the forecast period.

As we have not been provided with forecasts, we have not been able to apply this valuation methodology.

6.5. Share price history

The share price history valuation methodology values a company based on the past trading in its shares. We normally analyse the share prices up to a date immediately prior to the date when a takeover, merger or other significant transaction is announced to remove any price speculation or price escalations that may have occurred subsequent to the announcement of any proposed transaction.

The Sale Assets are unlisted companies, as such there is no active market in their securities. We understand there have been a number of trades in the securities of HKNSW and HK Services since 2015, but none in HKNG. The trades have been summarised below, including the weighted average purchase price per share. (Please note that exactly the same trades occurred for each company, being HKNSW and HK Services.)

Table 19: Trades in HKNSW and HK Services

Date	Number of shares in HKNSW and HK Services	Proportion of issued capital in each company	Total consideration for shares in HKNSW and HK Services (\$)	Average price per share (\$)	Notes
Jan 2018	610	5.0%	290,000	237.70	Note 1
Jan 2018	610	5.0%	290,000	237.70	Note 2
Apr 2019	378	3.1%	180,000	238.10	Note 3
Weighted average purchase price				237.80	

Source: Management information and PKF analysis

Note 1 – The shares were sold by Greg Hayes and purchased by a trust associated with Ray Itaoui.

Note 2 – Sold by Greg Hayes and purchased by a trust associated with Linda Jing.

Note 3 – Sold by Abby Rose Pty Ltd (connected with Garth McNally) to Mario Raciti.

We note the trades above are between senior parties involved in the Hayes Knight business and therefore consider these trades have been made on a well informed basis. Each trade is for a minority stake of the business being between 3.1% and 5.0% of the shares on issue, and the average price they have transacted on is also very consistent at \$237.70 and \$238.10.

Having regard to the above comments, we consider these trades to be relevant in assessing the value of HKNSW and HK Services. We have therefore set out our calculations below.

Table 20: Value based on trades in HKNSW and HK Services

	Share numbers	\$
Weighted average purchase price per share		237.80
Number of shares in the following entities		
HKNSW	12,199	
HK Services	12,199	
Total number of shares	24,398	
Total equity value of HKNSW and HK Services		5,801,844
Say		5,800,000

Source: Management information and PKF analysis

Based on this methodology and the workings set out above, we have assessed the equity value of HKNSW and HK Services to be approximately \$5.80 million.

6.6. Asset Based Methods

These methodologies are based on the realisable value of a company's identifiable net assets. Asset based valuation methodologies include:

(a) Net Assets

The net asset valuation methodology involves deriving the value of a company or business by reference to the value of its assets. This methodology is likely to be appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings, such as property holding companies and investment businesses that periodically revalue their assets to market. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take into account realisation costs.

(b) Orderly Realisation of Assets

The orderly realisation of assets method estimates the fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

(c) Liquidation of Assets

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a short time frame.

Net Assets

HKNSW: As can be seen from the Statement of Financial Position in Section 5, HKNSW assets include goodwill. It relates to the purchase of three separate accounting firms over a number of years, with the latest purchased in 2014. The goodwill figure is carried at the historical cost figure. As a result, this figure reflects the goodwill of a number of firms purchased multiple years ago, and therefore may not represent the current goodwill within HKNSW. For this reason we do not believe that the asset based methods are appropriate to assess HKNSW.

HK Services: The Statement of Financial Position in Section 5 shows a negative net asset position for this entity, therefore this method cannot be used to value this entity.

HKNG: As this entity has not generated any revenue or expenditure we have not been able to apply the other valuation methodologies. The Statement of Financial Position for 30 June 2020 is the most recent balance sheet available and has been restated below.

Table 21: Net assets of HKNG as at 30 June 2020

	Jun-20 (\$)	Adjustments (\$)	Total (\$)
Assets			
Cash and cash equivalents	5	-	5
Loan receivable	11,391	(11,391)	-
Trademarks and brand name	8,930	-	8,930
	20,326	(11,391)	8,935
Liabilities			
Trade and other payables	(1,232)	-	(1,232)
	(1,232)	-	(1,232)
Net assets	19,094	(11,391)	7,703
Equity			
Issued capital	5	-	5
Retained earnings	19,089	(11,391)	7,698
Total equity	19,094	(11,391)	7,703

Source: Management accounts and PKF analysis

We have adjusted the loan receivable as we understand this loan is no longer recoverable.

The trademarks and brand name relate to the costs of registering the Hayes Knight brand name, they are carried at cost. As no income has been generated in this entity from the brand name in FY18, FY19 or FY20, we have assessed the value for this purpose based on the historical cost of registering the name. We also note the value of the brand is effectively included in the value of HKNSW which uses the brand in dealing with its own clients, therefore has been reflected in that entity.

Based on the analysis above, we have assessed the equity value of HKNG to be approximately \$8,000.

6.7. Comparable market transactions

Industry specific methods estimate market values using rules of thumb for a particular industry. Generally, rules of thumb provide less persuasive evidence of the market value of an asset than other valuation methods because they may not account for specific factors.

In considering the application of this methodology, we have assessed the nature of the Sale Assets as being a financial services business. From our experience, financial services businesses, in particular accounting practices, often transact on a multiple of recurring revenue, however this tends to be for practices with one or two partners/principles and are of a size which can be easily absorbed into another larger firm. As the Hayes Knight firm is considerable larger with multiple principles, we do not consider this approach to be appropriate to apply here.

6.8. Alternative acquirer

The value that an alternative offeror may be prepared to pay to acquire the Sale Assets is a relevant valuation methodology to be considered.

We have been advised that there have not been any recent offers for the Sale Assets, and as a result we are unable to apply this valuation methodology.

6.9. Conclusion

We have considered a number of valuation methodologies when assessing the value of the Sales Assets. They are summarised below.

Table 22: Equity value of the Sale Assets

	Section	Low (\$)	High (\$)
HKNSW and HK Services			
Maintainable earnings	6.3	5,230,000	6,720,000
Past transactions	6.5	5,800,000	5,800,000
Average		5,515,000	6,260,000
HKNG			
Total	6.6	8,000	8,000
		5,523,000	6,268,000
Percentage owned by Easton		33.3%	33.3%
Easton's share of equity value		1,839,159	2,087,244
Average		1,840,000	2,090,000

Source: Management information and PKF analysis

Based on the analysis above, we have assessed the value of Easton's shares in HKNSW, HK Services and HKNG combined to be in the range of \$1.84 million and \$2.09 million.

7. Assessment as to Fairness

We have assessed the value of the Sale Assets to be between \$1.84 million and \$2.09 million, which is less than the consideration being offered by the Acquirers of \$2.45 million plus a dividend of \$200,000, we have therefore concluded that the Proposed Transaction is fair.

8. Assessment as to Reasonableness

Prior to deciding whether to approve or reject the Proposed Transaction, Easton shareholders should also consider the following significant factors:

- In Section 7 of this report we assessed the Proposed Transaction to be fair.
- Approval of the Proposed Transaction will result in Easton being able to sell an asset which the Easton Board considers has not performed as well as expected and is no longer a core asset of the Easton business.
- Approval of the Proposed Transaction will also result in Easton receiving \$2.45 million plus a dividend of \$200,000.
- Clients of accounting firms tend to develop relationships of trust with the people they deal with at the accounting firm. As a result, should a key member of an accounting firm, who has built such relationships of trust with his or her clients, chose to leave the accounting firm, the client may wish to follow that person to their next firm. We note that although the directors of Hayes Knight have restraint agreements in place which limits this, it still poses a risk, thus potentially impacting the ability for Hayes Knight to keep its clients should such an employee/director leave.

9. Assessment as to Fairness and Reasonableness

After considering the above matters, we have concluded that the Proposed Transaction is fair and reasonable.

10. Financial Services Guide

This Financial Services Guide provides information to assist retail and wholesale investors in making a decision as to their use of the general financial product advice included in the above report.

PKF Corporate

PKF Corporate holds Australian Financial Services Licence No. 222050, authorising it to provide general financial product advice in respect of securities to retail and wholesale investors.

Financial services offered by PKF Corporate

PKF Corporate prepares reports commissioned by a company or other entity ("Entity"). The reports prepared by PKF Corporate are provided by the Entity to its members.

All reports prepared by PKF Corporate include a description of the circumstances of the engagement and of PKF Corporate's independence of the Entity commissioning the report and other parties to the transactions.

PKF Corporate does not accept instructions from retail investors. PKF Corporate provides no financial services directly to retail investors and receives no remuneration from retail investors for financial services. PKF Corporate does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice to retail investors.

General financial product advice

In the report, PKF Corporate provides general financial product advice. This advice does not take into account the personal objectives, financial situation or needs of individual retail investors.

Investors should consider the appropriateness of a report having regard to their own objectives, financial situation and needs before acting on the advice in a report. Where the advice relates to the acquisition or possible acquisition of a financial product, an investor should also obtain a product disclosure statement relating to the financial product and consider that statement before making any decision about whether to acquire the financial product.

Independence

At the date of this report, none of PKF Corporate, Mr Paul Lom nor Mr Steven Perri have any interest in the outcome of the Proposed Transaction, nor any relationship with Easton, HKNSW, HK Services or HKNG or any of their directors.

Drafts of this report were provided to the directors of Easton. Certain changes were made to factual statements in this report as a result of the reviews of the draft reports. There were no material alterations to the methodology, valuations or conclusions that have been formed by PKF Corporate.

PKF Corporate and its related entities do not have any shareholding in or other relationship with Easton, HKNSW, HK Services or HKNG that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

PKF Corporate had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this report.

PKF Corporate considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC on 30 March 2011.

Remuneration

PKF Corporate is entitled to receive a fee of approximately \$22,000 (plus GST) for the preparation of this report. With the exception of the above, PKF Corporate will not receive any other benefits, whether directly or indirectly, for or in connection with the making of this report.

Complaints process

As the holder of an Australian Financial Services Licence, PKF Corporate is required to have suitable compensation arrangements in place. In order to satisfy this requirement PKF Corporate holds a professional indemnity insurance policy that is compliant with the requirements of Section 912B of the Act.

PKF Corporate is also required to have a system for handling complaints from persons to whom PKF Corporate provides financial services. All complaints should be in writing and sent to the Complaints Officer, PKF Corporate at Level 12, 440 Collins Street, Melbourne VIC 3000.

PKF Corporate will make every effort to resolve a complaint within 45 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Australian Financial Complaints Authority – GPO Box 3, Melbourne VIC 3000.

Yours faithfully

PKF Melbourne Corporate Pty Ltd



Paul Lom
Director



Steven Perri
Director

Appendix 1 Sources of Information

The key documents we have relied upon in preparing this report are:

- Management accounts for the years ended 30 June 2018, 30 June 2019 and 30 June 2020 of:
 - HKNSW;
 - HK Services; and
 - HKNG;
- Quarterly reports for December 2019, March 2020 and June 2020, for:
 - HKNSW; and
 - HK Services;
- Shareholdings and directorships for:
 - HKNSW;
 - HK Services; and
 - HKNG;
- Details of recent transactions in the shares of:
 - HKNSW; and
 - HK Services;
- HKNSW and HK Services budget for FY20;
- ASIC searches for HKNSW and HK Services; and
- Discussions and information provided by the Chairman and/or CFO of Easton.

Appendix 2 Declarations, Qualifications and Consents

Declarations

This report has been prepared at the request of Mr Kevin White, Executive Chairman of Easton Investments Limited, to comply with Listing Rules 10.1 and 10.2. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposed Transaction is fair and reasonable.

This report has also been prepared in accordance with the Accounting Professional and Ethical Standards Board professional standard APES 225 – Valuation Services.

The procedures that we performed and the enquiries that we made in the course of the preparation of this report do not include verification work nor constitute an audit in accordance with Australian Auditing Standards.

Qualifications

Mr Paul Lom, a director of PKF Corporate, and Mr Alastair Richards, prepared this report. They have been responsible for the preparation of expert reports and are involved in the provision of advice in respect of valuations, takeovers, capital reconstructions and reporting on all aspects thereof.

Mr Lom is a Fellow of Chartered Accountants Australia and New Zealand (CAANZ) and an Accredited Business Valuation Specialist (CA BV Specialist) with more than 40 years' experience in the accounting profession. He was a partner of KPMG and Touche Ross between 1989 and 1996, specialising in audit. He has extensive experience in business acquisitions, business valuations and privatisations in Australia and Europe.

Mr Richards is a Member of Chartered Accountants Australia and New Zealand (CAANZ). He has been responsible for the preparation of valuation reports relating to shares and businesses for the purpose of acquisitions, divestments, litigation and taxation.

Mr Steven Perri, a director of PKF Corporate reviewed this report. Mr Perri is a Member of Chartered Accountants Australia and New Zealand (CAANZ) and an Accredited Business Valuation Specialist (CA BV Specialist).

Consent

PKF Corporate consents to the inclusion of this report in the form and context in which it is included in the Explanatory Memorandum.

Appendix 3 Marketability Discount¹

Minority interests of private companies / trusts typically lack marketability. A publicly traded share is in the minority, but it is marketable. A share in a private company is both in the minority and lacks a ready market. Marketability confers value. People will pay extra for the ability to get out when they want to get out. As compared with an asset for which willing buyers can be found, a non-marketable asset sells at a discount, hence the Lack of Marketability Discount (“LOMD”).

The LOMD is in addition to any minority discount. The two are taken not together but seriatim. For example a 10% minority discount reduces a \$100 share value to \$90, and a further reduction by a LOMD of 40% reduces the value to \$54 ($\$90 \times (1 - 0.4) = \54).

Reasons for Lack of Marketability Discount

The minority shareholder has no ready market for his or her holdings, precisely because prospective buyers do not want to change places with the shareholder and have no control over the company and no way of selling. Usually, the only market for minority shares is other stockholders, who have no incentive to buy, unless they have some ulterior motive, e.g., adding the incremental shares to their own holdings might give the buyers a controlling interest. Many articles of incorporation / constitutions, partnership agreements and trust deeds are specifically drafted with the intent of keeping the corporation closely held. The documents can contain such features as waiting periods, rights of first refusal by other shareholders, and arbitration clauses, which serve to chill a potential sale to an outside party. For most minority shareholders, sale must await action by the controlling stockholder, such as sale of the company.

Amount of LOMD

As opposed to the minority discount, there is substantial data on marketability discounts. The data comes from several sources, primarily sales of restricted stock and pre-IPO transactions.

Restricted stock (also known as unregistered, letter stock or escrowed stock) may not be sold in the public markets until after a specific holding period, currently six months for securities of companies subject to SEC reporting requirements. Private transactions occur in restricted securities, which have publicly traded counterparts, i.e. registered and publicly traded shares of the same class of stock in the same company. The difference between the prices in a private trade and the publicly traded shares provides a measure of LOMD.

Registration statements include information on sales of unregistered stock in the three years prior to an IPO. Since the stock is not freely marketable, an implied LOMD can be computed by comparing the transaction price with the eventual IPO price. LOMDs so computed over the years have had annual median values generally in the 40% to 55% range.

The pre-IPO discounts have been larger on average than the restricted stock discounts, which is logical, as the pre-IPO purchaser has less certainty of ultimate marketability than the owner of restricted stock. The IPO may not take place, and, even if it does, the pre-IPO stock typically is both subject to underwriters' lockup and not registered at the IPO thereby remaining restricted stock. In terms of marketability, the pre-IPO purchaser is further down the pecking order than the holder of restricted stock.

There also have been studies that estimate the LOMDs from the drop in share price when a stock or a market became illiquid because of delisting or some external shock or from option prices. Such estimates of mean LOMDs have been in the 10% to 25% range.

While the mean and median LOMDs from the restricted stock and pre-IPO studies are interesting, they disguise the fact that the ranges are enormous, varying everywhere from negative, i.e., the stock sold at a premium, to almost 100%, i.e. the unmarketable shares were close to worthless.

Not all the reasons for the wide variations are well understood. Relevant factors identified in studies relate to underlying investment risk. Small company size, low profitability, high variability, and low book-to-market ratios, for example, tend to be associated with larger LOMDs. However, not all studies have found all these risk-related factors to be significant. Also important is block size. The larger the

¹ Extracts from a paper titled 'Control premiums, minority discounts and marketability discounts' – Philip Saunders and Associates – Economic and financial analysts - <http://www.philipsaunders.com/TheFirm/Publications/ControlPremiums/tabid/96/Default.aspx>

ownership block, assuming it is less than 50%, the higher the LOMD is likely to be; other things being equal, a 40% ownership share will sell at a bigger discount than a 10% share. Interestingly, the industry in which the company operates, has not been found to be correlated with the size of the LOMD.

What is abundantly clear from the data is that the further away in time a security is from potential marketability, other things being equal, the bigger the discount.

The data shed light indirectly on a common valuation problem faced by a valuation specialist: the LOMD for a minority holding in a closely held company with no publicly traded shares, no reasonable prospect of ever having an IPO, and no prospect of a liquidity event until the majority holders decide to sell the company. The data suggests that the LOMD in such a case should be substantial. If restricted stocks, with a foreseeable degree of marketability within a year, have LOMDs, on average, in the 20% to 35% range, and stocks with a prospect of becoming restricted stocks with publicly traded counterparts following an IPO have LOMDs, on average, in the 40% to 55% range, how much greater must the discount be for shareholdings awaiting a liquidity event sometime between tomorrow and never?

Lonergan² refers to studies of marketability discounts in the US and Canada that generally indicate lack of marketability discounts of 40% plus apply in these countries. In using US data in average marketability discounts, it should be noted that the data measures the difference between the trading value of non-restricted shares and the purchase value of restricted shares. Clearly the restricted shares of a company with trading shares would have relatively more investment appeal than the minority shares of a typical private company whose shares are not traded.

Pratt³ discusses and summarises a number of studies on the lack of marketability discounts in the US. Studies of prices of restricted stocks revealed that prior to 1990 restricted stock sold at a discount of 33% to 35% compared to listed stock of the same company. More recent studies show a smaller discount, however this is thought to be the result of loosened restrictions on stock transferability. Studies that compared the share prices of private companies that eventually completed an initial public offering indicate a marketability discount of approximately 45%. This measure of discount is also likely to capture a discount due to differences between private and public company management and the lower perceived risk of an investment in a public company (regulatory and independent board oversight).

On 15 August 2011 TMA Group of Companies Limited, an ASX listed company announced that it would be delisting from the ASX. Prior to this announcement the shares were trading at a volume weighted average share price of \$0.11 per shares. Between the date of the announcement and suspension of trading the shares traded at a volume weighted average share price of \$0.04 per share. This is one example, which indicates that discounts of up to 64% may be experienced due to the lack of marketability.

A further more recent example is Funtastic Limited, an ASX listed company. This company announced on 27 March 2017 its intention to apply for removal from the ASX. Following this announcement, the shares in Funtastic Limited traded at approximately a 47% discount which provides a guidance to a marketability discount for unlisted shares.

The Size of the Discount

Empirical evidence suggests that the primary factors in determining the size of the LOMD are as follows:

- Size of distributions or dividends
- Size of revenues
- Size of earnings
- Revenue growth and stability
- Earnings growth and stability
- Prospects for liquidity

² Wayne Lonergan – The Valuation of Businesses, Shares and Other Equity – 4th Edition – page 138

³ Shannon P. Pratt Business Valuation Discounts and Premiums, 2001

- Product risk
- Industry risk

Appendix 4 Comparable Companies

Prime Financial Group Limited

Prime Financial Group Limited provides integrated accounting and business advisory, wealth management, and capital advisory services in Australia. Accounting related services include accounting and tax compliance, management advisory services, an outsourced CFO function, as well as assistance with grants and tax incentives. The wealth management services, including financial and retirement planning, investment advice, life insurance, estate planning, superannuation, lending and finance, budgeting and cash flow services; and capital advisory services comprising corporate advisory, transactions and restructuring, and capital raising. The company was founded in 1998 and is headquartered in Southbank, Melbourne.

Countplus Limited

Together with its subsidiaries, Countplus Limited provides accounting, business advisory, and financial planning services in Australia. Accounting related services include tax, assurance, audit, and corporate advisory services. Wealth management services include financial advice related to personal insurance, investment, and superannuation, loans commission, and leasing commission services. In addition the group provide services in relation to information technology, legal, conference, and insurance services. The company was founded in 2006 and is based in Sydney.

Kelly Partners Group Holdings Limited

Kelly Partners Group Holdings Limited provides chartered accounting and other professional services to private businesses and clients, owners, and families in Australia. Accounting services include audit, general accounting, business advisory, outsourced CFO function, mergers and acquisitions, taxation advice, structuring and compliance services as well as assistance regarding ATO investigations and audits. Private wealth management services include financial advice execution and ongoing administration of wealth protection and strategies, estate planning and management, asset allocation strategies between asset classes, private banking assistances, as well as property, insurance, and finance services. The company was founded in 2006 and is headquartered in North Sydney.

WT Financial Group Limited

WT Financial Group Limited provides a range of financial services. It operates through two segments, the first being Financial Planning, Investment Advice and Product Sales, and the second being Accounting and Taxation Services. Services include financial planning, retirement planning, superannuation, taxation management, debt structuring, tax and accounting services, financial reporting, tax return preparation and lodgement, and corporate compliance. It also provides risk management services comprising risk assessment, personal insurance, business insurance, and estate planning. The company was formerly known as Spring FG Limited and changed its name to WT Financial Group Limited in November 2019. WT Financial Group Limited was incorporated in 2014 and is headquartered in Sydney.

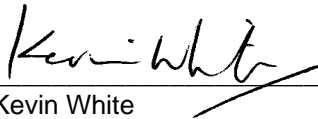
ANNEXURE 2 – Auditor Nomination Letter from Shareholder

12 August 2020

Easton Investments Limited
Level 2, 115 Pitt Street
Sydney NSW 2000

RE: NOTICE OF NOMINATION OF AUDITOR IN ACCORDANCE WITH SECTION 328B OF THE
CORPORATIONS ACT 2011 (Cth)

Kevin and Margaret White as Trustees of The White Family Super Fund A/C, being a member of Easton Investments Limited nominates BDO Audit Pty Ltd of Level 11, 1 Margaret Street, Sydney NSW 2000, for appointment to the position of Auditor of the Company at the next Annual General Meeting.



Kevin White
Trustee of The White Family Super Fund A/C



easton

Easton Investments Limited
ACN 111 695 357

LODGE YOUR VOTE

ONLINE
www.linkmarketservices.com.au

BY MAIL
Easton Investments Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

BY FAX
+61 2 9287 0309

BY HAND
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138; or
Level 12, 680 George Street, Sydney NSW 2000

ALL ENQUIRIES TO
Telephone: +61 1300 554 474



X99999999999

PROXY FORM

I/We being a member(s) of Easton Investments Limited and entitled to attend and vote hereby appoint:

APPOINT A PROXY

the Chairman of the Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

STEP 1

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Annual General Meeting of the Company to be held at **10:30am (AEST) on Thursday, 1 October 2020**.

Meeting is to be held virtually (see details in the Notice of Meeting).

Important for Resolution 1: If the Chairman of the Meeting is your proxy, either by appointment or by default, and you have not indicated your voting intention below, you expressly authorise the Chairman of the Meeting to exercise the proxy in respect of Resolution 1, even though the Resolution is connected directly or indirectly with the remuneration of a member of the Company's Key Management Personnel (**KMP**).

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an .

Resolutions

	For	Against	Abstain*		For	Against	Abstain*
1 Adoption of Remuneration report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5 Approval of sale to a related party	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Re-election of Mr Kevin White	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
3 Re-election of Mr Grahame Evans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
4 Appointment of Auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

STEP 3

EAS PRX2001N



HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form, including where the Resolution is connected directly or indirectly with the remuneration of KMP.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Scheme Meeting virtually the appropriate "Certificate of Appointment of Corporate Representative" must be received at registrars@linkmarketservices.com.au prior to admission in accordance with the Notice of Scheme Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:30am (AEST) on Tuesday, 29 September 2020**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" - Securityholder Reference Number (SRN) or Holder Identification Number (HIN).



BY MAIL

Easton Investments Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



BY FAX

+61 2 9287 0309



BY HAND

delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138
or
Level 12
680 George Street
Sydney NSW 2000

* During business hours (Monday to Friday, 9:00am–5:00pm)