

1. Company details

Name of entity:	Affinity Education Group Limited
ABN:	37 163 864 195
Reporting period:	For the half-year ended 30 June 2014
Previous period:	For the half-year ended 30 June 2013

2. Results for announcement to the market

	\$'000
Revenues from ordinary activities	38,465
Loss from ordinary activities after tax attributable to the owners of Affinity Education Group Limited	(5,002)
Loss for the half-year attributable to the owners of Affinity Education Group Limited	(5,002)

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the company after providing for income tax amounted to \$5,002,000 (30 June 2013: profit of \$nil).

Review of Operations

The results represent the company's first full half year of operations.

On 8 April 2014, the company announced a 3 for 4 pro-rata accelerated renounceable entitlement offer at an offer price of \$1.12 per share. The institutional and retail offers were successfully completed on 11 April 2014 and 5 May 2014 respectively raising \$75.2 million. The entitlement offer was conducted to enable the purchase of 51 childcare centres. As at 30 June 2014, completion had occurred on 34 of the 51 child care centres, of the remaining 17 centres 8 have completed since the 30 June 2014 and the remaining 9 centres are expected to complete during September 2014.

As part consideration for 29 of the acquired child care centres, the company issued 10.9 million shares to the vendors as approved at the company's Annual General Meeting on 14 May 2014.

Occupancy at the company's child care centres has improved over the period as a result of the usual seasonality and centre specific occupancy improvement initiatives. Occupancy continues to improve on a weekly basis. The company has also seen improvement in average fees collected and wage to revenue performance over the period.

Results on a guidance basis (as set out in prospectus) versus actual results

The company generated a loss for the period of \$5.0 million compared to a forecast profit of \$2.6 million in the replacement prospectus dated 12 November 2013. The key driver of the loss is acquisition expenses of \$7.8 million which offset the contribution from child care businesses acquired during the period.

On a pro forma basis (excluding profits from acquisitions and acquisition and integration expenses) the company generated earnings before interest and tax of \$3.9 million, in line with the replacement prospectus dated 12 November 2013.

Strategy and Future Performance

The company's aim is to achieve efficiencies and economies of scale through the integration of both individual and multiple centres. The company's strategy is to grow its business and drive future performance through:

- Organic growth, including improvements in revenue levels and efficiencies gained from corporatising a large portfolio of centres; and
- A considered and disciplined acquisition strategy.

On 22 July 2014, the Productivity Commission completed the first stage of its inquiry into Childcare and Early Childhood Learning and released its draft report. The objectives of the inquiry are to examine and identify future options for a child care system that:

- Supports workforce participation
- Addresses learning and development needs of children
- Is more flexible to suit the needs of families; and
- Is based upon fiscally sustainable funding arrangements.

The draft report included recommendations to simplify the subsidy process and increase sector funding to \$8 billion per annum, with the aim of making access to childcare services more attainable for a larger number of Australian families.

The company believes that its business model strongly supports the objectives of the inquiry and is confident in the strong underlying fundamentals that support its future growth.

Summary Statement of Cash Flows

During the half year to 30 June 2014 the company raised \$75.2m from the issue of shares as part of the accelerated renounceable entitlement offer, of which \$41.2 million has been used to acquire child care centres. Cash flows from operating activities of \$0.3 million include \$3.5 million of payments relating to acquisition costs. Excluding payments for acquisition costs, cash flows from operating activities were \$3.8 million.

Summary Statement of Financial Position

As at 30 June 2014, the company has a net asset position of \$147.3 million driven primarily by intangible assets of \$117.0 million comprising mainly goodwill on the acquisitions of child care centres and \$34.3m of cash representing that raised from the accelerated renounceable entitlement offer and operating cash flows.

Working Capital

As at 30 June 2014 the company had net current assets of \$22.5 million, primarily driven by proceeds from the issue of shares as part of the accelerated renounceable entitlement offer.

Debt Position

As at 30 June 2014 the company had banking facilities of \$29.0 million, \$6.6 million of these facilities were allocated. Of the allocated amount, \$6.0 million was in relation to bank guarantees and \$0.6 million in relation to company credit cards and finance leases.

On 28 August 2014, the company entered into an agreement that provides banking facilities of \$115.5 million for both working capital (\$15.5 million) and acquisition (\$100.0 million) purposes.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	18.09	3.57

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

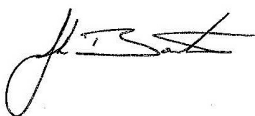
The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

11. Attachments

Details of attachments (if any):

The Interim Report of Affinity Education Group Limited for the half-year ended 30 June 2014 is attached.

12. Signed

Signed  _____

John Bairstow
Chief Financial Officer
Southport

Date: 29 August 2014