HJB CORPORATION LTD

PROPOSED ACQUISITION OF JANISON SOLUTIONS PTY LTD

INDEPENDENT EXPERT'S REPORT AND FINANCIAL SERVICES GUIDE

13 OCTOBER 2017

Now you know
LEADENHALL

13 October 2017

The Independent Directors
HJB Corporation Ltd
Level 29, 201 Elizabeth Street
Sydney NSW 2000

Dear Directors,

Independent Expert's Report for HJB Corp Ltd

1. Introduction

HJB Corporation Ltd ("**HJB**") is a company listed on the ASX that was established to provide a broad range of recruitment, human resource and ancillary services across various industries. Following the appointment of an administrator in late 2013, HJB was recapitalised in August 2014 with a view of transforming into a high growth and strong cash-flow generating business. As such, HJB has explored opportunities to extract value from its existing assets, which include its database and other intellectual property ("**IP**"). In addition, HJB has focused on an investment strategy of identifying and reviewing acquisition opportunities in several industries.

Janison Solutions Pty Ltd ("**Janison**") is an Australian company which has developed digital learning and assessment technologies via its proprietary platforms since being founded in 1998 by Wayne and Jacquie Houlden ("**Founding Shareholders**"). Janison has experienced steady growth in its revenues and profits thereafter.

On 13 September 2017, HJB and Janison entered into a Share Purchase Deed whereby HJB agreed to acquire 100% of the issued shares of Janison ("**Proposed Transaction**"). As part of the Proposed Transaction HJB will undergo a 3 for 100 share consolidation prior to being reinstated on the ASX. The consideration for Janison is to be satisfied by the issue of 81.67 million HJB shares (on a post-consolidation basis) and $1.5 million of cash. HJB will also issue a total of 12.6 million additional shares and options to HJB's proposed new management, members of the new board and eligible employees as described in Section 1.1.

We have defined the combined HJB and Janison after the Proposed Transaction as the ("**Proposed Merged Entity**"). Prior to HJB's re-admission to the ASX and as part of the Proposed Transaction, HJB will make a minimum $8 million public offer of new shares pursuant to a prospectus ("**Planned Capital Raising**").

Further information regarding the Proposed Transaction is set out in Section 1 of this report.

2. Purpose of the report

If the Proposed Transaction is approved, the existing majority shareholders of Janison, Mr Wayne Houlden, Mr Thomas Richardson and their associated parties, will acquire an interest of between 56.9% and 68.2% in HJB, depending on the amount of capital raised and performance rights exercised. An acquisition of securities that enables a shareholder to increase its relevant interests in a listed company from below 20% to above 20% is prohibited, except in certain circumstances. One of the exceptions is if the acquisition is approved at a general meeting of the target company. The approval of the Proposed Transaction is therefore being sought at a general meeting of HJB's shareholders ("**Shareholders**").

In order to assist Shareholders evaluate the Proposed Transaction, the directors of HJB have engaged Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**") to prepare an independent expert's report assessing whether the Proposed Transaction is fair and reasonable. This report is to be included in the notice of meeting that will be sent to Shareholders regarding the Proposed Transaction.

Further information regarding the purpose of this report is provided in Section 2 of this report.

3. Basis of evaluation

In order to assess whether the Proposed Transaction is fair and reasonable we have:

- Assessed it as fair if the value of a HJB share after the Proposed Transaction is greater than or equal to the value of a HJB share before the Proposed Transaction.
- Assessed it as reasonable if it is fair, or despite not being fair, the advantages to Shareholders outweigh the disadvantages.

Further details of the basis of evaluation are provided in Section 2 of this report.

4. The Proposed Transaction is fair

4.1 Value of HJB before the Proposed Transaction

We have assessed the fair market value of HJB, based on the net asset approach, as follows:

Table 1: Valuation of HJB

$'000	Low	High
Cash	259	259
Working capital	(35)	(35)
Intangible assets	10	10
Net assets as at 31 August 2017	**234**	**234**
Listed Shell	500	1,000
Subsequent expenditure	(45)	(45)
Transaction costs	(200)	(200)
Total equity value	**489**	**989**
Fully paid shares outstanding (post-consolidation)	9,356,304	9,356,304
Assessed value per share (cents) (post-consolidation)	**5.23**	**10.57**

Source: Leadenhall analysis

Further details of our valuation of HJB are provided in Section 7 of this report.

4.2 Value of Proposed Merged Entity

We have determined the fair market value of a share in the Proposed Merged Entity (including Janison) using the sum of the parts method. This assessment has been made on a minority interest basis (i.e. excluding a control premium) as HJB's existing shareholders would be minority shareholders in the Proposed Merged Entity.

Table 2: Valuation of Proposed Merged Entity

$'000	Low	High
Assessed value of 100% of Janison on a minority basis	19,438	26,688
Assessed net asset value of HJB	234	234
Cash Consideration	(1,500)	(1,500)
Transaction costs and subsequent expenditure	(890)	(1,255)
Total equity value attributable to Proposed Merged Entity	**17,282**	**24,167**
Allocation to potential shares and options	(759)	(1,220)
Value allocated to ordinary shares	**16,523**	**22,946**
Total shares on issue post transaction	92,309,638	92,309,638
Assessed value per share (cents)	**17.90**	**24.86**

Source: Leadenhall analysis

In determining the fair market value of Janison on a minority basis, we have utilised the capitalisation of future maintainable earnings approach ("**CFME**"). In applying the CFME approach we have selected maintainable EBIT of $3.5 million to $4.0 million and an EBIT multiple of 6.5 times to 7.5 times.

Further details of our valuation of the Proposed Merged Entity are provided in Section 8 of this report.

Conclusion

The Proposed Transaction is fair because the value of a share in the Proposed Merged Entity (i.e. HJB plus Janison after the Proposed Transaction) is greater than the value of a HJB share before the Proposed Transaction, as set out in the table below:

Table 3: Assessment of fairness

	Low (cents)	High (cents)
Fair market value of a HJB share (before Proposed Transaction)	5.23	10.57
Fair market value of a Proposed Merged Entity share	17.90	24.86

Source: Leadenhall analysis

5. The Proposed Transaction is reasonable

We have defined the Proposed Transaction as being reasonable if it is fair, or if despite not being fair, the overall advantages of the proposal outweigh its disadvantages to Shareholders. We have therefore considered the advantages and disadvantages to Shareholders of the Proposed Transaction.

Advantages

We have identified the following significant advantages to Shareholders of the Proposed Transaction:

- ***Limited alternatives available:*** Should HJB not successfully complete the Planned Capital Raising there is significant uncertainty as to whether it will continue to trade as a going concern as the current cash balance, would only support trading for approximately 4 months. It has no reliable sources of income, other than bank interest which is insufficient to meet its cash costs. Since the Planned Capital Raising is dependent on the Proposed Transaction proceeding, the Proposed Transaction will facilitate the Planned Capital Raising and therefore mitigate the going concern risks for the company which would otherwise be a significant risk in the absence of some other support received by the company.

- ***Exposure to an operating business:*** At present HJB has no material operating activities. By contrast, if the Proposed Transaction proceeds, Shareholders will have exposure to a profitable operating business with a large addressable market that has the potential to generate significant returns over the next several years if the business is successful.

- ***Increased liquidity:*** Market trading in HJB shares is currently suspended. By acquiring Janison and successfully completing the Planned Capital Raising, it will facilitate the resumption of trading in HJB shares. Furthermore, the Proposed Merged Entity is likely to have a market capitalisation significantly more than the current market capitalisation. A larger market capitalisation may make the company a suitable investment for a wider range of investors. In the absence of the Proposed Transaction, HJB may not be able to comply with the requirements for re-admission to the official list of ASX and would nevertheless be significantly smaller (in terms of market capitalisation) than the Proposed Merged Entity.

- ***No transaction costs for Shareholders:*** If the Proposed Transaction is completed, Shareholders will effectively exit an illiquid position in a company with no material operating business and have exposure to an operating business without having to sell their HJB shares. Shareholders will avoid transaction costs such as brokerage and potentially capital gains taxation that might apply if they sought alternative ways to achieve a similar result.

Disadvantages

We have identified the following significant disadvantages to Shareholders of the Proposed Transaction:

- ***Significant change in investment risk profile:*** Investors who acquired HJB shares for exposure to the professional services industry may not wish to hold an investment in the Proposed Merged Entity, which would predominantly be Janison's business in the learning and assessment technologies industry. Whilst the Janison business would likely provide the potential for increased returns on investment, this exposure may not be desirable for some investors due to individual investment preferences.

- ***Potential further capital requirements and further dilution:*** Janison is still at a growth stage of its development and while it is expected that the Planned Capital Raising will be sufficient to fund its current capital requirements, there is a risk that additional funding will be required for further growth which may further dilute Shareholders.
- ***Loss of control:*** If the Proposed Transaction is approved the vendors of Janison would acquire effective control of HJB. This would include the ability to control the assets, the strategic direction of the company, and the decision of when to pay dividends. The vendors of Janison may not always act in the best interest of HJB's other shareholders, subject to compliance with relevant laws and regulations.
- ***Significant transaction costs:*** Transaction costs of approximately 5% of the total assessed equity value of the Proposed Merged Entity are on the higher end of similar transactions based on our experience. This therefore represents a slightly excessive dilution of Shareholders should the Proposed Transaction be approved.

Conclusion on reasonableness

As the Proposed Transaction is fair it is also reasonable.

6. Opinion

In our opinion, the Proposed Transaction is fair and reasonable to Shareholders. This opinion should be read in conjunction with our detailed report which sets out our scope, analysis and findings in more detail.

Yours faithfully

Richard Norris	Dave Pearson
Director	**Director**

Note: All amounts stated in this report are in Australian dollars unless otherwise stated. Tables in this report may not add due to rounding.

LEADENHALL CORPORATE ADVISORY PTY LTD

ABN 11 114 534 619

Australian Financial Services Licence No: 293586

FINANCIAL SERVICES GUIDE

Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**" or "**we**" or "**us**" or "**our**" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In providing this report, we are required to issue this Financial Services Guide ("**FSG**") to retail clients. This FSG is designed to help you to make a decision as to how you might use this general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

Financial Services We are Licensed to Provide

We hold Australian Financial Services Licence 293586 which authorises us to provide financial product advice in relation to securities (such as shares and debentures), managed investment schemes and derivatives.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product. Our report will include a description of the circumstances of our engagement and the party who has engaged us. You will not have engaged us directly but will be provided with a copy of the report because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial service licensee authorised to provide the financial product advice contained in that report.

General Financial Product Advice

The advice produced in our report is general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that We May Receive

We charge fees for providing reports. These fees will be agreed with the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis. Leadenhall is entitled to receive a fixed fee of $27,500 (excl. GST) for preparing this report. This fee is not contingent upon the outcome of the Proposed Transaction.

Except for the fees referred to above, neither Leadenhall, nor any of its directors, consultants, employees or related entities, receive any pecuniary or other benefit, directly or indirectly, for or in connection with the provision of this report.

Remuneration or Other Benefits Received by our Employees, Directors and Consultants

All our employees receive a salary. Our employees are eligible for bonuses which are not based on the outcomes of any specific engagement or directly linked to the provision of this report. Our directors and consultants receive remuneration based on time spent on matters.

Referrals

We do not pay commissions or provide any other benefits to any person for referring clients to us in connection with the reports that we are licensed to provide.

Complaints Resolution

As the holder of an Australian Financial Services Licence, we are required to have a system in place for handling complaints from persons to whom we have provided reports. All complaints must be in writing, to the following address:

Leadenhall Corporate Advisory Pty Ltd
GPO Box 1572
Adelaide SA 5001

Email: office@leadenhall.com.au

We will try to resolve your complaint quickly and fairly and will endeavour to settle the matter within 14 days from the time the matter is brought to our attention.

If you do not get a satisfactory outcome, you have the option of contacting the Financial Ombudsman Service ("**FOS**"). The FOS will then be able to advise you as to whether or not they can assist in this matter. The FOS can be contacted at the following address:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001

Telephone: 1300 780 808
Email: info@fos.org.au

Compensation Arrangements

Leadenhall holds professional indemnity insurance in relation to the services we provide. The insurance cover satisfies the compensation requirements of the Corporations Act 2001.

13 October 2017

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1 THE PROPOSED TRANSACTION

1.1 Acquisition of Janison

HJB is a company listed on the ASX that was established to provide a broad range of recruitment, human resource and ancillary services across various industries. Following the appointment of an administrator in late 2013, HJB was recapitalised in August 2014 with a view of transforming into a high growth and strong cash-flow generating business. As such, HJB has explored opportunities to extract value from its existing assets, which include its database and other IP. In addition, HJB has focused on an investment strategy of identifying and reviewing acquisition opportunities in several industries.

Janison is an Australian company which has developed digital learning and assessment technologies via its proprietary platforms since being founded in 1998 by the Founding Shareholders. Janison has experienced steady growth in its revenues and profits thereafter.

On 13 September 2017, HJB and Janison entered into a Share Purchase Deed whereby HJB agreed to acquire 100% of Janison.

In exchange for acquiring 100% of Janison, HJB will provide the following consideration to Janison's shareholders:

- 81.67 million HJB shares on a post-consolidation basis
- $1.5 million cash

In addition, as part of the Proposed Transaction, HJB will be issuing the following securities, on a post-consolidation basis, to HJB's proposed new management, members of the new board and eligible employees:

- 1.11 million nil price options with a vesting period of one year
- 0.12 million options with an exercise price of $0.30, a vesting period of three years and a vesting hurdle of a 5-day volume-weighted average price ("**VWAP**") of $0.60
- 6 million new loan funded shares with a vesting period of three years and a vesting hurdle of a 5-day VWAP of $0.60
- 5.12 million performance rights with a vesting period of two years and a vesting hurdle of operational EBITDA exceeding the 30 June 2019 board approved budget by 10%
- 0.24 million ordinary shares

1.2 Share consolidation

As part of the Proposed Transaction, HJB will undergo a share consolidation prior to being reinstated on the ASX. The consolidation will be on a basis of 3 new shares for each 100 shares currently owned.

1.3 Planned Capital Raising

As part of the Proposed Transaction, the Planned Capital Raising will raise between $8 million and $15 million from new investors. The Planned Capital Raising will be predominantly used to fund platform development costs, the repayment of shareholder loans, the cash consideration for the Proposed Transaction and associated transaction costs.

The offer is not underwritten at this stage. However, HJB will work with its advisors to appoint an underwriter for the issue.

1.4 Board restructure and change of company name

If the Proposed Transaction proceeds, the company will appoint Mr Thomas Richardson and Mr Wayne Houlden to the board of HJB.

Should the Proposed Transaction proceed, the company proposes to change its name from HJB to Janison Education Group Ltd. The company also intends to change its ASX ticker code to "JAN".

1.5 Conditions

The Proposed Transaction is subject to a number of conditions including the approval by Shareholders and receipt of approval from the ASX that HJB has met the requirements of Chapters 1 and 2 of the Listing Rules for re-instatement on the ASX.

2 SCOPE

2.1 Purpose of the report

If the Proposed Transaction is approved, the existing majority shareholders of Janison, Mr Wayne Houlden, Mr Thomas Richardson and their associated parties, will acquire an interest of between 56.9% and 68.2% in HJB, depending on the amount of capital raised and performance rights exercised. An acquisition of securities that enables a shareholder to increase its relevant interests in a listed company from below 20% to above 20% is prohibited under Section 606 of the Corporations Act 2001 ("**s606**"), except in certain circumstances.

One of the exceptions to s606 is where the acquisition is approved at a general meeting of the target company in accordance with Item 7 of Section 611 of the Corporations Act 2001 ("**s611**"). Approval for the Proposed Transaction is therefore being sought at a general meeting of HJB's shareholders in accordance with item 7 of s611.

Item 7 of s611 requires shareholders to be provided with all of the information known to the company and to the potential acquirer that is material to the shareholders' decision. *Regulatory Guide 74: Acquisitions Approved by Members* ("**RG74**") issued by the Australian Securities and Investment Commission ("**ASIC**") provides additional guidance on the information to be provided to shareholders. RG74 states that the directors of the target company should provide shareholders with an independent expert's report or a detailed directors' report on the Proposed Transaction.

Regulatory Guide 111: Content of Expert Reports ("**RG111**") issued by ASIC requires an independent expert assessing a transaction that has a similar effect to a takeover bid to assess whether the transaction is fair and reasonable.

In addition, Chapter 2E of the Corporations Act ("**Chapter 2E**") requires shareholder approval in relation to related party transactions. *Regulatory Guide 76: Related Party Transactions* ("**RG76**") issued by ASIC recommends the inclusion of a valuation from an independent expert in relation to related party approvals.

The directors of HJB have therefore requested Leadenhall to prepare an independent expert's report assessing whether the Proposed Transaction is fair and reasonable to HJB's shareholders for the purposes of s611 and Chapter 2E. This report is to be included in the notice of meeting. It has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Proposed Transaction.

2.2 Basis of evaluation

Introduction

As the vendors of Janison will hold the majority of the shares outstanding in HJB should the Proposed Transaction be approved, we have assessed the Proposed Transaction as a control transaction. RG111 requires a separate assessment of whether a control transaction under s611 is '*fair*' and whether it is '*reasonable*'. We have therefore considered the concepts of '*fairness*' and '*reasonableness*' separately. The basis of assessment selected and the reasons for that basis are discussed below.

Fairness

RG111.25 requires an independent expert to evaluate an issue of securities under s611 that has a similar effect to a takeover offer as if it was a takeover offer. RG111.11 defines a takeover offer as being fair if the value of the consideration is equal to, or greater than, the value of the securities subject to the offer.

Accordingly, we have assessed whether the Proposed Transaction is fair by comparing the value of a HJB share before the Proposed Transaction with the consideration offered to Shareholders. As Shareholders would retain their HJB shares if the Proposed Transaction proceeds (as opposed to exchanging them for cash or the acquirer's scrip as in a takeover offer) the effective consideration is the continued ownership of a HJB share, which will become a share in the Proposed Merged Entity.

The value of a HJB share before the Proposed Transaction has been determined on a control basis (i.e. including a control premium). This is consistent with the requirement of RG111.11 that the comparison for a takeover must be made assuming a 100% interest in the target company.

After the Proposed Transaction, a HJB share will effectively be a share in the Proposed Merged Entity (i.e. HJB and Janison combined). This has been assessed on a minority interest basis (i.e. excluding a control premium) as Shareholders would own a minority stake in the Proposed Merged Entity should the Proposed Transaction occur.

We have assessed the values of a HJB share and a Proposed Merged Entity share at fair market value, which is defined by the International Glossary of Business Valuation Terms as:

> *The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.*

While there is no explicit definition of value in RG111, this definition of fair market value is consistent with basis of value described at RG111.11 and common market practice.

Special value is defined as the amount a specific purchaser is willing to pay in excess of fair market value. A specific purchaser may be willing to pay a premium over fair market value as a result of potential economies of scale, reduction in competition or other synergies they may enjoy arising from the acquisition of the asset. However, to the extent a pool of hypothetical purchasers could all achieve the same level of synergies the value of those synergies may be included in fair market value. Special value is typically not considered in forming an opinion on the fair market value of an asset. Our valuations of HJB and the Proposed Merged Entity do not include any special value.

Reasonableness

In accordance with RG111, we have defined the Proposed Transaction as being reasonable if it is fair, or if, despite not being fair, Leadenhall believes that there are sufficient reasons for Shareholders to vote for the proposal. We have therefore considered whether the advantages to Shareholders of the Proposed Transaction outweigh the disadvantages. To assess the reasonableness of the Proposed Transaction we have considered the following significant factors recommended by RG111.13:

- The size of existing shareholding blocks in HJB including any interests held by the vendors of Janison
- The liquidity of the market in HJB's shares
- Any special value of HJB to Janison
- The likely market price of HJB shares if the Proposed Transaction is rejected
- The value of HJB to an alternative bidder and the likelihood of an alternative offer

We have also considered other significant advantages and disadvantages to Shareholders of the Proposed Transaction.

2.3 Individual circumstances

We have evaluated the Proposed Transaction for Shareholders as a whole. We have not considered its effect on the particular circumstances of individual investors. Due to their personal circumstances, individual investors may place a different emphasis on various aspects of the Proposed Transaction from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the Proposed Transaction is fair and reasonable. If in doubt investors should consult an independent financial adviser about the impact of this Proposed Transaction on their specific financial circumstances.

3 PROFILE OF HJB

3.1 Background

HJB is a company listed on the ASX that was established to provide a broad range of recruitment, human resource and ancillary services across various industries. HJB, then known as Hamilton James & Bruce Group Limited, was suspended from trading on 2 September 2013 following failures to lodge its periodic reports. On 12 September 2013, HJB announced that an administrator had been appointed to assume control of HJB and its subsidiaries. Thereafter, HJB entered into a Deed of Company Arrangement ("**DOCA**") on 24 December 2013 whereby the creditors of HJB and the deed administrator accepted a proposal from a syndicate for the recapitalisation and re-listing of HJB on the ASX.

HJB was then recapitalised in August 2014 with a view of investing in high growth and strong cash-flow generating businesses. HJB has explored opportunities to extract value from its existing assets, which include its database and other IP, as well as considering a number of acquisition and investment opportunities in various industries.

In 2015, HJB formed a strategic alliance with Workible, a leading recruitment technology and online recruitment solutions provider. The original aim of the strategic alliance was to leverage HJB's relationships with job seekers while Workible provides the technology and job fulfilment capabilities. However, HJB has recently ceased this strategic alliance in light of growing difficulties in the implementation of the agreement.

3.2 Key personnel

HJB has two executive directors prior to the execution of the Share Purchase Deed. A summary of their experience is below.

Table 4: HJB Key Personnel

Name and title	Experience
Mike Hill Executive Chairman	Mr Hill is a former partner of Ernst & Young in the M&A advisory team and has also worked as a principal investor with the private equity firm Ironbridge from 2004 to 2014. He has also served on boards across numerous industries including retail, healthcare, media, waste services, tourism and hospitality and manufacturing. He is currently the non-executive Chairman of AHAlife Holdings Limited and the non-executive Chairman of Rhipe Limited and NMG Corporation Limited. He is also a non-executive director of JustKapital Limited.
Brett Chenoweth Managing Director	Mr Chenoweth was the CEO and Managing Director of APN News and Media Limited. He has more than 20 years of professional experience and has held senior executive roles in the areas of media, technology, telecommunications and online businesses. He is currently the Chairman of Yellow Pages Group and a director of ASX-listed NMG Corporation Limited.

Source: HJB

3.3 Financial performance

The financial year ("**FY**") for HJB is a twelve-months period ending 30 June. The audited consolidated statements of financial performance for FY15, FY16 and FY17 are set out below.

Table 5: Statement of Financial Performance of HJB

$'000	FY15	FY16	FY17
Expenses			
Employment expenses	(403)	(325)	-
Other operating expenses	(147)	(422)	(78)
Exchange gain/(losses)	-	-	
Total expenses	**(550)**	**(747)**	**(78)**
EBITDA	**(550)**	**(747)**	**(78)**
Amortisation	-	(30)	(10)
EBIT	**(550)**	**(777)**	**(88)**
Interest income	17	9	1
Profit from discontinued operations after tax	5,136	-	-
Net profit/(loss) after income tax	**4,603**	**(768)**	**(87)**

Source: HJB

In relation to the financial performance of HJB set out above, we note the following:

- There has been no revenue generated from ordinary activities in recent financial years.
- The bulk of the employment expenses pertains to the remuneration of directors. It has been agreed by the directors that all salaries and fees accrued from 1 July 2016 onwards are unconditionally and irrevocably waived. Thus, no employment expenses were accrued for FY17. For the balance that has accrued up until 30 June 2016, the directors have agreed to waive approximately half of their entitlements. The remaining amounts, contingent upon the completion of the Proposed Transaction, are to be converted into equity at the same price as the Proposed Capital Raising.
- Other operating expenses are made up of legal and professional fees, business development and general administration expenses.
- The amortisation expenses incurred in FY16 and FY17 were taken up as a result of an impairment from the board's assessment of the fair value of HJB's IP at year end.
- The profit from discontinued operations after tax in FY15 was a result of the terms of the DOCA where HJB would pay $0.2 million to the deed administrator for distribution under the DOCA to a Creditors' Trust in return for secured and unsecured creditors releasing all charges and claims against HJB. Therefore, the profit of approximately $5.1 million is effectively a release of HJB's net liabilities.

3.4 Financial position

The audited consolidated statements of financial position as at 30 June 2015, 30 June 2016 and 30 June 2017 are set out in the table below.

Table 6: Statement of Financial Position of HJB

$'000	30-Jun-15	30-Jun-16	30-Jun-17
Current assets			
Cash and cash equivalents	992	350	108
Trade receivables and prepayments	33	7	5
Total current assets	**1,025**	**356**	**113**
Non-current assets			
Intangible assets	50	20	10
Total non-current assets	**50**	**20**	**10**
Total assets	**1,075**	**376**	**123**
Current liabilities			
Trade and other payables	(136)	(206)	(39)
Total current liabilities and total liabilities	**(136)**	**(206)**	**(39)**
Net assets	**938**	**170**	**84**

Source: HJB

In relation to the historical financial position of HJB set out above, we note the following:

- The cash balance as at 30 June 2015 is predominantly made up of proceeds from the issue of shares and options, less the DOCA cash settlement. Cash outflows in the subsequent periods are in relation to the repayment of HJB's trade creditors.
- The bulk of the trade and other payables balance pertains to amounts owing for the professional fees and business development costs incurred. The decrease in the balance from 30 June 2016 is largely consistent with the cash outflows as repayments to trade creditors.

3.5 Capital structure and shareholders

The details in this section are as at 13 October 2017, which is therefore on a pre-consolidation basis.

HJB had a total of 311.9 million ordinary shares on issue. In addition, there are currently a total of 40.5 million share options on issue in two tranches as follows:

- 20.25 million share options exercisable at $0.01 per share expiring on 8 October 2017.
- 20.25 million share options exercisable at $0.01 per share expiring on 8 October 2019.

The following table sets out details of HJB' substantial shareholders as at 13 October 2017:

Table 7: HJB's substantial shareholders

Shareholder	Shares held	% total shares
Mace Group Pty Ltd	25,000,000	8.0%
Mr Mike Everett	20,400,000	6.5%
Mr Brett Chenoweth	20,400,000	6.5%
Mrs Salam Nader	20,400,000	6.5%
Mr Michael Pollak	18,600,000	6.0%
Mr Julian Knights	18,400,000	5.9%
Citicorp Nominees Pty Ltd	16,310,521	5.2%
Other shareholders	172,366,267	55.3%
Total	**311,876,788**	**100.0%**

Source: HJB and ASX announcements

We note that there are no controlling shareholders and only seven shareholders with holdings over 5%.

3.6 Share price performance

HJB shares have been suspended from trading on the ASX since 8 September 2016, pending the release of an announcement in relation to a material transaction and capital raising by HJB. HJB was last traded at $0.008 per share and ranged from $0.006 to $0.016 with trading volumes of approximately 14.5 million shares in total over the last 24 months.

4 E-LEARNING AND LEARNING MANAGEMENT SYSTEMS

4.1 E-Learning

Overview

E-learning is the utilisation of electronic technologies to access educational modules outside of a traditional classroom environment. E-learning facilitates online education with real-time tracking of results and maximises efficiencies in both time and cost. The e-learning market is growing rapidly partly as a result of emerging technologies and tools that support e-learning.

The e-learning industry can be stratified into two segments, corporate and academic. The corporate e-learning segment includes all forms of electronically supported learning and teaching tools used by organisations to promote continuous learning and development of their workforce. E-learning offers these organisations the opportunity to switch to more advanced learning and teaching models that use digital formats to amalgamate information.

The academic e-learning segment is similar in its nature to the corporate e-learning segment, with the key difference being the users of these electronically supported tools. Both segments depend on learning management systems ("**LMS**"), which are software applications needed to administer, document, track and report a specific learning process.

E-learning trends

According to the E-Learning Market Trends and Forecast 2017-2021 report by Docebo, the global e-learning landscape is changing rapidly as new trends continue to emerge. Such trends include:

- An expectation that organisations will be increasing their expenditure on training to improve the productivity and performance of their staff.
- Online education providers are expected to experiment with different LMS suppliers.
- Increasing use of social learning which is an informal learning where learners gain knowledge and develop their skills by participating in online discussions and presentations that centre on their personal interests and activities.
- Increasing use of personalised learning which refers to the range of educational programs, learning experiences, instructional approaches and academic support strategies intended to address the specific learning needs, interest, aspirations, or cultural backgrounds of individual students.
- Increasing use of gamification (which is the use of game theory and game mechanics in non-game contexts to engage users in solving problems) with the aim of motivating learners so that they can perform better.

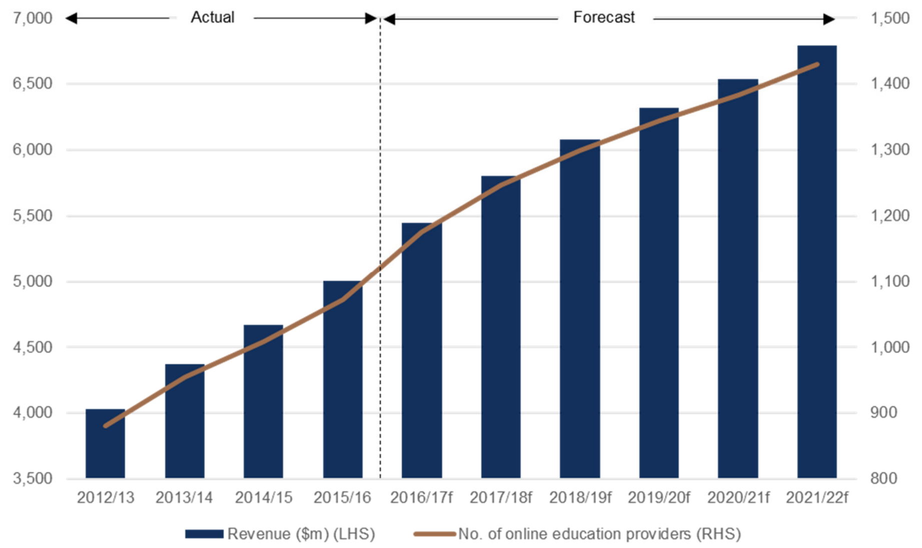
As Janison is an LMS provider, the performance and growth of its business is highly correlated with the online education industry in general. Therefore, we provide an overview of the Australian online education industry before analysing its key drivers and their impacts on the LMS industry.

4.2 Australian online education industry overview

The online education industry is currently in the growth stage of its life cycle as consumers are increasingly receptive to the idea of e-learning, coupled with the emergence of innovative products which are establishing new markets. The convenience of e-learning has enabled individuals, from diverse backgrounds, to become a participant in the industry. As the online education industry evolves, users can expect new applications and software that will complement their learning experience.

The 2017 IBISWorld industry report states, the online education industry in Australia has excelled over the past five years. Figure 1 below shows industry revenue is projected to grow at a compound annual growth rate ("**CAGR**") of 8.7% over the five years through 2017 to $5.4 billion. In the same period, the number of online education providers has grown in line with industry revenue. These online education providers tend to be existing brick and mortar establishments that have extended their services online.

Figure 1: Revenue and number of online education providers



Source: IBISWorld

According to the Australian Trade and Investment Commission, there are presently over 1,100 online education providers in Australia. Leading online education providers in Australia include Ducere, Online Education Services, Open Colleges, Open Training and Education Network and Open Universities Australia.

Online education providers compete based on price, brand, reputation and service. The reputation of the course or institution among potential students and employers is key in attracting enrolments. Therefore, the more established universities gain an advantage from having a strong public profile and history. Nonetheless, the reputation of an online education provider can also benefit from accreditation by federal or state government authorities. The other determining factor lies in the service level an institution provides as students are often working to tight schedules and hence require flexibility and ease of use.

Due to rising competition, there has been a rapid change of technology and systems used in the online education industry. Most universities now use a combination of in-house and commercial LMS to provide an integrated online system for students to access e-mail, course notes, timetables and other learning and administrative resources. The more commonly used LMS in this field are Blackboard Learn and Moodle.

4.3 Learning Management Systems

LMS enables communication and collaboration between trainers and trainees without the conventional geographical and time constraints. LMS can be employed as an independent training delivery platform or as a supplement to traditional on-site training.

There are generally two types of LMS, Software as a Service ("**SAAS**") and licensed LMS. The notable difference between the two is that for SAAS, it is offered as a service and hosted on the vendor's servers while a licensed LMS is an identifiable product operating on servers within the client's network.

SAAS represents a network of remote servers hosted in the cloud. All clients obtain access to separate parts of a standardised LMS version, run the same infrastructure and are charged monthly depending on the number of enrolled users and the relevant features. Clients need not perform the installation and maintenance of the LMS. LMS deployment is done quickly without additional hardware infrastructure or employee resources to manage the software. However, clients would need to incur cloud data storage risks and in the long-run, higher total costs of ownership.

SAAS is ideal for small companies which lack the necessary internal resources and to satisfy the urgency of implementing LMS. In addition, SAAS suits buyers who are unsure if e-learning is the right approach for their business as it does not require significant, upfront investments. Examples of SAAS software include Blackboard, Litmos LMS and Totara LMS.

Installed LMS is a software that is stored on servers belonging to the client. Through an annual subscription, clients license the software and are responsible for all operation and maintenance costs. Since initial set-up and maintenance is performed by the client, this option requires more resources and technical expertise but in the long-run, can be a more cost-effective solution. Installed LMS provides users with opportunities to customise features, efficiently integrate third-party extensions and enables users to securely store data.

Installed LMS is usually chosen by large enterprises with the disposal of internal resources for the implementation and maintenance of LMS; or for companies which have security restrictions for storing proprietary or sensitive information. Examples of installed LMS software include JoomlaLMS, Sakai LMS and LearnDash LMS.

The purported benefits of using an LMS in a corporate learning environment are shown in the table below:

Table 8: Benefits of an LMS

Benefits of an LMS	
Reduces training costs	♦ Reduces the need for face-to-face sessions ♦ Less travel for staff ♦ Less time away from tasks ♦ More efficient allocation of human resources, resulting in time and cost savings
Flexible training delivery	♦ Training is accessible anytime and from anywhere ♦ Empowers staff to take ownership of their professional learning when and where convenient
Staff engagement	♦ Learning is fun and user-centred ♦ Training is multimedia-rich, collaborative and can be electronically delivered via computer, tablet or mobile
Improves workplace learning	♦ Facilitates all types of learning that occur in the workplace ♦ Aligns with the 70-20-10 training model which states that informal, social and formal training represent about 70%, 20% and 10% of organisational learning respectively
Better staff performance	♦ Helps staff perform better with effective training including induction, compliance and professional development programs and job-specific training
Achieves business outcomes	♦ Learning strategy can be aligned with organisational goals

Source: My Learning Space

4.4 Key drivers of the Australian online education industry

The adoption of online education is dependent on the infrastructure and platform used to deliver content. Technological advancements and the availability of high-speed internet have added to the attraction and viability of the online education model for learning. In particular, the rollout of the National Broadband Network ("**NBN**") is expected to spur online education growth by lifting the number of internet connections and increasing the speed of data transfer across Australia. This should improve the access to education for individuals living in regional areas and beyond.

In addition, advances in computer programming allow a greater variety of online subjects to be offered by online education providers. Engaging and adaptive learning software amplifies the appeal of online courses, enabling content to be adjusted to suit students, dynamically correcting their misconceptions and allowing them to progress through the coursework at their own pace.

Therefore, this has been one of the primary catalysts driving the sale of LMS products in the Asia-Pacific region. As an illustration from the 2013-2018 Asia Self-paced eLearning Market report by Ambient Insight, the Vietnamese government signed an agreement with the telecom operator, Viettel, to use the deployed technological infrastructure to enhance online education through various applications. Viettel successfully developed a SAAS LMS, facilitating the management of teaching, database, examination and school supervision.

The trend towards upskilling and emphasis on lifelong learning, especially in times of high unemployment, have also driven the growth of online education. In difficult economic times, demand from individuals for education and training is likely to increase as individuals seek to acquire more skills, improving their employability. Online education provides these individuals the opportunity of upskilling as it offers greater flexibility, allowing full-time workers to engage in further learning fitted around their existing obligations.

In 2014, Oxford University Press ("**OUP**"), the largest university press in the world, announced a distribution agreement with Hujiang, an online education company with more than 110 million users primarily made up of working professionals. This agreement allows Hujiang to teach a series of OUP's digitalised products, filling the Chinese market gap for high-quality Business English programs.

Lastly, increasing government support for online education providers has also been vital to the industry's development over the past five years. These grants are used to support the technological development of online courses and at the same time, drive the creation of LMS products. In addition, government study assistance programs have resulted in more students being able to afford furthering their education, propelling the growth in enrolment of online courses as in the case of the rising popularity of Open Universities Australia ("**OUA"**).

OUA offers students access to a range of units and qualifications that are taught by Australian universities, including Curtin University which uses the Janison LMS to deliver invigilated tests to students. These universities provide students with digital study materials and online discussion forums to raise questions and for interactions with other students.

4.5 Outlook

According to the 2017 IBISWorld industry report, revenue for the online education industry is projected to grow at a CAGR of 4.5% over the five years through 2021-22, to $6.8 billion. The number of online education providers is forecast to grow at a similar rate over the same period. In addition, in order to improve industry profit, maintaining a steady enrolment growth is expected to allow online education providers to spread expenses across a larger number of students.

In the 2018-2023 World Outlook for E-learning Software report by Icon Group, potential industry earnings for e-learning software worldwide and in Australia are forecast to grow at 7.4% and 6.2% annually respectively. Asia has the largest market potential with a size of USD 21.5 billion out of a global estimated USD 59.5 billion in 2018, while Australia is forecast to have a market size of USD 668 million in 2018.

The growth projections for Australia are supported by digital assessments, part of the e-learning software industry, which are becoming more common in the education sector. English Literacy Studies will be the first South Australian Certificate of Education Year 12 exam to be taken electronically in 2018, with seven more subjects to have computerised exams by 2020. The South Australian state government had announced in their 2016 budget an amount of $10.6 million over five years to modernise the high-school qualification.

National Assessment Program – Literacy and Numeracy ('**NAPLAN**") national online testing has also begun trialling, garnering mixed reviews from teachers and students. The Australian Education Union and teachers have spoken of their reservations over the online NAPLAN tests as they believe the standards of IT infrastructure between schools across the country are different. This may advantage the more privileged students. On the other hand, most students are receptive of the change as questions are tailored to the student's performance, engaging them in the process. In addition, schools will also be able to receive the results of the tests back within weeks as opposed to months with the old paper tests, which will provide more timely feedback for students.

5 PROFILE OF JANISON

5.1 Background

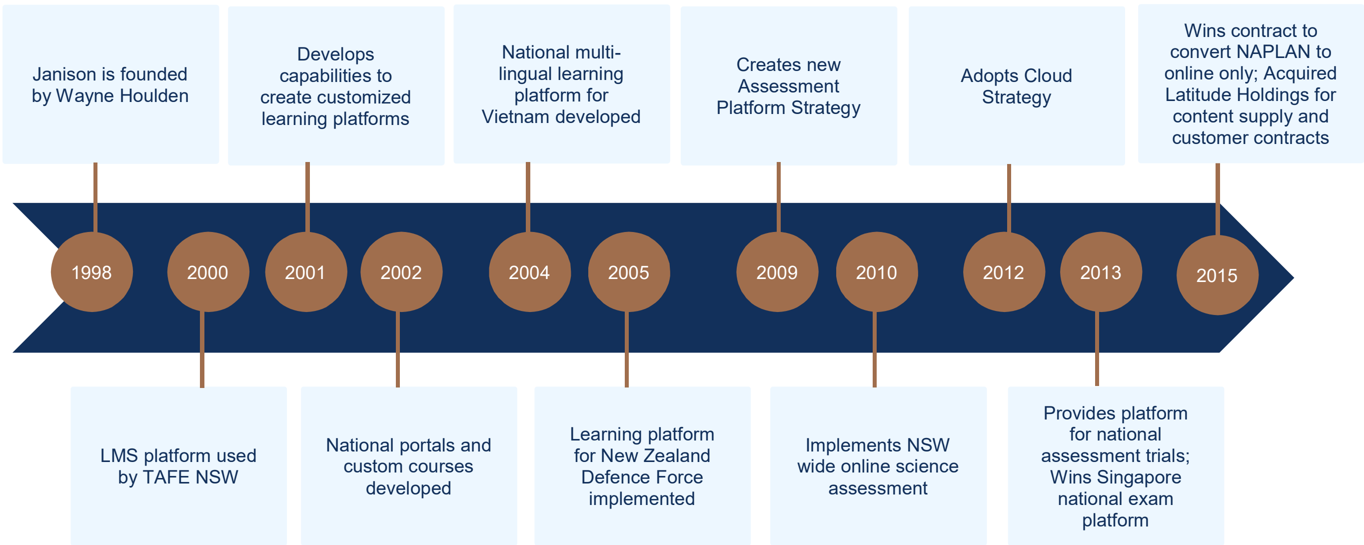
Janison was founded by Wayne Houlden in 1998 and is owned by entities associated with Mr Houlden and its CEO, Tom Richardson. Janison is a global provider of an innovative online LMS and digital assessment platform. These platforms are sold to a wide variety of clients across the education lifecycle including education departments, tertiary and vocational institutions and corporates. Janison also acquires and curates content, as well as, providing customisation services and creating bespoke solutions.

In general, the business generates income from the following:

- Services - time-based charges for implementing and maintaining the system
- Platform - renting the platform to clients on a SAAS model
- Content - curating and selling third party learning content

Janison employs a team of over 70 staff located in Australia, New Zealand and Singapore. Janison leverages a networked virtual model which provides elasticity, low cost and extended support coverage.

5.2 Timeline of key operational developments



Source: Janison

5.3 Overview of operations

Janison's business activities can be separated into two divisions, Corporate Learning and Digital Assessment. Further information of the respective divisions is provided below:

5.3.1 Corporate Learning division

Janison has developed and owns the IP of a leading technology platform and content curation system for the administration, documentation, tracking, reporting and delivery of online courses and training programs. The software platform is cloud-based and delivered to clients on a SAAS delivery model.

Janison LMS currently operates in fifty-two separate organisations, with notable clients including some of Australia's largest listed banking, mining and healthcare companies. Whilst historically focussing on the Australian corporate market, Janison is increasingly developing its international client base. An example of this growth was evidenced recently when Janison was awarded a major new contract with a global mining giant based out of North America following a recommendation from Janison's long-time customer. This also shows the international competitiveness of the Janison LMS offering.

Janison acquires the rights, in exchange for a fee, to leading content from a number of international content providers, such as CrossKnowledge, Skillsoft and Execast, which forms the content library. This thereby provides a "one stop" shop for Janison's clients. The proprietary platform provides a flexible and robust LMS for some of Australia's largest companies. Janison's platform which is built with cutting edge programming languages and security features can be customised for each individual client with its "white label" functionality, focussing on usability, responsive design and social learning activities.

The tailored approach to content results in an increased usage pattern for learners, improved engagement and better learning outcomes. Janison's LMS platform is being adopted by large organisations who already have existing LMS, but desire a fresh approach to deliver important or transformational content. Janison seeks to partner with quality content providers, allowing clients to quickly implement the LMS platforms, enabled with relevant and quality content. The majority of Janison's clients now access the system via cloud hosted environments on Microsoft Azure in Australia and in other regional locations.

Janison generates revenue by selling Platform, Services and Content. The Platform revenue stream is the core library of IP, comprising of the user interface, delivered via a SAAS model. Revenue is generated by charging customers for access to the Janison platform, depending on the number of users they have on the platform. Janison currently has forty-five customer organisations paying for access to the platform.

The Services revenue stream is generated from the initial integration and ongoing maintenance for specific customer requirements, charged at a blended rate of approximately $200 per hour.

The Content revenue stream is derived from the integration and sale of third party content. Content revenue is currently generated from three clients.

5.3.2 Digital Assessment division

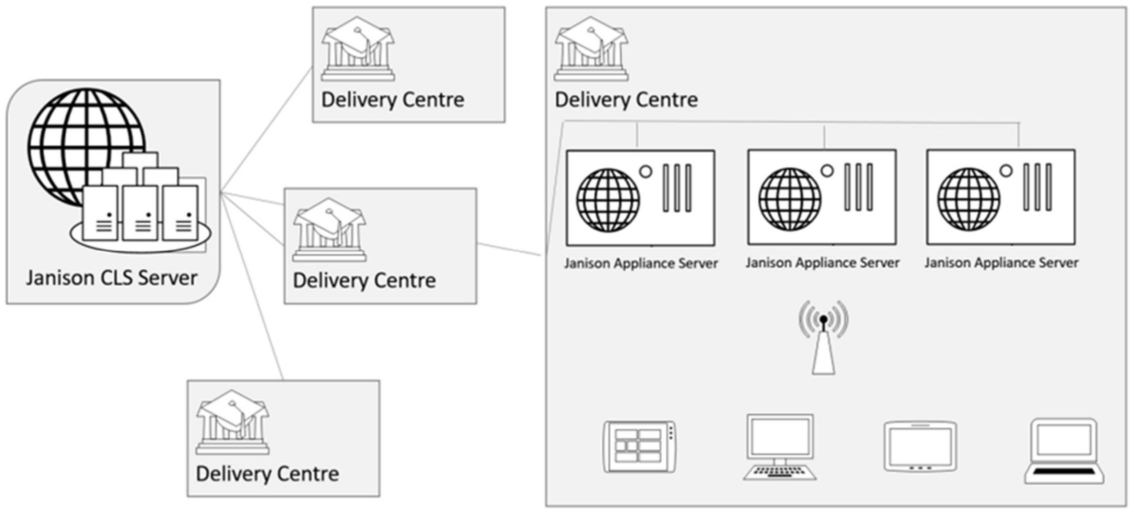
Janison has been working over the last five years to develop a leading proprietary platform to enable governments, universities and large certification clients to convert their paper based assessments into a digital online environment. The client base includes the Australian government to digitise the NAPLAN and the Singapore government (through Singapore Examinations and Assessment Board) to digitise their year 12 school exams.

The Janison online assessment platform has capabilities across all core areas of online assessment being, authoring, identifying, delivering, marking, analysing and reporting exams and tests. This platform also has extensive support for key cross-function services such as security, workflows, role management, scalability, resilience, adaptability and extensibility.

The logistics and security requirements of providing online exams to institutions is complicated and Janison has an approach it believes to be robust and scalable. For some scenarios, instead of using cloud, Janison plans to provide its clients with an appliance server, as a specialised single device developed by Janison which includes an uninterrupted power supply, a dedicated high performance wi-fi system and a micro-computer server with its server technology pre-installed.

This appliance server will be leased to clients for the period of time as required. In order to manage the devices, Janison creates a services team and the background technology (which may be the configuration of appropriate existing tools). It is anticipated that Janison will earn a continual income stream, in the form of a management fee, similar to a software subscription from the ongoing lease of this hardware to the client. The model is outlined in the diagram below:

Figure 2: Janison online assessment model



Source: Janison

Janison has developed solutions within its online assessment platform to directly address challenges associated with the logistics of providing online exams to institutions. Some functions such as the procedural processes and methods of access and monitoring whilst events are taking place, are at least partially unique to each event being delivered. The online assessment platform uses core capabilities and extensible architecture to create a variant platform, unique to each client.

Janison charges for these services under long-term contracts that generally involve early stage payments for implementation, followed by ongoing platform fees for usage (i.e. cost per test undertaken) and an ongoing service fee to cover support and maintenance of the product. At times, clients require upgrade services or additional functionality which can also be undertaken for additional fees.

5.4 Competitive position

The table below sets out the strengths, weaknesses, opportunities and threats analysis ("**SWOT**") for Janison.

Table 9: SWOT analysis of Janison

Strengths	Weaknesses
♦ The Janison platform is scalable and uses the latest web application design and methodologies without legacy architecture or design patterns embedded in the system. ♦ Strong relationships with its domestic customers which has enabled expansion of contracts across their enterprises globally. ♦ Experienced management team with industry-specific and organisation knowledge.	♦ Janison currently has limited access to capital which may inhibit its growth. ♦ Lack of creation and owning of content may lead to the loss of customers to competitors who have strong content. ♦ Janison is heavily reliant on three customers who have contributed more than half of its total revenue.
Opportunities	**Threats**
♦ While historically focussed on the Australian corporate market, opportunities exist for Janison in developing its international client base. Janison currently has contracts in place with customers in Singapore and Canada. ♦ The trend of digital assessments taking place in Australia in the near future can drive further growth of Janison's Assessment division.	♦ Technology in the LMS industry is constantly evolving. There is therefore a threat of new entrants developing superior technology to the Janison platform. ♦ Janison implements and manages large and complex systems for clients, containing a risk of the systems not performing as planned. ♦ As Janison's client base includes a number of government departments, changes in governments may alter policy decisions which can adversely impact Janison.

Source: Janison and Leadenhall analysis

5.5 Key personnel

The current directors and senior management team of Janison comprises:

Table 10: Janison directors and senior management team

Name and title	Experience
Wayne Houlden Co-Founder and Executive Director	Mr Houlden is the Co-Founder of Janison. He has over thirty years of experience in the digital learning industry and has been involved in the development of various award winning and innovative online learning applications. He is currently the Chief Technologist and Head of Corporate Development for Janison's digital assessment platform. Before founding Janison, he was an IT leader in Citibank and had experience teaching IT.
Jacquie Houlden Co-Founder and Executive Director	Mrs Houlden is the Co-Founder of Janison. She has over thirty years of experience in the digital learning and education industries.
Thomas Richardson Chief Executive Officer	Mr Richardson has over twenty years of experience in digital and corporate learning. He was previously a partner at Deloitte Consulting, focused specifically on digital disruption, innovation and business growth. He was the founder of the Deloitte Leadership Academy and the CEO of Latitude Learning Academy before joining Janison in 2015. He had also held positions at Bain International, Arthur Andersen and various investment banks in London.
Diane Fuscaldo Chief Financial Officer	Ms Fuscaldo has over twenty years of professional financial and management experience. She has international work experience with The Walt Disney Company and as a senior manager at PricewaterhouseCoopers.
Sheena McTackett Chief Human Resources Officer	Ms McTackett has over twenty years of experience in Human Resource. She was previously with Herbert Smith Freehills, McKinsey and Company and Partners in Performance.
Scott Warden Division Head (Digital Assessment)	Mr Warden recently joined Janison from Accenture, where he was a managing director in the Consulting division. He is currently the Head of the Digital Assessment division.
Ashley Thomas Division Head (Corporate Learning)	Mr Thomas joined Janison in 2013 and has previously worked with Pearson Australian and European learning divisions. He is currently the Head of the Corporate Learning division.

Source: Janison

5.6 Financial performance

The audited statements of financial performance for Janison for FY16 and FY17 are set out below.

Table 11: Statement of Financial Performance of Janison

$'000	FY16	FY17
Revenue		
Digital Assessment division	5,161	7,772
Corporate Learning division	5,443	6,571
Total revenue	**10,604**	**14,343**
Cost of sales		
Employee costs - direct	(5,506)	(6,207)
Third-party content licenses	(269)	(695)
Hosting expenses	(632)	(1,103)
Total cost of sales	**(6,407)**	**(8,005)**
Gross profit	**4,197**	**6,338**
Other income		
R&D tax credit income	1,234	1,516
Foreign exchange gains/(losses)	36	(132)
Total other income	**1,270**	**1,384**
Expenses		
R&D costs	(1,785)	(2,141)
Employee costs - corporate	(458)	(755)
General and administrative expenses	(1,385)	(1,912)
Other operating expenses	(18)	(215)
Total expenses	**(3,647)**	**(5,023)**
EBITDA	**1,821**	**2,699**
Depreciation & amortisation expenses	(245)	(238)
EBIT	**1,576**	**2,461**
Interest income	27	20
Interest expense	(134)	(172)
Profit before tax	**1,469**	**2,309**
Income tax expense	(858)	(1,313)
Net (loss)/profit after income tax	**611**	**995**
Revenue growth - Digital Assessment	*76.6%*	*50.6%*
Revenue growth - Corporate Learning	*9.9%*	*20.7%*
Gross profit margin %	*39.6%*	*44.2%*
EBITDA margin %	*17.2%*	*18.8%*
EBIT margin%	*14.9%*	*17.2%*

Source: Janison

In relation to the historical financial performance of Janison set out above, we note the following:

- Revenue from the Digital Assessment division has increased significantly from FY16, as a result of the level of investment in the platform and customer uptake. Service fees form the bulk of the revenue in this division. Service fees can either be derived as an upfront, lump sum payment from the implementation of the platform or charged annually under long-term contracts, typically two years for the initial license, as ongoing management and service support. Platform fees are charged per test undertaken and derive higher margins than service fees. Platform fees, which represent approximately 30% of the Digital Assessment revenue stream, have been growing faster than service fees and may form the bulk of the revenue over time.

- Revenue from the Corporate Learning division has increased at a slower rate than the Digital Assessment division. Platform revenue forms the bulk of the revenue and generates the highest gross margins in this division. Clients are charged on a monthly basis for the number of users on the platform. Service revenue has remained relatively constant compared to the other revenue streams. Service revenue is derived from the initial integration of the system and ongoing maintenance for specific customer requirements. Content revenue has experienced a significant level of growth over the period, from the sale of online course content which Janison has licensed from third-party content providers.
- The top five customers of Janison for FY17 have accounted for more than 64% of the total revenue. These customers are Education Services Australia, Westpac, Singapore Examinations and Assessment Board, NSW Department of Education and Learning Seat. It is worth further noting that four of these five customers were also top five customers of Janison for FY16.
- Employee costs directly attributable to the development of software and building of platforms form the bulk of the cost of sales balance. These employee costs also include the employment of software development contractors. As these costs do not vary directly with revenue, they have remained relatively consistent over the period. Hosting expenses are incurred as the majority of Janison's software run on services and infrastructure hosted in Microsoft's cloud service environment, Azure.
- Gross profit and gross profit margins have increased from FY16 predominantly due to the growth of the Digital Assessment division while cost of sales have only increased marginally.
- Research and development ("**R&D**") tax credit income pertains to the Australian Taxation Office ("**ATO**") R&D tax incentive, designed to encourage more companies to engage in R&D. This income represents the incentive payments received from the ATO, recorded in the period in which the related R&D costs were incurred. This credit income is presented as part of EBIT using the Government Grant approach as per Accounting Standard AASB 120.
- Depreciation and amortisation expenses are incurred in relation to leasehold building improvements and the amortisation of the intangible assets acquired from Latitude Holdings in FY16.
- Similar to the gross profit margins, EBITDA and EBIT margins have increased since FY16, predominantly driven by the growth of the Digital Assessment division, slightly offset by significant increases in R&D expenses.

5.7 Financial position

The audited statements of financial position as at 30 June 2016 and 30 June 2017 are set out in the table below.

Table 12: Statement of Financial Position of Janison

$'000	FY16	FY17
Current assets		
Cash	2,854	1,358
Trade and other receivables	2,521	3,454
Prepayments	403	478
Total current assets	**5,778**	**5,290**
Non-current assets		
Plant and equipment	807	749
Intangible assets	750	908
Other assets	694	451
Total non-current assets	**2,251**	**2,108**
Total assets	**8,029**	**7,398**
Current liabilities		
Trade and other payables	(1,167)	(836)
Employee entitlements	(644)	(727)
Deferred income	(3,032)	(2,102)
Financing obligation	(246)	(395)
Total current liabilities	**(5,089)**	**(4,060)**
Non-current liabilities		
Employee entitlements	(110)	(88)
Financing obligation	(126)	-
Shareholder loans	(2,500)	(2,500)
Total non-current liabilities	**(2,736)**	**(2,588)**
Total liabilities	**(7,826)**	**(6,648)**
Net assets	**203**	**750**

Source: Janison

In relation to the historical financial position of Janison set out above, we note the following:

- The trade and other receivables balance, predominantly consisting of trade receivables, forms the bulk of Janison's working capital. Most of the trade receivables balance as at 30 June 2017 have been recovered in July 2017, within its standard 30 days credit term.
- Plant and equipment is composed of office and computer equipment and leasehold improvements. Office and computer equipment are depreciated using the diminishing value depreciation method while leasehold improvements are depreciated on a straight-line basis with a useful life of 15 years.
- Intangible assets pertain to the content supply and customer contracts and associated goodwill acquired from Latitude Holdings in FY16 of $0.88 million in total. The acquired content supply and customer contracts are amortised over its useful life of five years. Other component includes the capitalised software expenses related to improvements in the functionality of Janison's core products of approximately $0.3 million, which are to be amortised over a three-year useful life. The bulk of the balance as at 30 June 2017 is attributable to the carrying amount of intangible assets acquired, goodwill and the capitalised software expenses.
- Deferred income relates to fees received in advance of the start of the licence or hosting period, as well as for the provision of services. The bulk of the deferred income pertains to customers from the Corporate Learning division mainly for the use of the Janison LMS platform.

- The financing obligation is accrued as a result of Janison's agreement with Microsoft to licence Azure Cloud hosting services at a fixed rate over a three-year period starting December 2014. The agreement committed Janison to a minimum licence fee based upon specified usage volume levels, payable in advance at the start of the three-year period. Therefore, Janison entered into a loan agreement with Microsoft Financing to finance the commitment which requires a monthly repayment.
- Shareholder loans have been provided by the Founding Shareholders based upon an agreement signed in 2010. The interest rate on the loans has been reduced to 7% from 8%. The loans are secured by the assets of Janison and are repayable upon demand.

5.8 Capital structure and shareholders

As at 13 October 2017 Janison had a total of 89 ordinary shares on issue. There were no options, convertible notes or other convertible securities or rights to receive shares. The following table sets out details of Janison's substantial shareholders as at that date:

Table 13: Substantial shareholders

Shareholder	Shares held	% total shares
Wayne Houlden	36	40.4%
Jacquie Houlden	36	40.4%
Tom Richardson	17	19.1%
Total	**89**	**100.0%**

Source: Janison

On 29 June 2017, Lenroc Investments Pty Ltd as trustee for the Richardson Family Trust acquired three shares each from both Wayne and Jacquie Houlden for cash consideration of $112,360 per share, which implied a total equity value for Janison of $10 million.

In relation to the shareholding of Janison, we note that the Founding Shareholders jointly control Janison.

6 VALUATION METHODOLOGY

6.1 Available valuation methodologies

To estimate the fair market value of HJB and the Proposed Merged Entity (inclusive of Janison) we have considered common market practice and the valuation methodologies recommended in RG 111. There are a number of methods that can be used to value a business including:

- The discounted cash flow method ("**DCF**")
- The CFME method
- Asset based methods
- Analysis of share market trading
- Industry specific rules of thumb

Each of these methods is appropriate in certain circumstances and often more than one approach is applied. The choice of methods depends on several factors such as the nature of the business being valued, the return on the assets employed in the business, the valuation methodologies usually applied to value such businesses and the availability of the required information. A detailed description of these methods and when they are appropriate is provided in Appendix 2.

6.2 Selected methodology – HJB

In selecting an appropriate valuation methodology to value HJB, we have considered the following factors:

- HJB does not have any material ongoing business and is currently loss-making (and expected to remain so on a stand-alone basis), thus the capitalisation of earnings approach and discounted cash flow approach are not relevant.
- Share market trading in HJB shares has been suspended since 8 September 2016. This means that an analysis of share market trading is not a reliable measure of the value of an HJB share.
- As HJB has no active operational activities, its main assets are cash and its status as a listed shell company. These assets can be valued reliably individually and aggregated using an asset approach.

Accordingly, we are of the opinion that the most appropriate methodology to value HJB is an asset based method.

6.3 Selection of valuation methodology – Proposed Merged Entity

In selecting an appropriate valuation methodology to value the Proposed Merged Entity (including Janison) we have considered the following factors:

- Janison is neither an asset based business nor an investment holding company. It is also considered to be a going concern, thus an asset based approach is not likely to be the most appropriate. However, costs to recreate the LMS and digital assessment platforms may be a reliable indicator of Janison's minimum value.
- There are some listed companies and comparable transactions with similar business exposure and near term growth prospects to Janison as well as companies operating in comparable industries with similar profit drivers. Thus, we consider the CFME approach to be appropriate.
- Janison has experienced significant growth and is expecting strong growth to continue over the medium term. A DCF approach can capture this expected earnings growth and the associated capital costs.
- There have been limited recent transactions in Janison's shares.
- We are not aware of any industry specific valuation methodologies appropriate to Janison.

Accordingly, we are of the opinion that the most appropriate methodology to value the Proposed Merged Entity is using the sum of the parts method, with the value of Janison based on the CFME method, with cross-checks to recent transactions in Janison's shares and an analysis on costs to recreate the platforms.

7 VALUATION OF HJB

7.1 Summary

We have assessed the fair market value of HJB before the Proposed Transaction using the net assets on a going concern basis, with a cross-check by reference to recent trading in HJB shares. We set out below our assessment of the fair market value of HJB, based on the net asset approach.

Table 14: Net asset based valuation of HJB

$'000	Low	High
Cash	259	259
Working capital	(35)	(35)
Intangible assets	10	10
Net assets as at 31 August 2017	**234**	**234**
Listed Shell	500	1,000
Subsequent expenditure	(45)	(45)
Transaction costs	(200)	(200)
Total equity value	**489**	**989**
Fully paid shares outstanding (post-consolidation)	9,356,304	9,356,304
Assessed value per share (cents) (post-consolidation)	**5.23**	**10.57**

Source: HJB and Leadenhall analysis

7.2 Cash

As at 31 August 2017 HJB had cash of approximately $0.3 million. The increase compared to the balance as at 30 June 2017 was due to a private placement of ordinary shares at an issue price of 0.8 cents which occurred in August 2017.

7.3 Working capital

As at 30 June 2017 HJB had a net working capital liability of $0.03 million, with the working capital predominantly relating to trade creditors.

7.4 Intangible assets

The assessed value of $10,000 pertains to the carrying amount of HJB's database as at 31 August 2017. As HJB has no active operations or strategy for monetising the database since ending its strategic alliance with Workible, we consider the carrying value to be an appropriate estimate of fair market value for our analysis. We note that any reasonable assessment of value for the database would not alter our opinion on the Proposed Transaction.

7.5 Listed shell

HJB's listing on the ASX provides shareholder value as a potential vehicle for a backdoor listing such as the Proposed Transaction. Based on discussions we have had with stock brokers and insolvency professionals, we understand the typical value for a listed shell company is in the range of $0.5 million to $1.0 million. Due to recent changes in ASX rules there is currently an over-supply of shell companies, which may decrease the value that may be achieved if HJB were used for an alternative backdoor listing transaction. For the purpose of our analysis, we have assessed the value of HJB's shell to be $0.5 million to $1.0 million. This may be somewhat on the high side at present given the changes to listing rules. However, this is to the benefit of the Shareholders and does not impact our opinion.

7.6 Subsequent expenditure

HJB's net cash outflow in FY17 was approximately $0.02 million per month. Based on this cash burn rate and the expected period until completion (3 months), we have deducted $0.05 million from the cash balance at 31 August 2017 to arrive at a current fair market value of a HJB share.

7.7 Transaction costs

If the Proposed Transaction is not completed, the unavoidable transaction costs incurred by HJB which have not been reflected in the above balances will be approximately $0.2 million.

7.8 Shares outstanding

HJB currently has 311.9 million ordinary shares and 40.5 million share options outstanding. Post the 100:3 share consolidation this would result in 9.4 million shares on issue. As explained in Section 3.5, the share options currently outstanding are significantly out of the money and hence have no economic value. Therefore, we have not included these instruments in our analysis.

7.9 Premium for control

A premium for control can be defined as an amount or a percentage by which the pro-rata value of a controlling interest exceeds the pro-rata value of a non-controlling interest in a business enterprise, to reflect the power of control. The requirement for an explicit valuation adjustment for a control premium depends on the valuation methodology and approach adopted. This valuation is based on the net assets approach, which is premised on the ability to control the assets of an entity and therefore incorporates any relevant premium for control. Thus, no further adjustment is required.

8 VALUATION OF PROPOSED MERGED ENTITY

8.1 Introduction

We have determined the fair market value of a share in the Proposed Merged Entity using the sum of the parts method, with the value of Janison based on the analysis set out in Section 8.3 below. This assessment has been made on a minority interest basis (i.e. excluding a control premium) as HJB's existing shareholders would be minority shareholders in the Proposed Merged Entity.

8.2 Summary

We set out below our assessment of the fair market value of a share in the Proposed Merged Entity.

Table 15: Valuation of Proposed Merged Entity

$'000	Section	Low	High
Assessed value of 100% of Janison on a minority basis	8.3	19,438	26,688
Assessed net asset value of HJB	8.4	234	234
Cash Consideration	8.5	(1,500)	(1,500)
Transaction costs and subsequent expenditure	8.6	(890)	(1,255)
Total equity value attributable to Proposed Merged Entity		**17,282**	**24,167**
Allocation to potential shares and options	8.7	(759)	(1,220)
Value allocated to ordinary shares		**16,523**	**22,946**
Total shares on issue post transaction	8.8	92,309,638	92,309,638
Assessed value per share (cents)		**17.90**	**24.86**

Source: Leadenhall Analysis

8.3 Valuation of Janison

8.3.1 Introduction

We have determined the fair market value of Janison using the CFME method and cross-checked this with the recent transactions in Janison's shares and an analysis on the costs to recreate the platforms.

The CFME approach requires consideration of the following factors:

- An appropriate level of maintainable earnings
- An appropriate earnings multiple
- The value of any non-operating assets and liabilities

These considerations are discussed in more detail below.

8.3.2 Maintainable earnings

Multiples of EBITDA, EBITA and EBIT are commonly used to value the whole business for acquisition purposes where gearing is in the control of the acquirer. In contrast, NPAT (or P/E) multiples are often used for valuing a minority interest in a company as the investor has no control over the level of debt.

We have selected to analyse multiples of EBIT because:

- Earnings multiples based on EBITDA and EBIT are not affected by different financing structures which impact multiples of net profit after tax.
- The varying capital intensity of the comparable companies means that an analysis of EBIT is a more reliable measure than the multiples of EBITDA.
- Third party forecasts of EBITA for comparable companies are not readily available making EBITA multiples difficult to calculate without making assumptions about ongoing levels of depreciation and amortisation (i.e. most brokers do not separately forecast depreciation and amortisation).

When considering an appropriate level of future maintainable earnings, it is important to base the analysis on a maintainable level of earnings which includes adjustment for any non-recurring items as these items will not impact the ongoing earnings of the business. The following table sets out normalised EBIT for Janison for FY16 and FY17.

Table 16: Normalised earnings

Description ($'000)	FY16	FY17
Unadjusted EBIT	1,576	2,461
Digital Assessment operating loss	2,042	1,491
Foreign exchange (gain)/loss	(36)	132
Normalised tax credit income	(649)	(575)
Consulting fees	-	157
Adjusted EBIT	**2,933**	**3,666**
Adjusted EBIT margin %	*28%*	*26%*

Source: Janison and Leadenhall Analysis

The 'Adjusted EBIT' for FY17 includes the following adjustments to reported EBIT:

- Operating loss from the Digital Assessment division due to increased R&D investments in the platform and technology which have driven the recent, significant growth in revenue but have yet to generate sufficient revenue to break-even.
- Foreign exchange loss as a result of translation of cash held in Singapore dollars.
- R&D tax credit income, which relates to the tax incentive payment from the ATO, fluctuates according to the level of R&D activities in the particular assessment year. We understand the normalised level of net R&D expenditure (after tax credit income) is approximately $1.2 million. This is calculated based on approximate R&D expenditure of $2 million annually due to fast-changing technology expected in this industry and the recovery of $0.8 million of R&D expenditure from the ATO R&D tax offset. The table below sets out the normalising of the R&D tax credit income.

Table 17: Normalising of R&D tax credit income

Description ($'000)	FY16	FY17	Normalised level
R&D costs	(1,785)	(2,141)	(2,000)
R&D tax credit income	1,234	1,516	800
Net R&D expenditure	(551)	(625)	(1,200)
Reconciliation to normalised level	(649)	(575)	-

Source: Janison and Leadenhall Analysis

- Consulting fees incurred in relation to the renegotiation of the financing arrangement with Microsoft to licence Azure Cloud hosting services.

In addition to the above, we have been provided with Janison's financial forecasts to FY20. We have not disclosed these forecasts due to the commercially sensitive nature of the information contained.

After considering the historical earnings, forecast earnings and margins of comparable companies we have selected the following maintainable earnings. The range has been selected with reference to the normalised FY17 earnings as it accounts for the Digital Assessment division's break-even point.

Table 18: Selected maintainable earnings

Description ($'000)	EBIT Low	High
Maintainable earnings	3,500	4,000

Source: Leadenhall analysis

8.3.3 Earnings multiple

The multiples selected to apply to maintainable earnings implicitly reflect expectations about future growth, risk and the time value of money. Multiples can be derived from three main sources:

- The trading prices of companies that are engaged in the same or similar lines of business and that are actively traded on a public stock market. We have set out our analysis of the trading multiples below.
- From transactions of significant interests in companies engaged in the same or similar lines of business. We note that we have not identified any sufficiently comparable transactions which included adequate financial information to ascertain the earnings multiples implied by the transaction.
- It is also possible to build a multiple from first principles based on an appropriate discount rate and growth expectations. This approach is generally used when the first two are not possible. We have not taken this approach in valuing Janison.

In respect of public company trading multiples, we note that there are limited companies which operate in the same segments as Janison listed on the ASX. However, there are a number of listed Australian and overseas companies that operate in the broader education application management sector that have similar growth and risk factors to Janison.

The following table sets out the historical and forecast trading EBIT multiples for the selected comparable companies.

Table 19: Trading multiples of comparable companies

Company	Market Cap (AUD'm)	EBIT growth[1]	EBIT multiple Historical	Current	Forecast	EBIT margin[1]
Domestic[2]						
Integrated Research Ltd	578	22%	28.2x	21.2x	17.9x	28%
RXP Services Ltd	142	40%	7.8x	7.9x	5.6x	14%
Average (Domestic)		***9%***	***18.0x***	***14.6x***	***11.7x***	***21%***
Median (Domestic)		***22%***	***18.0x***	***14.6x***	***11.7x***	***21%***
International						
ATA Inc.	134	-28%	8.2x	10.6x	nmf	13%
Bluedrop Performance Learning Inc.	17	-2%	6.3x	8.8x	nmf	14%
Franklin Covey Co.	328	-117%	18.0x	nmf	52.6x	2%
RM plc	216	15%	5.9x	5.2x	4.2x	11%
Sing Lee Software Ltd	21	-18%	14.9x	58.7x	nmf	10%
Tribal Group plc	230	139%	43.0x	18.4x	15.4x	7%
Average (International)		***-2%***	***16.1x***	***20.3x***	***24.1x***	***10%***
Median (International)		***-10%***	***11.5x***	***10.6x***	***15.4x***	***11%***
Average (Overall)		***2%***	***16.5x***	***18.7x***	***19.1x***	***12%***
Median (Overall)		***-2%***	***11.5x***	***10.6x***	***15.4x***	***12%***

Source: S&P Capital IQ and Leadenhall Analysis as at 1 September 2017
Notes:
1. Growth and margins are based on 3-year averages to FY18.
2. Several other comparable companies have no meaningful data due to trading losses and are therefore excluded.

Our key considerations in selecting appropriate earnings multiples to apply to our valuation of Janison are summarised below:

- The average and median forecast EBIT multiples are 19.1x and 15.4x with a range of 4.2x to 52.6x.
- There are no pure play learning management and online assessment system developer companies listed in Australia. Furthermore, all of the listed companies above are larger, in some cases significantly larger, than Janison in terms of both revenue and market capitalisation as well as the diversification of its product and service offerings. Generally speaking, Janison would likely be expected to trade on a lower multiple than the above companies due to its smaller size and relative lack of product diversification.
- Janison has experienced significant growth from its high margin revenue stream, platform fees, and in general, achieves margins higher than those of the listed comparables. In addition, further growth in margins is expected once the uptake of digital assessment increases. All things being equal, companies with higher margins tend to trade on higher multiples.
- Janison has a relatively high degree of customer concentration risk as it is heavily dependent on a small number of clients for revenue. All things being equal, companies with a less diversified customer base trade on lower multiples.
- Janison has a number of near-term and longer-term growth options as discussed in Section 5.4. This includes the benefits from growing its international client base, hence it may have better growth prospects than most of the listed comparables. Therefore, it should trade on a higher multiple.
- In terms of the geographical location, size, margins and historical growth, RXP Services Ltd is the most comparable of the companies identified in Table 19 above and has a forecast multiple of 5.6x EBIT. Janison has a higher historical EBIT growth than RXP Services Ltd, driven by strong revenue growth in the Digital Assessment division in the recent years. In addition, Janison's margins are expected to be higher than those of RXP Services Ltd once the Digital Assessment division breaks even, which is anticipated to occur in the near term based on the financial forecasts provided.
- The selection of the multiple, within a fairly broad range, does not impact our conclusion on the Proposed Transaction.

In addition, the financial forecasts for Janison provided to us anticipate continued growth in revenue as discussed in Section 5.6, primarily due to the expected benefits from increased demand in Janison's digital assessment platform which carries high profit margins without requiring further significant investments. However, we perceive a number of risks to achieving the forecast figures including:

- The budget and forecast assume a significant uptake in the number of education bodies taking up the technology of digital assessment in the near term. As the digital assessment industry is currently in its development phase, it is likely most education bodies will only adopt the technology once it has stabilised, which may take an additional couple of years.
- There may be increasing competition in the LMS industry, in line with the rising number of online education providers. Therefore, there may be a threat of new entrants developing superior technology to the Janison platform, hence it could result in the loss of market share.

Based on the consideration discussed above, we have selected the following earnings multiples to apply to our valuation of Janison (on a minority basis).

Table 20: Selected earnings multiples

Description	EBIT	
	Low	High
Selected earnings multiple	6.5x	7.5x

Source: Leadenhall analysis

8.3.4 Non-operating liabilities

Non-operating liabilities are liabilities that are not related to the ongoing business operations, although they may relate to previous business activities, for example legal claims against the entity.

For the purposes of our analysis, we have classified the expected, near-term Digital Assessment division operating loss of approximately $2.2 million as a non-operating liability as the selected maintainable earnings assumes the division breaks even based on the financial forecasts provided. We understand that no additional operating losses are expected beyond FY18.

8.3.5 Net debt

The net debt position for Janison as at 31 August 2017 is set out in the table below:

Table 21: Net debt summary

$'000	
Cash	1,671
Borrowings	(2,816)
Net debt	**(1,145)**

Source: Leadenhall analysis

8.3.6 CFME summary

Based on the CFME analysis set out above, the value of Janison share (on a minority basis) is as set out in the table below.

Table 22: CFME valuation summary

($'000)	Low	High
Maintainable earnings	3,500	4,000
Multiple (minority)	6.5x	7.5x
Enterprise value	**22,750**	**30,000**
Surplus assets	-	-
Non-operating liabilities	(2,167)	(2,167)
Net debt	(1,145)	(1,145)
Equity value on a minority basis	**19,438**	**26,688**

Source: Leadenhall analysis

8.3.7 Transactions in Janison's shares

Whilst limited, there has been a transaction in the shares of Janison as discussed in Section 5.8. In 2017, Lenroc Investments Pty Ltd acquired three shares each from both Wayne and Jacquie Houlden for cash consideration of $112,360 per share. This implied a value for Janison of $10 million.

We consider that the above transaction provides broad support for our assessed range since:

- This involves the transfer of shares in an unlisted private company whereas our assessed value of Janison assumes that the transaction proceeds and therefore Janison is a listed company. Discounts for lack of liquidity or marketability generally range between 10% to 40%.
- It is not uncommon for shares to be issued at a discount to an incoming CEO as a form of incentive to better align the CEO with the interests of the other shareholders, sharing the upside in the growth.
- A proper management budget and forecast to FY20 was prepared since the above transaction, incorporating further growth from the Digital Assessment division and expansion into the international market. We therefore do not consider it unreasonable that the value has appreciated.

8.3.8 Costs to recreate the platforms

We have also cross-checked the assessed range, using the cost approach, to the amounts invested in the platform since Janison first started developing the technology in 2011. To date, Janison has invested approximately $19.1 million on developing the platform, equivalent to around 191,000 man-hours, with a further $9.6 million expected to be incurred over the next three years. This therefore implies a value of at least $19.1 million and hence provides broad support for our assessed range.

8.4 Other net assets of HJB

In addition, we believe that once the Proposed Transaction has been completed, HJB would lose its value as a potential shell company. In valuing the Proposed Merged Entity, we have therefore excluded this component of HJB's stand-alone value.

8.5 Cash consideration

A cash payment of $1.5 million would be paid out to the vendors of Janison as consideration for the Proposed Transaction. Therefore, we have included this as an outflow for the purpose of our analysis.

8.6 Transaction costs and subsequent expenditure

If the Proposed Transaction is completed, total transaction costs are expected to be between $0.9 million and $1.3 million depending on the amount of capital raised.

Subsequent net cash outflow has not been accounted for in the valuation of the Proposed Merged Entity as it is expected that the Proposed Merged Entity would be able to generate sufficient cash and revenue through its ordinary business activities to cover the expenses.

8.7 Value attributable to potential shares and options

The following table provides a summary of the assessed value of the potential shares and options:

Table 23: Proposed Merged Entity potential shares and options

Description	Number	Value range	Low ($'000)	High ($'000)
Existing HJB options				
Options[1]	607,500	-	-	-
Options[2]	607,500	$0.019 - $0.049	12	30
Potential shares and options related to Proposed Transaction				
Performance rights[3]	5,120,000	$0.072 - $0.099	367	509
Options[4]	120,000	$0.030 - $0.066	4	8
Options[5]	1,113,333	$0.179 - $0.249	199	277
Loan funded shares[6]	6,000,000	$0.030 - $0.066	178	397
Total	**13,568,333**		**759**	**1,220**

Source: Leadenhall analysis
Notes:
1. Options with an exercise price of $0.33 expiring on 8 October 2017
2. Options with an exercise price of $0.33 expiring on 8 October 2019 and a vesting hurdle of a 20-day VWAP of $1.00 or upon a change of control
3. Performance rights with a vesting period of two years and a vesting hurdle of operational EBITDA exceeding the 30 June 2019 board approved budget by 10%
4. Options with an exercise price of $0.30, a vesting period of three years and a vesting hurdle of a 5-day VWAP of $0.60
5. Nil price options with a vesting period of one year
6. Loan funded shares with a vesting period of three years and a vesting hurdle of a 5-day VWAP of $0.60

As the loan funded share provided the economic equivalent to a call option, it has been valued as such in our analysis. We have analysed the value of the options and loan funded shares using the Black-Scholes option pricing model, adjusted to account for their respective VWAP hurdles. The key assumptions were a 0% dividend yield and volatility of 50%.

We have assigned a probability weighting of 40% in meeting the performance hurdle of the performance rights. In selecting this weighting, we have considered the comparable companies analysis and the relatively early stage of development of Janison. The operational EBITDA forecast for FY19 assumes continued earnings growth over the period. However, a number of risks exist in achieving the forecast results which would reduce the likelihood of meeting the performance hurdle.

8.8 Number of shares in Proposed Merged Entity

In our consideration of the number of shares in the Proposed Merged Entity we have included:

- 9.4 million HJB shares currently on issue
- 1.1 million shares to be issued as settlement of outstanding fees
- 0.2 million shares to be issued to employees
- 81.7 million shares to be issued as consideration for Janison

The number of shares outstanding post-transaction before and after the 100:3 share consolidation is set out in the table below:

Table 24: Shares outstanding post-transaction

	Pre-consolidation	Post-consolidation
HJB shares currently on issue	311,876,788	9,356,304
Shares to be issued as settlement of outstanding fees	35,000,000	1,050,000
Shares to be issued to employees	7,888,900	236,667
Shares to be issued as consideration for Janison	2,722,222,233	81,666,667
Total shares	**3,076,987,921**	**92,309,638**

Source: Leadenhall analysis

8.9 Capital raising

Subject to the Shareholders' approval and pursuant to a prospectus, HJB is intending to raise a minimum of $8 million and a maximum of $15 million through the issue of ordinary shares at $0.30 each. As the Planned Capital Raising is intended to be above our assessed valuation range it would increase our assessed value per share for the Proposed Merged Entity. This would not alter our opinion.

9 EVALUATION

9.1 Fairness

In order to assess whether the Proposed Transaction is fair we have compared:

- Our assessed fair market value of a HJB share before the Proposed Transaction on a control basis (i.e. including a control premium); with
- Our assessed fair market value of a share in the Proposed Merged Entity (i.e. HJB plus Janison after the Proposed Transaction), on a minority interest basis

This comparison is set out below.

Table 25: Assessment of fairness

	Section	Low (cents)	High (cents)
Fair market value of a HJB share (before Proposed Transaction)	7.1	5.23	10.57
Fair market value of a Proposed Merged Entity share	8.2	17.90	24.86

Source: Leadenhall analysis

Since the value of a HJB share before the Proposed Transaction (on a control basis) is below the value of a share in the Proposed Merged Entity (on a minority basis), the Proposed Transaction is fair to Shareholders.

As noted in Section 8.3, whilst the value of the Janison is sensitive to certain key assumptions in respect of maintainable earnings and earnings multiple, we note that any reasonable changes to these assumptions would not alter the above conclusion.

9.2 Reasonableness

We have defined the Proposed Transaction as reasonable if it is fair, or if despite not being fair, there are sufficient reasons for Shareholders to vote for the proposal. Whilst the Proposed Transaction is fair, we have also considered the following advantages and disadvantages of the Proposed Transaction to Shareholders.

9.2.1 Advantages

Limited alternatives available

Should HJB not successfully complete the Planned Capital Raising there is significant uncertainty as to whether it will continue to trade as a going concern as the current cash balance would only support trading for approximately 4 months. It has no reliable sources of income, other than bank interest which is insufficient to meet its cash costs. Since the Planned Capital Raising is dependent on the Proposed Transaction proceeding, the Proposed Transaction will facilitate the Planned Capital Raising and therefore mitigate the going concern risks for the company which would otherwise be a significant risk in the absence of some other support received by the company.

Exposure to an operating business

At present HJB has no material operating activities since it has recently ceased its strategic alliance with Workible. By contrast, if the Proposed Transaction proceeds, Shareholders will have exposure to a profitable operating business with a large addressable market that has the potential to generate significant returns over the next several years if the business is successful.

Increased liquidity

Market trading in HJB shares is currently suspended. By acquiring Janison and successfully completing the Planned Capital Raising, it will facilitate the resumption of trading in HJB shares. Furthermore, the Proposed Merged Entity is likely to have a market capitalisation significantly more than its most recent market capitalisation.

A larger market capitalisation may make the company a suitable investment for a wider range of investors. The increased market capitalisation and addition of an operating business in a market with significant investor interest at the moment may also attract analyst coverage which would enhance the profile of the Proposed Merged Entity with investors. These factors could result in increased liquidity and greater trading depth than HJB would have on a standalone basis. In the absence of the Proposed Transaction, HJB may not be able to comply with the requirements for re-admission to the official list of ASX.

No transaction costs for Shareholders

If the Proposed Transaction is completed, Shareholders will effectively exit an illiquid position in a company with no material operating business and have exposure to an operating business without having to sell their HJB shares. Shareholders will avoid transaction costs such as brokerage and potentially capital gains taxation that might apply if they sought alternative ways to achieve a similar result.

9.2.2 Disadvantages

Significant change in investment risk profile

Investors who acquired HJB shares for exposure to the professional services industry may not wish to hold an investment in the Proposed Merged Entity, which would predominantly be Janison's business in the learning and assessment technologies business. Whilst the Janison business would likely provide the potential for increased returns on investment, this exposure may not be desirable for some investors due to individual investment preferences.

Potential further capital requirements and further dilution

Janison is still at a growth stage of its development and while it is expected that the Planned Capital Raising will be sufficient to fund its capital requirements, there is a risk that additional funding will be required for further growth which may further dilute Shareholders.

Loss of control

If the Proposed Transaction is approved the vendors of Janison would acquire effective control of HJB. This would include the ability to control the assets, the strategic direction of the company, and the decision of when to pay dividends. The vendors of Janison may not always act in the best interest of HJB's other shareholders, subject to compliance with relevant laws and regulations.

Significant transaction costs

Transaction costs of approximately 5% of the total assessed equity value of the Proposed Merged Entity are on the higher end of similar transactions based on our experience. This therefore represents a slightly excessive dilution of Shareholders should the Proposed Transaction be approved.

9.2.3 Conclusion on reasonableness

As the Proposed Transaction is fair it is also reasonable.

9.3 Opinion

The Proposed Transaction is fair and reasonable to Shareholders.

An individual shareholder's decision in relation to the Proposed Transaction may be influenced by their own circumstances. If in doubt, the shareholder should consult an independent financial adviser.

APPENDIX 1: GLOSSARY

Term	Meaning
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited
ATO	Australian Taxation Office
CAGR	Compound annual growth rate
CFME	Capitalisation of future maintainable earnings method
Chapter 2E	Chapter 2E of the Corporations Act
Corporations Act	The Corporations Act 2001
DCF	Discounted cash flow method
DOCA	Deed of Company Arrangement
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Fair market value	The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms' length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts
FOS	Financial Ombudsman Service
Founding Shareholders	Wayne and Jacquie Houlden
FSG	Financial Services Guide
FY	Financial year
HJB	HJB Corporation Ltd
IP	Intellectual property
Janison	Janison Solutions Pty Ltd
Leadenhall	Leadenhall Corporate Advisory Pty Ltd
LMS	Learning management system
NAPLAN	National Assessment Program – Literacy and Numeracy
NBN	National Broadband Network
NPAT	Net profit after tax
OUA	Open Universities Australia
OUP	Oxford University Press
PBT	Profit before tax
Planned Capital Raising	Minimum $8 million public offer of new shares pursuant to a prospectus
Proposed Merged Entity	Combination of HJB and Janison after the Proposed Transaction
Proposed Transaction	Acquisition of 100% of Janison
R&D	Research and development
RG74	Regulatory Guide 74: Acquisitions Approved by Members
RG76	Regulatory Guide 76: Related Party Transactions
RG111	Regulatory Guide 111: Content of Expert Reports
s606	Section 606 of the Corporations Act 2001
s611	Section 611 of the Corporations Act 2001
SAAS	Software as a Service
Shareholders	HJB's shareholders
SWOT	Strengths, weaknesses, opportunities and threats analysis
VWAP	Volume-weighted average price

APPENDIX 2: VALUATION METHODOLOGIES

In preparing this report we have considered valuation methods commonly used in practice and those recommended by RG 111. These methods include:

- The discounted cash flow method
- The capitalisation of earnings method
- Asset based methods
- Analysis of share market trading
- Industry specific rules of thumb

The selection of an appropriate valuation method to estimate fair market value should be guided by the actual practices adopted by potential acquirers of the company involved.

Discounted Cash Flow Method

Description

Of the various methods noted above, the discounted cash flow method has the strongest theoretical standing. It is also widely used in practice by corporate acquirers and company analysts. The discounted cash flow method estimates the value of a business by discounting expected future cash flows to a present value using an appropriate discount rate. A discounted cash flow valuation requires:

- A forecast of expected future cash flows
- An appropriate discount rate

It is necessary to project cash flows over a suitable period of time (generally regarded as being at least five years) to arrive at the net cash flow in each period. For a finite life project or asset this would need to be done for the life of the project. This can be a difficult exercise requiring a significant number of assumptions such as revenue growth, future margins, capital expenditure requirements, working capital movements and taxation.

The discount rate used represents the risk of achieving the projected future cash flows and the time value of money. The projected future cash flows are then valued in current day terms using the discount rate selected.

The discounted cash flow method is often sensitive to a number of key assumptions such as revenue growth, future margins, capital investment, terminal growth and the discount rate. All of these assumptions can be highly subjective sometimes leading to a valuation conclusion presented as a range that is too wide to be useful.

Use of the Discounted Cash Flow Method

A discounted cash flow approach is usually preferred when valuing:

- Early stage companies or projects
- Limited life assets such as a mine or toll concession
- Companies where significant growth is expected in future cash flows
- Projects with volatile earnings

It may also be preferred if other methods are not suitable, for example if there is a lack of reliable evidence to support a capitalisation of earnings approach. However, it may not be appropriate if:

- Reliable forecasts of cash flow are not available and cannot be determined
- There is an inadequate return on investment, in which case a higher value may be realised by liquidating the assets than through continuing the business

Capitalisation of Earnings Method

Description

The capitalisation of earnings method is a commonly used valuation methodology that involves determining a future maintainable earnings figure for a business and multiplying that figure by an appropriate capitalisation multiple. This methodology is generally considered a short form of a discounted cash flow, where a single representative earnings figure is capitalised, rather than a stream of individual cash flows being discounted. The capitalisation of earnings methodology involves the determination of:

- A level of future maintainable earnings
- An appropriate capitalisation rate or multiple

A multiple can be applied to any of the following measures of earnings:

Revenue – most commonly used for companies that do not make a positive EBITDA or as a cross-check of a valuation conclusion derived using another method.

EBITDA - most appropriate where depreciation distorts earnings, for example in a company that has a significant level of depreciating assets but little ongoing capital expenditure requirement.

EBITA - in most cases EBITA will be more reliable than EBITDA as it takes account of the capital intensity of the business.

EBIT - whilst commonly used in practice, multiples of EBITA are usually more reliable as they remove the impact of amortisation which is a non-cash accounting entry that does not reflect a need for future capital investment (unlike depreciation).

NPAT - relevant in valuing businesses where interest is a major part of the overall earnings of the group (e.g. financial services businesses such as banks).

Multiples of EBITDA, EBITA and EBIT are commonly used to value whole businesses for acquisition purposes where gearing is in the control of the acquirer. In contrast, NPAT (or P/E) multiples are often used for valuing minority interests in a company.

The multiple selected to apply to maintainable earnings reflects expectations about future growth, risk and the time value of money all wrapped up in a single number. Multiples can be derived from three main sources. Using the guideline public company method, market multiples are derived from the trading prices of stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market, such as the ASX. The merger and acquisition method is a method whereby multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business. It is also possible to build a multiple from first principles.

Use of the Capitalisation of Earnings Method

The capitalisation of earnings method is widely used in practice. It is particularly appropriate for valuing companies with a relatively stable historical earnings pattern which is expected to continue. This method is less appropriate for valuing companies or assets if:

- There are no suitable listed company or transaction benchmarks for comparison
- The asset has a limited life
- Future earnings or cash flows are expected to be volatile
- There are negative earnings or the earnings of a business are insufficient to justify a value exceeding the value of the underlying net assets

Asset Based Methods

Description

Asset based valuation methods estimate the value of a company based on the realisable value of its net assets, less its liabilities. There are a number of asset based methods including:

- Orderly realisation
- Liquidation value
- Net assets on a going concern basis
- Replacement cost
- Reproduction cost

The orderly realisation of assets method estimates 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. The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

The asset / cost approach is generally used when the value of the business' assets exceeds the present value of the cash flows expected to be derived from the ongoing business operations, or the nature of the business is to hold or invest in assets. It is important to note that the asset approach may still be the relevant approach even if an asset is making a profit. If an asset is making less than an economic rate of return and there is no realistic prospect of it making an economic return in the foreseeable future, an asset approach would be the most appropriate method.

Use of Asset Based Methods

An asset-based approach is a suitable valuation method when:

- An enterprise is loss making and is not expected to become profitable in the foreseeable future
- Assets are employed profitably but earn less than the cost of capital
- A significant portion of the company's assets are composed of liquid assets or other investments (such as marketable securities and real estate investments)
- It is relatively easy to enter the industry (for example, small machine shops and retail establishments)

Asset based methods are not appropriate if:

- The ownership interest being valued is not a controlling interest, has no ability to cause the sale of the company's assets and the major holders are not planning to sell the company's assets
- A business has (or is expected to have) an adequate return on capital, such that the value of its future income stream exceeds the value of its assets

Analysis of Share Trading

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market. There should also be some similarity between the size of the parcel of shares being valued and those being traded. Where a company's shares are publicly traded then an analysis of recent trading prices should be considered, at least as a cross-check to other valuation methods.

Industry Specific Rules of Thumb

Industry specific rules of thumb are used in certain industries. These methods typically involve a multiple of an operating figure such as eyeballs for internet businesses, numbers of beds for hotels etc. These methods are typically fairly crude and are therefore usually only appropriate as a cross-check to a valuation determined using an alternative method.

APPENDIX 3: COMPARABLE COMPANIES

The following company descriptions are extracted from descriptions provided by S&P Capital IQ.

Company	Description
ATA Inc.	ATA Inc., through its subsidiaries, provides computer-based testing services in the People's Republic of China.
Bluedrop Performance Learning Inc.	Bluedrop Performance Learning Inc., an e-learning based training company, designs, develops, and delivers workplace training for individuals, businesses, military personnel, and the public sector in Canada.
Franklin Covey Co.	Franklin Covey Co. provides training and consulting services in the areas of leadership, productivity, strategic execution, trust, sales force performance, customer loyalty, and communication effectiveness skills worldwide.
Integrated Research Ltd	Integrated Research Limited designs, develops, implements, and sells systems and applications management computer software for computing, unified communication networks, and payment networks worldwide.
RM plc	RM plc supplies products, services, and solutions to educational markets in the United Kingdom and internationally.
RXP Services Ltd	RXP Services Limited provides information and communications technology consulting, development, support, and maintenance services for medium to large enterprises and government organizations in Australia.
Sing Lee Software Ltd	Sing Lee Software (Group) Limited, an investment holding company, develops and sells information and network technologies and services to the financial and educational industries in the People's Republic of China.
Tribal Group plc	Tribal Group plc, together with its subsidiaries, provides educational management software and services in the United Kingdom, the Asia Pacific, North America, and internationally.

APPENDIX 4: QUALIFICATIONS, DECLARATIONS AND CONSENTS

Responsibility and purpose

This report has been prepared for HJB's shareholders for the purpose of assessing the fairness and reasonableness of the Proposed Transaction. Leadenhall expressly disclaims any liability to any shareholder, or anyone else, whether for our negligence or otherwise, if the report is used for any other purpose or by any other person.

Reliance on information

In preparing this report we relied on the information provided to us by HJB and Janison being complete and accurate and we have assumed it has been prepared in accordance with applicable Accounting Standards and relevant national and state legislation. We have not performed an audit, review or financial due diligence on the information provided. Drafts of our report were issued to HJB's management and Janison's management for confirmation of factual accuracy.

Prospective information

To the extent that this report refers to prospective financial information, we note that the forecasts and projections supplied to us are, by definition, based upon assumptions about events and circumstances that have not yet transpired. Actual results in the future may be different from the prospective financial information of Janison referred to in this report and the variation may be material, since anticipated events frequently do not occur as expected. Accordingly, we give no assurance that any forecast results will be achieved. Any future variation between the actual results and the prospective financial information utilised in this report may affect the conclusions included in this report.

Market conditions

Leadenhall's opinion is based on prevailing market, economic and other conditions as at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon the conclusion reached in this report.

As a valuation is based upon expectations of future results it involves significant judgement. Although we consider the assumptions used and the conclusions reached in this report are reasonable, other parties may have alternative expectations of the future, which may result in different valuation conclusions. The conclusions reached by other parties may be outside Leadenhall's preferred range

Indemnities

In recognition that Leadenhall may rely on information provided by HJB and Janison and their officers, employees, agents or advisors, HJB has agreed that it will not make any claim against Leadenhall to recover any loss or damage which it may suffer as a result of that reliance and that it will indemnify Leadenhall against any liability that arises out of Leadenhall's reliance on the information provided by HJB and Janison and their officers, employees, agents or advisors or the failure by HJB and Janison and their officers, employees, agents or advisors to provide Leadenhall with any material information relating to this report.

Qualifications

The personnel of Leadenhall principally involved in the preparation of this report were Richard Norris, BA (Hons), FCA, M.App.Fin, F.Fin, Dave Pearson, BCom., CA, CFA, CBV, M.App.Fin, Simon Dalgarno, B.Ec, FCA, F.FINSIA and Bruce Li, BCom., CA.

This report has been prepared in accordance with "APES 225 – Valuation Services" issued by the Accounting Professional & Ethical Standards Board and is a valuation engagement in accordance with that standard.

Independence

Leadenhall has acted independently of HJB. Compensation payable to Leadenhall is not contingent on the conclusion, content or future use of this report.