INTERIM REPORT | 30 JUNE 2015

AFFINITY EDUCATION GROUP LIMITED
ABN 37 163 864 195

AFFINITY EDUCATION
GROUP

Affinity Education Group Limited

ABN 37 163 864 195

Interim Report - 30 June 2015

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Affinity Education Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 30 June 2015.

Directors

The following persons were directors of Affinity Education Group Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Stuart Bruce James - Chairman
Justin Michael Laboo
Stephanie Jane Daveson
Jeffrey Ian Forbes
Gabriel Anna Giufre

Principal activities

The principal activity of the Group is that of a provider of education and care to children aged 6 weeks to 12 years through its owned and managed child care centres in Australia.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Review of operations

The Group delivered a significant increase in underlying earnings before interest, income tax, depreciation and amortisation ("Underlying EBITDA") of $8.6 million up 76% on the prior year (2014: $4.9 million). After acquisition expenses, which the Group expenses in accordance with IFRS, the group made an EBITDA of $2.0 million which again was a significant improvement on last year (2014: $2.9 million loss).

After providing for income tax, the Group saw a loss of $2.1 million, again significantly up on the prior year (30 June 2014: loss of $5.0 million).

The expensing of acquisition costs in accordance with IFRS of $6.6 million (2014: $7.8 million) comprise agent commissions (calculated as a percentage of purchase price), stamp duty and due diligence related expenses. This result was an improvement in the target set by the Group for FY15 with the cost representing 7.9% of acquisition value, a significant reduction of expense as a percentage of purchase price, relative to the prior year. This result demonstrates the group's intention to improve its financial performance whilst still maintaining a strong appetite for continued growth.

On 12 March 2015, the Company announced an 8 for 21 pro-rata accelerated renounceable entitlement offer at an offer price of $1.18 per share. The institutional and retail offers were completed on 24 March 2015 and 14 April 2015 respectively raising $75.3 million. The entitlement offer was conducted to enable the purchase of a portfolio of child care and early education centres and recapitalise the Group's balance sheet to enable continued future growth. For the first time the Group provided a growth target of between 20%-25% per annum.

Occupancy at the Group's child care centres has improved through the half year period as a result of industry seasonality and centre specific occupancy improvement initiatives. Occupancy continues to improve into the second half of the year providing an expectation of a much stronger second half performance for 2015. The Group has also seen improvement in average fees collected with fees increasing 5.7% across 2015, and in line with growing revenue, improving wage to revenue performance over the year.

Strategy and future performance

The education sector is set to continue to receive strong support from Government and still provides high levels of fragmentation, where the Group's aim is to continue to achieve growth for shareholders through organic and acquisitive opportunities. By delivering efficiencies and economies of scale through effective integration the Group will improve its current margin performance and increase shareholder returns. Disciplined investment will continue to target growth in our people and deliver greater value to our families and children, which will underpin the Group's improved financial returns.

Summary statement of cash flows
During the half year to 30 June 2015 the Company raised $75.3m from the issue of shares as part of an accelerated renounceable entitlement offer, which combined with borrowings and operating cash flows resulted in the acquisition of child care centres totalling $81.6 million.

Most pleasing for the group was the cash flows from operating activities of $9.3 million, which included $6.3 million of payments relating to acquisition costs. Excluding acquisition costs, cash flows from operating activities were $15.6 million, up significantly on 2014 and a strong indication of the positive cash generation from the group's centres.

Summary statement of financial position
As at 30 June 2015, the Group has a net asset position of $219.3million driven primarily by intangible assets of $254.1 million comprising mainly goodwill on the acquisitions of child care centres. The Group saw continued growth in the goodwill position as a result of the acquisition of $81.6m of new centres to the group's portfolio. The group is in strong debt funding position with only $33.9 million of borrowings offsetting the Group's assets, equating to gearing of approximately 13% (debt / debt + equity).

Working capital
The Group actively manages working capital to ensure it is utilised in an efficient manner. The working capital position benefits from a customer payment cycle which is shorter than the creditor payment cycle. The operational cash flow continues to strengthen as demonstrated by significant improvement relative to 2014. Continued increases in cash generation and access to debt funding places the Group in strong capital position.

Debt position
As at 30 June 2015 the Group remained in a strong funding position with available banking facilities of $117.5 million. The Group had utilised only $33.9 million in relation to its acquisition facility, $10.2 million in relation to bank guarantees and $0.7 million in relation to Group credit cards and finance leases, leaving $72.7 million available as at 30 June 2015. Strengthening this position even further is the $13.2m cash the Group retains as at 30 June 2015.

As announced on 15th June 2015, the Group has extended and improved its existing debt facilities by 12 months to June 2018, the interest rate margins have also been reduced, with an increase of $2m provided in relation to the total facility limit and the reporting requirements under the facility have also reduced.

The favourable changes in Group's funding arrangements reflect the maturity of the group and the ongoing support of its principal lender. The Group has received interest from a number of additional lenders who wish to increase the group's borrowing capacity. The Group will pursue potential additional arrangements at the time that best meets the Group's needs.

Outlook
The Group maintains a positive outlook, strengthening it's full year underlying EBITDA guidance to $30m to $32m on the back of continuing improvement in occupancy, wage to revenue and overhead efficiency. The Group is expecting to continue its growth plans with the available capacity from its strong balance sheet and continued access to debt from Australian banks. Further growth is expected to improve the leverage from the corporate platform that the Group has invested in, which is expected to improve returns to shareholders. Continued increases in the returns generated by the Group are expected to enable the commencement of the Group's dividend program for 2015, which are expected to be paid in early 2016.

Significant changes in the state of affairs
During the half-year the Group completed the acquisition of 8 new subsidiaries, comprising of 19 childcare centres and an addition 17 childcare education businesses. The acquisitions were funded using the increased banking facilities, cash flows from operations and the issue of shares through the accelerated rights entitlement offer announced on 12 March 2015.

This has resulted in Affinity Education Group Limited ('Affinity') consisting of multiple legal entities which now prepares financial statements as a Group.

There were no other significant changes in the state of affairs of the Group during the financial half-year.

Matters subsequent to the end of the financial half-year

On 30 July 2015, G8 Education Limited ('G8') (ASX:GEM) lodged a Bidder's Statement with ASIC in relation to their off market takeover bid for all of the ordinary shares in Affinity for consideration of 1 G8 share for every 4.61 Affinity shares. On the 3 August 2015 'G8' (ASX:GEM) lodged a supplementary Bidder's Statement with ASIC in relation to their off market takeover bid for all of the ordinary shares in Affinity increasing the consideration of 1 G8 share for every 4.25 Affinity shares. In addition G8 has also lodged an on market cash offer to acquire the shares of Affinity at price of $0.80.

The Affinity board with the assistance of its financial, legal and other expert advisers, will undertake a detailed analysis of the offer and will provide a recommendation to shareholders, until this time Affinity has reiterated to all shareholders to take no action at this point.

As at the date of this report G8 have advised the ASX that they hold 46,051,790 ordinary shares in Affinity which represents 19.89% of Affinity Education's ordinary shares on issue. These shares were acquired on the open market between 2 July 2015 and 3 July 2015.

No other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Stuart James
Chair

18 August 2015
Brisbane

Auditor's Independence Declaration

As lead auditor for the review of Affinity Education Group Limited for the half-year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Affinity Education Group Limited and the entities it controlled during the period.

Debbie Smith
Partner
PricewaterhouseCoopers

Brisbane
18 August 2015

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General information

The financial statements cover Affinity Education Group Limited as a Group consisting of Affinity Education Group Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Affinity Education Group Limited's functional and presentation currency.

Affinity Education Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 14, 100 Creek Street
Brisbane, QLD 4000

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 18 August 2015. The directors have the power to amend and reissue the financial statements.

	Note	Consolidated 30 Jun 2015 $'000	Consolidated 30 Jun 2014 $'000
Revenue	3	87,079	38,465
Expenses			
Employee benefits expense	4	(55,433)	(24,226)
Building occupancy expenses		(12,839)	(5,447)
Direct costs of providing services		(9,000)	(2,814)
Administration expenses		(1,067)	(829)
Acquisition costs	20	(6,614)	(8,273)
Finance costs		(1,294)	(217)
Depreciation and amortisation		(963)	(462)
Loss before income tax expense		(131)	(3,803)
Income tax expense		(1,925)	(1,199)
Loss after income tax expense for the half-year attributable to the owners of Affinity Education Group Limited		(2,056)	(5,002)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year attributable to the owners of Affinity Education Group Limited		(2,056)	(5,002)
		Cents	**Cents**
Basic earnings per share	23	(1.0)	(4.4)
Diluted earnings per share	23	(1.0)	(4.4)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Affinity Education Group Limited
Statement of financial position
As at 30 June 2015

	Note	Consolidated 30 Jun 2015 $'000	Consolidated 31 Dec 2014 $'000
Assets			
Current assets			
Cash and cash equivalents	5	13,244	3,230
Trade and other receivables	6	3,165	4,453
Other		910	3,179
		17,319	10,862
Non-current assets classified as held for sale		250	250
Total current assets		17,569	11,112
Non-current assets			
Property, plant and equipment	7	11,950	7,121
Intangibles	8	254,062	172,677
Deferred tax		6,476	5,097
Total non-current assets		272,488	184,895
Total assets		290,057	196,007
Liabilities			
Current liabilities			
Trade and other payables	9	11,022	9,751
Borrowings	10	397	681
Income tax		4,475	2,896
Provisions	11	8,153	5,888
Other	12	7,809	3,021
Total current liabilities		31,856	22,237
Non-current liabilities			
Borrowings	13	33,922	22,038
Provisions	14	2,596	2,100
Other		2,352	1,420
Total non-current liabilities		38,870	25,558
Total liabilities		70,726	47,795
Net assets		219,331	148,212
Equity			
Issued capital	15	234,117	161,192
Reserves	16	250	-
Accumulated losses		(15,036)	(12,980)
Total equity		219,331	148,212

The above statement of financial position should be read in conjunction with the accompanying notes

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2014	74,295	-	(8,856)	65,439
Loss after income tax expense for the half-year	-	-	(5,002)	(5,002)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(5,002)	(5,002)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 15)	86,897	-	-	86,897
Balance at 30 June 2014	161,192	-	(13,858)	147,334

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2015	161,192	-	(12,980)	148,212
Loss after income tax expense for the half-year	-	-	(2,056)	(2,056)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(2,056)	(2,056)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 15)	72,925	-	-	72,925
Share-based payments	-	250	-	250
Balance at 30 June 2015	234,117	250	(15,036)	219,331

The above statement of changes in equity should be read in conjunction with the accompanying notes

	Note	Consolidated 30 Jun 2015 $'000	Consolidated 30 Jun 2014 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		93,141	36,862
Payments to suppliers (inclusive of GST)		(76,276)	(33,135)
		16,865	3,727
Acquisition costs		(6,307)	(3,478)
Interest received		40	254
Interest and other finance costs paid		(1,294)	(217)
Net cash from operating activities		9,304	286
Cash flows from investing activities			
Payment for purchase of business and subsidiaries, net of cash acquired	20	(81,633)	(41,201)
Payments for property, plant and equipment	7	(493)	(348)
Payments for intangibles	8	(654)	(71)
Proceeds from release of security deposits		-	22
Net cash used in investing activities		(82,780)	(41,598)
Cash flows from financing activities			
Proceeds from issue of shares	15	75,342	75,174
Share issue transaction costs		(3,452)	(3,191)
Proceeds from borrowings		11,600	570
Net cash from financing activities		83,490	72,553
Net increase in cash and cash equivalents		10,014	31,241
Cash and cash equivalents at the beginning of the financial half-year		3,230	3,068
Cash and cash equivalents at the end of the financial half-year		13,244	34,309

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2015 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2014 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

Principles of consolidation

Following the acquisition of 8 new subsidiaries during the half year ended 30 June 2015, this accounting policy is now relevant to the reporting period. The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Affinity Education Group Limited ('company' or 'parent entity') as at 30 June 2015 and the results of all subsidiaries for the half-year then ended. Affinity Education Group Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the subsidiary are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Note 1. Significant accounting policies (continued)

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)
The Group has applied Parts A to C of AASB 2014-1 from 1 January 2015. These amendments affect the following standards: AASB 2 'Share-based Payment': clarifies the definition of 'vesting condition' by separately defining a 'performance condition' and a 'service condition' and amends the definition of 'market condition'; AASB 3 'Business Combinations': clarifies that contingent consideration in a business combination is subsequently measured at fair value with changes in fair value recognised in profit or loss irrespective of whether the contingent consideration is within the scope of AASB 9; AASB 8 'Operating Segments': amended to require disclosures of judgements made in applying the aggregation criteria and clarifies that a reconciliation of the total reportable segment assets to the entity's assets is required only if segment assets are reported regularly to the chief operating decision maker; AASB 13 'Fair Value Measurement': clarifies that the portfolio exemption applies to the valuation of contracts within the scope of AASB 9 and AASB 139; AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets': clarifies that on revaluation, restatement of accumulated depreciation will not necessarily be in the same proportion to the change in the gross carrying value of the asset; AASB 124 'Related Party Disclosures': extends the definition of 'related party' to include a management entity that provides KMP services to the entity or its parent and requires disclosure of the fees paid to the management entity; AASB 140 'Investment Property': clarifies that the acquisition of an investment property may constitute a business combination.

Note 2. Operating segments

Identification of reportable operating segments
The Group operates in one segment, being provision of education and care to children aged 6 weeks to 12 years. This is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

As a result of this, the operating segment information is as disclosed in the statements and notes to the financial statements throughout the report.

Major customers
During the half-year ended 30 June 2015, none of the Group's external revenue was derived from sales to one specific customer or group of customers that derived more than 10% of the revenue figure.

Revenue by product set
In addition to International Financial Reporting Standards ('IFRS') financial information, the CODM uses Earnings before interest, tax, depreciation and amortisation ('EBITDA') excluding acquisition and integration expenses ('Underlying EBITDA') as a measure to assess the underlying financial performance of the business. The table below contains a reconciliation between the loss before income tax (expense)/benefit (as presented in the Statement of profit or loss and other comprehensive income) and the measure used by the CODM:

	Consolidated	
	30 Jun 2015 $'000	30 Jun 2014 $'000
Reconciliation between the loss before income tax and Underlying EBITDA		
Loss before income tax (expense)/benefit	(131)	(3,803)
Net interest costs/(income)	1,132	(37)
Depreciation and amortisation expenses	963	462
Acquisition costs	6,614	8,272
Underlying EBITDA	8,578	4,894

Note 3. Revenue

	Consolidated	
	30 Jun 2015 $'000	30 Jun 2014 $'000
Sales revenue		
Provision of child care services	86,852	37,425
Other revenue		
Management fees	187	786
Interest	40	254
	227	1,040
Revenue	87,079	38,465

Note 4. Expenses

	Consolidated	
	30 Jun 2015 $'000	30 Jun 2014 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Fixtures and fittings	475	234
Motor vehicles	87	45
Computer equipment	29	5
Other equipment	298	121
Total depreciation	889	405
Amortisation		
Software	74	57
Total depreciation and amortisation	963	462
Finance costs		
Interest and finance charges paid/payable	1,294	217
Rental expense relating to operating leases		
Minimum lease payments	11,067	4,929
Superannuation expense		
Defined contribution superannuation expense	4,399	1,846
Share-based payments expense		
Share-based payments expense	250	-
Employee benefits expense excluding superannuation		
Employee benefits expense excluding superannuation	50,784	22,380

Note 5. Current assets - cash and cash equivalents

	Consolidated	
	30 Jun 2015 $'000	31 Dec 2014 $'000
Cash at bank and on hand	13,244	3,230

Note 6. Current assets - trade and other receivables

	Consolidated 30 Jun 2015 $'000	Consolidated 31 Dec 2014 $'000
Trade receivables	3,038	4,314
Less: Provision for impairment of receivables	(395)	(326)
	2,643	3,988
Other receivables	9	96
Goods and services tax receivable	513	369
	3,165	4,453

Note 7. Non-current assets - property, plant and equipment

	Consolidated 30 Jun 2015 $'000	Consolidated 31 Dec 2014 $'000
Fixtures and fittings - at cost	6,138	4,477
Less: Accumulated depreciation	(1,152)	(668)
	4,986	3,809
Motor vehicles - at cost	1,719	1,348
Less: Accumulated depreciation	(214)	(127)
	1,505	1,221
Computer equipment - at cost	253	127
Less: Accumulated depreciation	(45)	(16)
	208	111
Other equipment - at cost	5,902	2,343
Less: Accumulated depreciation	(651)	(363)
	5,251	1,980
	11,950	7,121

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Fixtures and fittings $'000	Motor vehicles $'000	Computer equipment $'000	Other equipment $'000	Total $'000
Balance at 1 January 2015	3,809	1,221	111	1,980	7,121
Additions	163	48	126	156	493
Additions through business combinations (note 20)	1,497	323	-	3,405	5,225
Depreciation expense	(483)	(87)	(29)	(290)	(889)
Balance at 30 June 2015	4,986	1,505	208	5,251	11,950

Note 8. Non-current assets - intangibles

	Consolidated 30 Jun 2015 $'000	Consolidated 31 Dec 2014 $'000
Goodwill - at cost	252,788	171,983
Intellectual property - at cost	28	28
Software - at cost	1,441	787
Less: Accumulated amortisation	(195)	(121)
	1,246	666
	254,062	172,677

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Goodwill $'000	Intellectual property $'000	Software $'000	Total $'000
Balance at 1 January 2015	171,983	28	666	172,677
Additions	-	-	654	654
Additions through business combinations (note 20)	80,805	-	-	80,805
Amortisation expense	-	-	(74)	(74)
Balance at 30 June 2015	252,788	28	1,246	254,062

Goodwill is allocated to a single cash-generating unit ('CGU'), which is based on the Group's operating segment.

Note 9. Current liabilities - trade and other payables

	Consolidated 30 Jun 2015 $'000	Consolidated 31 Dec 2014 $'000
Trade payables	5,036	4,955
Accrued employee related expenses	5,297	4,796
Other payables	689	-
	11,022	9,751

Note 10. Current liabilities - borrowings

	Consolidated 30 Jun 2015 $'000	Consolidated 31 Dec 2014 $'000
Other loans	111	395
Lease liability	286	286
	397	681

Note 11. Current liabilities - provisions

	Consolidated 30 Jun 2015 $'000	Consolidated 31 Dec 2014 $'000
Annual leave	5,318	3,711
Long service leave	1,527	1,098
Other	1,308	1,079
	8,153	5,888

Note 12. Current liabilities - other

	Consolidated 30 Jun 2015 $'000	Consolidated 31 Dec 2014 $'000
Deferred revenue	3,906	3,021
Deferred grant funding	3,903	-
	7,809	3,021

Deferred grant funding consists of funds received in advance from the Government which is required to be spent on specific expenditure items. The deferred grant funding will be released in line with the expenditure being incurred.

Note 13. Non-current liabilities - borrowings

	Consolidated 30 Jun 2015 $'000	Consolidated 31 Dec 2014 $'000
Bank loans	33,730	21,703
Lease liability	192	335
	33,922	22,038

As at 30 June 2015 the Group had $72.7m of unused facilities available in relation to its loan, bank guarantees, credit cards and finance leases.

Total secured liabilities
The total secured liabilities (current and non-current) are as follows:

	Consolidated 30 Jun 2015 $'000	Consolidated 31 Dec 2014 $'000
Bank loans	33,730	21,703
Lease liability	478	621
	34,208	22,324

Assets pledged as security
The bank loans are secured by guarantees over the Group's assets.

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

Note 14. Non-current liabilities - provisions

	Consolidated 30 Jun 2015 $'000	Consolidated 31 Dec 2014 $'000
Long service leave	2,596	2,100

Note 15. Equity - issued capital

	Consolidated 30 Jun 2015 Shares	31 Dec 2014 Shares	30 Jun 2015 $'000	31 Dec 2014 $'000
Ordinary shares - fully paid	231,451,639	167,602,364	234,117	161,192

Movements in ordinary share capital

Details	Date	No of shares	Issue price	$'000
Balance	31 December 2014	167,602,364		161,192
Rights Issue	24 March 2015	44,380,524	$1.180	52,369
Rights Issue	14 April 2015	19,468,751	$1.180	22,973
Share issue transaction costs (net of tax)		-		(2,417)
Balance	30 June 2015	231,451,639		234,117

Note 16. Equity - reserves

	Consolidated 30 Jun 2015 $'000	Consolidated 31 Dec 2014 $'000
Share-based payments reserve	250	-

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves
Movements in each class of reserve during the current financial half-year are set out below:

Consolidated	Share-based payments reserve $'000	Total $'000
Balance at 1 January 2015	-	-
Share-based payments	250	250
Balance at 30 June 2015	250	250

Note 17. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Note 18. Fair value measurement

The Group has no assets or liabilities measured at fair value, other than as required under AASB 3 'Business Combinations'.

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

Note 19. Contingent liabilities

The Group has given bank guarantees as at 30 June 2015 as follows:

	Consolidated	
	30 Jun 2015 $'000	31 Dec 2014 $'000
Bank guarantees	10,787	8,056

As at 30 June 2015 $10,787,000 of the bank guarantee facility has been utilised (31 December 2014: $8,056,000) and $1,213,000 was unused (31 December 2014: $1,944,000)

Note 20. Business combinations

Acquisition of BHL Childcare Limited
On 27 March 2015, the Group acquired 100% of the issued share capital of BHL Childcare Limited, a childcare company comprising of 14 education centres. Total consideration transferred amounted to $41,282,905. This company was acquired to expand the education offering of the Group and the goodwill is attributable to both the workforce and the profitability of the company. The company contributed revenues of $4,510,503 and profit before tax of $1,169,177.
Due to the nature of the acquisition it is impracticable to disclose the revenue and profit or loss as if the acquisition had occurred at the beginning of the period. The values identified in relation to the acquisition of the company are provisional fair values as at 30 June 2015 and measured using level 3 inputs (unobservable market data) in the fair value hierarchy.

Details of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	181
Trade receivables	26
Prepayments	49
Fixtures and fittings	240
Other equipment	3,181
Motor vehicles	70
Deferred tax asset	197
Other payables	(1,114)
Employee benefits	(655)
Net assets acquired	2,175
Goodwill	39,108
Acquisition-date fair value of the total consideration transferred	41,283
Representing:	
Cash paid or payable to vendor	41,283
Total acquisition costs expensed to profit or loss	1,514
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	41,283
Less: cash and cash equivalents acquired	(181)
Net cash used	41,102

The acquisition opportunity was sourced and presented to the Company by an advisor, on the basis that the advisor would be engaged to represent the Company in relation to the transaction. The Board were advised that Ms Giufre's spouse was assisting with the transaction and would share the fees earned by the advisor. The Company engaged the advisor to assist it in negotiating the commercial terms of the acquisition.

As the transaction involved a party associated with one of its executive directors (Ms Giufre), the Board undertook a process to ensure the terms on which the advisor was engaged were at market rates and terms. Ms Giufre was not involved in the engagement, in the due diligence undertaken in relation to the acquisition or in any decisions taken in relation to the transaction.

Included in the acquisition costs is $1,245,000 paid to the advisor in relation to these activities.

Note 20. Business combinations (continued)

Acquisition of Kid's Academy
On 29 May 2015, the Group acquired a group of childcare businesses comprising of 9 education centres and one additional OSHC service.
Total consideration transferred amounted to $21,426,473. These education businesses were acquired to expand the education offering of the Group and the goodwill is attributable to both the workforce and the profitability of the company. The businesses contributed revenues of $1,604,136 and profit before tax of $310,648. Due to the nature of the acquisitions it is impracticable to disclose the revenue and profit or loss as if the acquisitions had occurred at the beginning of the period.
The values identified in relation to the acquisition of the company are provisional fair values as at 30 June 2015 and measured using level 3 inputs (unobservable market data) in the fair value hierarchy.

Details of the acquisition are as follows:

	Fair value $'000
Prepayments	17
Fixtures and fittings	363
Other equipment	108
Motor vehicles	196
Deferred tax asset	190
Other payables	(470)
Employee benefits	(636)
Other provisions	(200)
Net liabilities acquired	(432)
Goodwill	21,858
Acquisition-date fair value of the total consideration transferred	21,426
Representing:	
Cash paid or payable to vendor	21,426
Acquisition costs expensed to profit or loss	2,048

This acquisition opportunity was sourced and presented to the Company by Wraith Capital, on the basis that Wraith Capital would be engaged to represent the Company in relation to the transaction. Ms Giufre's spouse is one of the owners of Wraith Capital. The Company engaged Wraith Capital to assist it in negotiating the commercial terms of the acquisition.

As the transaction involved a party associated with one of its executive directors (Ms Giufre), the Board undertook a process to ensure the terms on which Wraith Capital was engaged were at market rates and terms. Ms Giufre was not involved in the engagement, in the due diligence undertaken in relation to the acquisition or in any decisions taken in relation to the transaction.

Included in the acquisition costs is $660,000 paid to Wraith Capital.

Note 20. Business combinations (continued)

Various business acquisitions
Between 1 January 2015 and 30 June 2015, the Group acquired various businesses including 6 companies for the total consideration transferred of $19,282,780. On 20 March 2015, the Group acquired 100% of the issued share capital of NTL Investments Pty Ltd, comprising of 5 education centres. The remaining acquisitions were education businesses comprising of 8 education centres. The acquisitions expand the education offering of the Group and the goodwill is attributable to both the workforce and the profitability of the acquired businesses. The acquisitions contributed revenues of $5,712,099 and a profit before tax of $985,868. Due to the nature of the acquisitions it is impracticable to disclose the revenue and profit or loss as if the acquisitions had occurred at the beginning of the period.
The values identified in relation to the acquisition of the businesses are provisional fair values as at 30 June 2015 and measured using level 3 inputs (unobservable market data) in the fair value hierarchy.

Details of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	178
Prepayments	57
Fixtures and fittings	894
Office equipment	116
Motor vehicles	57
Deferred tax asset	276
Other payables	(1,070)
Employee benefits	(919)
Other provisions	(145)
Net liabilities acquired	(556)
Goodwill	19,839
Acquisition-date fair value of the total consideration transferred	19,283
Acquisition costs expensed to profit or loss	2,245
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	19,283
Less: cash and cash equivalents	(178)
Net cash used	19,105

NTL Group Acquisition
As noted above, on 20th March 2015, Affinity successfully acquired 100% of the NTL Group of companies, for a total sum of $10,925,000.

The vendors of the NTL Group of companies was a consortium which included entities associated with Ms Giufre, her spouse and their families. Ms Giufre was not involved in negotiating the agreement, in the due diligence undertaken in relation to the acquisition or in any decisions taken in relation to the transaction.

The NTL Group of companies had been managed by the Company since its IPO in December 2013. The Company foreshadowed in its prospectus dated 12 November 2013 that the Company had a first right of refusal to acquire these centres.

The board, with Ms Giufre absenting, obtained independent advice to assist it in determining that the acquisition was at market value.

Note 20. Business combinations (continued)

Other acquisitions (other than the NTL Group)
The Company has engaged Childcare Acquisition Services to provide acquisition related services. These services include identifying potential acquisitions, negotiating key commercial terms, assisting in finalising purchase contracts and assisting management complete due diligence investigations. Ms Giufre's spouse is one of the owners of Childcare Acquisitions Services.

As the engagement involved a party associated with one of its executive directors (Ms Giufre), the Board undertook a process to ensure the terms on which Childcare Acquisition Services was engaged were at market rates and terms. Ms Giufre was not involved in settling the engagement or in any decisions taken in relation to the engagement.

Given the nature of the industry the Board formed the view that Childcare Acquisition Services was one of only a few advisers with the necessary expertise and experience who would be in a position to provide these services to the Company.

The Company did not use or pay for these services in relation to the acquisition of the NTL Group of companies.

Included in the acquisition costs is $291,500 paid to Childcare Acquisition Services.

Note 21. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name	Principal place of business / Country of incorporation	Ownership interest 30 Jun 2015 %	Ownership interest 31 Dec 2014 %
BHL Childcare Limited	Australia	100.00%	-%
All Kids Childcare Services Pty Ltd	Australia	100.00%	-%
Bambini Early Childhood Development Sunshine Beach Pty Ltd	Australia	100.00%	-%
Bambini Early Childhood Development Peregian Trust	Australia	100.00%	-%
Bambini Early Childhood Development Gold Coast 2 Pty Ltd	Australia	100.00%	-%
Bambini Early Childhood Development Gold Coast 2 Trust	Australia	100.00%	-%
Bambini Early Childhood Development Brisbane Pty Ltd	Australia	100.00%	-%
Bambini Early Childhood Development Brisbane Trust	Australia	100.00%	-%
Bambini Early Childhood Development Meridan Plains Pty Ltd	Australia	100.00%	-%
Bambini Early Childhood Development Meridan Plains Trust	Australia	100.00%	-%
Bambini Early Childhood Development Southport Pty Ltd	Australia	100.00%	-%
Bambini Early Childhood Development Southport Trust	Australia	100.00%	-%
NTL Investments Pty Ltd	Australia	100.00%	-%
NTL Investments Trust	Australia	100.00%	-%

Note 22. Events after the reporting period

On 30 July 2015, G8 Education Limited ('G8') (ASX:GEM) lodged a Bidder's Statement with ASIC in relation to their off market takeover bid for all of the ordinary shares in Affinity for consideration of 1 G8 share for every 4.61 Affinity shares. On the 3 August 2015 'G8' (ASX:GEM) lodged a supplementary Bidder's Statement with ASIC in relation to their off market takeover bid for all of the ordinary shares in Affinity increasing the consideration of 1 G8 share for every 4.25 Affinity shares. In addition G8 has also lodged an on market cash offer to acquire the shares of Affinity at price of $0.80.

Note 22. Events after the reporting period (continued)

The Affinity board with the assistance of its financial, legal and other expert advisers, will undertake a detailed analysis of the offer and will provide a recommendation to shareholders, until this time Affinity has reiterated to all shareholders to take no action at this point.

As at the date of this report G8 have advised the ASX that they hold 46,051,790 ordinary shares in Affinity which represents 19.89% of Affinity Education's ordinary shares on issue. These shares were acquired on the open market between 2 July 2015 and 3 July 2015.

No other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 23. Earnings per share

	Consolidated	
	30 Jun 2015 $'000	30 Jun 2014 $'000
Loss after income tax attributable to the owners of Affinity Education Group Limited	(2,056)	(5,002)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	200,093,393	113,826,502
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	1,327,141	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	201,420,534	113,826,502
	Cents	**Cents**
Basic earnings per share	(1.0)	(4.4)
Diluted earnings per share	(1.0)	(4.4)

The performance rights accounted for under AASB 2 'Share based payments' can be purchased on-market at the discretion of the Board, and are still deemed to be dilutive under AASB 2.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Stuart James
Chair

18 August 2015
Brisbane

Independent auditor’s review report to the members of Affinity Education Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Affinity Education Group Limited (the company), which comprises the statement of financial position as at 30 June 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Affinity Education Group Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity’s financial position as at 30 June 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Affinity Education Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Affinity Education Group Limited is not in accordance with the *Corporations Act 2001* including:

a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the half-year ended on that date;

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

D.G. Smith

Debbie Smith
Partner

Brisbane
18 August 2015

AFFINITY EDUCATION
GROUP

AFFINITY EDUCATION GROUP LIMITED
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