



AFFINITY EDUCATION
G R O U P

ABN 37 163 864 195

14 October 2015

AFFINITY EDUCATION GROUP LIMITED – SCHEME MEETING

On 15 September 2015, Affinity Education Group Limited (**Affinity**) (ASX:AFJ) entered into a Scheme Implementation Deed with Anchorage Childcare Pty Limited (**Anchorage**) under which Anchorage agreed to acquire all the shares in Affinity through a scheme of arrangement (**Scheme**).

Affinity today announces that the Federal Court of Australia has approved the issue of the Affinity Scheme booklet and ordered the convening of a meeting (**Scheme Meeting**) of Affinity shareholders to vote on the Scheme.

The Scheme Meeting will be held at 11:00am (Melbourne time) on Friday 20 November 2015 at the Intercontinental Melbourne, The Rialto, 495 Collins Street, Melbourne VIC 3000.

The Affinity Directors have considered the advantages and disadvantages of the Scheme and unanimously recommend that Affinity shareholders vote in favour of the resolution to approve the Scheme, in the absence of a superior proposal.

If the Scheme is implemented, each Affinity shareholder will receive \$0.92 for every Affinity share held on the scheme record date (currently expected to be 7:00pm (Melbourne time) Tuesday, 8 December 2015).

The Scheme booklet, a copy of which is attached to this release, will be despatched to Affinity shareholders in due course. The Scheme booklet will also be available on the Affinity website (www.affinityeducation.com.au). Affinity shareholders should carefully read the Scheme booklet in its entirety and the materials accompanying it before deciding how to vote on the Scheme resolution.

Affinity shareholders who have questions regarding the Scheme or the Scheme booklet may contact the Affinity Shareholder Information Line on 1300 911 275.

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About Affinity Education Group Limited

Affinity Education Group Limited has been established to be a leading provider in the Australian market of high quality education and care to children aged six weeks to 12 years. Provision of these services includes long day care, before and after school care and occasional care.

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.

IF YOU ARE IN ANY DOUBT AS TO HOW TO DEAL WITH THIS DOCUMENT, PLEASE CONSULT YOUR BROKER OR FINANCIAL OR LEGAL ADVISER, OR CALL THE AFFINITY SHAREHOLDER INFORMATION LINE ON 1300 911 275.

IF YOU HAVE SOLD YOUR AFFINITY SHARES, PLEASE IGNORE THIS DOCUMENT.



AFFINITY EDUCATION
GROUP

SCHEME BOOKLET

For the scheme of arrangement in relation to the proposed acquisition of all of your Affinity Shares by Anchorage Childcare.

AFFINITY EDUCATION GROUP LIMITED ABN 37 163 864 195

**YOUR INDEPENDENT DIRECTORS
UNANIMOUSLY RECOMMEND
THAT YOU VOTE IN FAVOUR OF
THE SCHEME RESOLUTION, IN THE
ABSENCE OF A SUPERIOR PROPOSAL.**

FINANCIAL ADVISER TO AFFINITY:


IN AFFILIATION WITH EVERCORE

LEGAL ADVISER TO AFFINITY:

CORRS
CHAMBERS
WESTGARTH
lawyers

IMPORTANT DATES AND EXPECTED TIMETABLE FOR THE SCHEME

Event	Date and time
Latest time and date for receipt of proxy forms or powers of attorney by the Share Registry for the Scheme Meeting	11:00 am (Melbourne time) on Wednesday, 18 November 2015
Time and date for determining eligibility to vote at the Scheme Meeting	7:00 pm (Melbourne time) on Wednesday, 18 November 2015
Scheme Meeting for approval of the Scheme by Affinity Shareholders ¹	11:00 am (Melbourne time) on Friday, 20 November 2015
Second Court Hearing for approval of the Scheme by the Court	Monday, 30 November 2015
Effective Date – Scheme Order lodged with ASIC, and last day of trading in Affinity Shares on ASX (with Affinity Shares suspended from close of trading)	Tuesday, 1 December 2015
Scheme Record Date for determining entitlement to receive payment of the Scheme Consideration	7:00pm (Melbourne time) on Tuesday, 8 December 2015
Implementation Date – payment of the Scheme Consideration to Scheme Shareholders, and transfer of Scheme Shares to Anchorage Childcare	Tuesday, 15 December 2015

¹ All dates following the date of the Scheme Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court. The actual timetable will depend on factors such as whether or not the Scheme Meeting is adjourned, the Court approval process and the satisfaction of the conditions to the Scheme. Affinity reserves the right to vary the times and dates set out above. Any changes to the above timetable (which may include an earlier or later date for the Second Court Hearing) will be announced on ASX and set out on Affinity's website (www.affinityeducation.com.au).

IMPORTANT NOTICES

General

This Scheme Booklet constitutes the explanatory statement for the Scheme as required by section 412(1) of the Corporations Act.

This Scheme Booklet is important. Affinity Shareholders should read this Scheme Booklet carefully before deciding whether or not to vote in favour of the Scheme Resolution at the Scheme Meeting.

Purposes of this Scheme Booklet

The purposes of this Scheme Booklet are to:

- explain the terms and effects of the Scheme to Affinity Shareholders;
- explain the manner in which the Scheme will be considered and (if the conditions to the Scheme are satisfied or (where allowed) waived) implemented;
- state any material interests of the Affinity Directors, whether as directors, members or creditors of Affinity or otherwise, and the effect on those interests of the Scheme as far as that effect is different from the effect on the like interests of other persons; and
- provide the information that is prescribed by the Corporations Act and the Corporations Regulations or is otherwise material to the decision of Affinity Shareholders as to whether or not to vote in favour of the Scheme Resolution at the Scheme Meeting.

Responsibility for information

The information in this Scheme Booklet has been prepared by Affinity and is the responsibility of Affinity, and Anchorage Childcare (and its directors, officers and advisers) do not assume any responsibility for the accuracy or completeness of any such information, subject to the following:

- (a) Anchorage Childcare has prepared and is responsible for the Anchorage Information. Affinity and its directors, officers and advisers:
 - have not verified the Anchorage Information;
 - have relied on Anchorage Childcare to verify the Anchorage Information;
 - do not assume any responsibility for the accuracy or completeness of the Anchorage Information; and
 - accordingly, disclaim responsibility and liability for the Anchorage Information.
- (b) The Independent Expert has provided and is responsible for the Independent Expert's Report. Affinity and Anchorage Childcare do not assume any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report except in relation to information given by them to the Independent Expert. The Independent Expert does not assume any responsibility for the accuracy or completeness of the information contained in this Scheme Booklet other than that contained in the Independent Expert's Report.

LETTER FROM THE CHAIRMAN OF AFFINITY

14 October 2015

Dear shareholder

On behalf of Affinity, I am pleased to present you with this Scheme Booklet to assist in your decision as to how to vote on the Scheme Resolution at the Scheme Meeting, which will be held at 11:00 am (Melbourne time) on Friday, 20 November 2015 at Intercontinental Melbourne The Rialto, 495 Collins Street, Melbourne, VIC 3000, Australia.

For the reasons set out in this Scheme Booklet, your Independent Directors² unanimously recommend that you **VOTE IN FAVOUR** of the Scheme Resolution at the Scheme Meeting, in the absence of a Superior Proposal. Your Independent Directors intend to vote all the Affinity Shares that they own or control **IN FAVOUR** of the Scheme Resolution at the Scheme Meeting, in the absence of a Superior Proposal.

How much will you be paid under the Scheme?

If the conditions to the Scheme are satisfied or (where allowed) waived, Scheme Shareholders will be paid **\$0.92 cash** for each Affinity Share they hold on the Scheme Record Date (which is expected to be 7:00 pm (Melbourne time) on Tuesday, 8 December 2015). The Scheme Consideration will be paid to Scheme Shareholders on the Implementation Date (which is expected to be Tuesday, 15 December 2015).

Why should you vote in favour of the Scheme Resolution at the Scheme Meeting?

Reasons why you should vote in favour of the Scheme Resolution at the Scheme Meeting include:

- the Independent Expert has concluded that the Scheme is fair and reasonable and is in the best interests of Affinity Shareholders, in the absence of a Superior Proposal;
- the Scheme Consideration represents an attractive premium for your Affinity Shares compared to the consideration offered by G8 under the G8 Takeover Offers;
- the Scheme Consideration provides you with certainty as to the value of your Affinity Shares, and certainty of timing in relation to the receipt of the Scheme Consideration;

no Superior Proposal has emerged as at the date of this Scheme Booklet, and your Independent Directors consider that a Superior Proposal is unlikely to emerge;

- the price of Affinity Shares is likely to fall (at least in the short-term) if the Scheme is not implemented and no Superior Proposal emerges;
- no brokerage will be payable on the transfer of your Affinity Shares under the Scheme; and
- if the Scheme is not implemented, G8 may continue to hold Affinity Shares and may be able to exercise some degree of de facto influence or control over Affinity's financial and operating policies through the appointment of directors of Affinity.

More detailed reasons as to why you should vote in favour of the Scheme Resolution at the Scheme Meeting are set out in Section 4.2 of this Scheme Booklet. There are also reasons why you may choose to vote against the Scheme Resolution at the Scheme Meeting, which are set out in Section 4.3 of this Scheme Booklet.

What is happening with G8 and the G8 Takeover Offers?

Earlier this year, G8 made the G8 Takeover Offers, which comprised the G8 Cash Offer (of \$0.80 cash for each Affinity Share) and the G8 Share Offer (of 1 G8 share for every 4.25 Affinity Shares, which, at 20 August 2015 (being the last practicable date before the Affinity Target's Statement was lodged with ASIC) implied a value of \$0.78 for each Affinity Share). Your Independent Directors unanimously recommended that you reject the G8 Takeover Offers for the reasons set out in the Affinity Target's Statement, which included that the Independent Expert had concluded that the G8 Takeover Offers were neither fair nor reasonable, and that the consideration offered by G8 was not enough.

² Chris Giufre, the husband of one of the Affinity Directors, Gabriel Giufre, worked with Anchorage and the Anchorage Childcare Group in relation to the Initial Anchorage Proposal. Accordingly, the Affinity Board established an independent board subcommittee to consider the G8 Takeover Offers and the Initial Anchorage Proposal, and adopted the Conflict Protocols. Chris Giufre is now working with the Anchorage Childcare Group in relation to the Scheme. Accordingly, the Conflict Protocols have also been applied in relation to the consideration of the Scheme. See Sections 7.6(a) and 10.1 of this Scheme Booklet.

LETTER FROM THE CHAIRMAN OF AFFINITY (CONT)

In response to the G8 Takeover Offers, your Independent Directors sought out other interested parties with the aim of achieving a superior outcome for Affinity Shareholders. The Scheme is the product of these discussions.

The G8 Takeover Offers have closed. G8 has:

- entered into the G8 Voting Deed with Affinity under which G8 has agreed to irrevocably appoint, for no consideration, the chair of Affinity as G8's proxy to vote 33,560,488 Affinity Shares held by G8 (representing approximately 14.5% of the total issued Affinity Shares at the date of the G8 Voting Deed) in favour of the Scheme Resolution at the Scheme Meeting; and
- announced that it will vote all other Affinity Shares it holds at the time of the Scheme Meeting in favour of the Scheme Resolution at the Scheme Meeting,³

subject to none of the Prescribed Events occurring before the Scheme Meeting. See Section 3.3(d) of this Scheme Booklet for further details.

What are the next steps?

The Scheme is subject to a number of conditions, including the approval of the Scheme by Affinity Shareholders at the Scheme Meeting.

Your vote is important for the Scheme to proceed. I strongly encourage you to exercise your right to vote on this important transaction.

See the Notice of Scheme Meeting contained in Annexure D to this Scheme Booklet for details of how you may vote at the Scheme Meeting.

Further information

I encourage you to read this Scheme Booklet carefully as it contains important information that you should consider before you vote on the Scheme Resolution at the Scheme Meeting. I also encourage you to consult your broker or financial or legal adviser before making an investment decision in relation to your Affinity Shares.

If you have any questions about this Scheme Booklet or the Scheme, please call the Affinity Shareholder Information Line on 1300 911 275.

Yours sincerely,



Stuart James
Chairman

³ As at Friday, 9 October 2015, G8 had a Relevant Interest in 24.63% of the total issued Affinity Shares: G8 was the registered holder of 20.04% of the total issued Affinity Shares (19.89% of which was acquired before G8 made the G8 Takeover Offers and 0.15% of which was acquired pursuant to acceptances of the G8 Share Offer); and G8 had a further Relevant Interest in 4.59% of the total issued Affinity Shares pursuant to acceptances of the G8 Share Offer that had been received (but which, as a result of the Takeovers Panel proceedings (which are discussed in section 3.3(b) of this Scheme Booklet), had not been processed) as at Friday, 9 October 2015. See the discussion in relation to the Takeovers Panel proceedings set out in section 3.3(b) of this Scheme Booklet and the details of the final orders which will be published on the Takeovers Panel's website and released to ASX in due course.

IMPORTANT NOTICES

Regulatory information and role of ASIC and ASX

A draft of this Scheme Booklet was provided to ASIC in accordance with section 411(2) of the Corporations Act, and a copy of this Scheme Booklet has been registered by ASIC under section 412(6) of the Corporations Act.

ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that it has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the Second Court Hearing. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has been lodged with ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

Important notice associated with Court order under subsection 411(1) of the Corporations Act

The fact that, under subsection 411(1) of the Corporations Act, the Court has ordered that the Scheme Meeting be convened and has approved this Scheme Booklet does not mean that the Court:

- has formed any view as to the merits of the Scheme or as to how Affinity Shareholders should vote on the Scheme Resolution at the Scheme Meeting (on this matter, Affinity Shareholders must reach their own decision); or
- has prepared, or is responsible for the content of, this Scheme Booklet.

Forward looking statements and intentions

Certain statements in this Scheme Booklet relate to future matters.

Affinity Shareholders should be aware that there are risks (both known and unknown), uncertainties, assumptions and other important factors that could cause the actual conduct, results, performance or achievements of Affinity to be materially different from the future conduct, results, performance or achievements expressed or implied by such statements or that could cause the future conduct, results, performance or achievements to be materially different from historical conduct, results, performance or achievements.

These risks, uncertainties, assumptions and other important factors include the risks set out in Section 6.9 of this Scheme Booklet.

None of the Affinity Group, Anchorage, the Anchorage Childcare Group, their respective directors, officers or advisers, or any other person, gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Scheme Booklet will actually occur.

Affinity Shareholders are cautioned about relying on any such forward looking statements. The forward looking statements in this Scheme Booklet reflect views held only as at the date of this Scheme Booklet.

Additionally, statements of the intentions of Anchorage or the Anchorage Childcare Group reflect present intentions as at the date of this Scheme Booklet and may be subject to change.

Subject to the Corporations Act and any other applicable laws, the Affinity Group, Anchorage and the Anchorage Childcare Group disclaim any duty to update any forward looking statements other than with respect to information of which they become aware prior to the Scheme Meeting which is material to the decision of Affinity Shareholders as to whether or not to vote in favour of the Scheme Resolution at the Scheme Meeting.

Investment decisions

This Scheme Booklet does not take into account the particular investment needs, objectives and financial circumstances of each individual Affinity Shareholder or any other person. Before making any investment decision in relation to the Scheme, your Independent Directors encourage you to consider whether that decision is appropriate in light of your particular investment needs, objectives and financial circumstances, and to consult your broker or financial or legal adviser.

Privacy

Affinity will need to collect personal information to implement the Scheme. This information may include the name, contact details and security holding of Affinity Shareholders, and the name of persons appointed by Affinity Shareholders to act as proxy, attorney or, in the case of a corporate Affinity Shareholder, corporate representative, at the Scheme Meeting. The primary purpose of collection of the personal information is to assist Affinity in the conduct of the Scheme Meeting and to enable the Scheme to be implemented by Affinity in the manner described in this Scheme Booklet. Without this information, Affinity may be hindered in its ability to carry out these purposes to full effect. The collection of certain personal information is required or authorised by the Corporations Act.

Personal information may be disclosed to the Share Registry, print and mail service providers, authorised securities brokers and to related entities of Affinity and Anchorage Childcare.

Affinity Shareholders have certain rights to access their personal information that has been collected. Affinity Shareholders should contact Affinity's company secretary in the first instance if they wish to request access to their personal information.

IMPORTANT NOTICES (CONT)

Affinity Shareholders who appoint a named person to act as their proxy, attorney or, in the case of a corporate Affinity Shareholder, corporate representative, at the Scheme Meeting should ensure that they inform that person of the matters outlined above.

External websites

Unless expressly stated otherwise, the content of Affinity's websites does not form part of this Scheme Booklet and Affinity Shareholders should not rely on any such content.

Glossary and defined terms

Capitalised terms used in this Scheme Booklet are defined in the Glossary in Section 11 of this Scheme Booklet. Section 11 also sets out rules of interpretation which apply to this Scheme Booklet. Unless expressly stated otherwise, the Glossary does not apply to the Annexures.

The calculation of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effects of rounding. Accordingly, their actual calculation may differ from the calculations set out in this Scheme Booklet.

Date of this Scheme Booklet

This Scheme Booklet is dated 14 October 2015.

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1

SUMMARIES OF THE REASONS TO VOTE IN FAVOUR OF THE SCHEME RESOLUTION, AND POTENTIAL REASONS WHY YOU MAY CHOOSE TO VOTE AGAINST THE SCHEME RESOLUTION

SUMMARY OF THE REASONS TO VOTE IN FAVOUR OF THE SCHEME RESOLUTION

✓	THE INDEPENDENT EXPERT'S CONCLUSION: the Independent Expert has concluded that the Scheme is fair and reasonable and is in the best interests of Affinity Shareholders, in the absence of a Superior Proposal.
✓	PREMIUM: the Scheme Consideration represents an attractive premium for your Affinity Shares compared to the consideration offered by G8 under the G8 Takeover Offers.
✓	CERTAINTY: the Scheme Consideration provides you with certainty as to the value of your Affinity Shares, and certainty of timing in relation to the receipt of the Scheme Consideration.
✓	NO SUPERIOR PROPOSAL: no Superior Proposal has emerged as at the date of this Scheme Booklet, and your Independent Directors consider that a Superior Proposal is unlikely to emerge.
✓	FALL IN PRICE OF AFFINITY SHARES: the price of Affinity Shares is likely to fall (at least in the short-term) if the Scheme is not implemented and no Superior Proposal emerges.
✓	BROKERAGE: no brokerage will be payable on the transfer of your Affinity Shares under the Scheme.
✓	DE FACTO INFLUENCE OR CONTROL BY G8: If the Scheme is not implemented, G8 may continue to hold Affinity Shares ⁴ and may be able to exercise some degree of de facto influence or control over Affinity's financial and operating policies through the appointment of directors of Affinity. G8 is a competitor of Affinity and your Independent Directors are concerned that the continued presence of G8 as an Affinity Shareholder would not be positive for the future of Affinity as a stand-alone listed company.

These reasons are discussed in more detail in Section 4.2.

⁴ As at Friday, 9 October 2015, G8 had a Relevant Interest in 24.63% of the total issued Affinity Shares: G8 was the registered holder of 20.04% of the total issued Affinity Shares (19.89% of which was acquired before G8 made the G8 Takeover Offers and 0.15% of which was acquired pursuant to acceptances of the G8 Share Offer); and G8 had a further Relevant Interest in 4.59% of the total issued Affinity Shares pursuant to acceptances of the G8 Share Offer that had been received (but which, as a result of the Takeovers Panel proceedings (which are discussed in section 3.3(b) of this Scheme Booklet), had not been processed) as at Friday, 9 October 2015. See the discussion in relation to the Takeovers Panel proceedings set out in section 3.3(b) of this Scheme Booklet and the details of the final orders which will be published on the Takeovers Panel's website and released to ASX in due course.

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SUMMARIES OF THE REASONS TO VOTE IN FAVOUR OF THE SCHEME RESOLUTION, AND POTENTIAL REASONS WHY YOU MAY CHOOSE TO VOTE AGAINST THE SCHEME RESOLUTION (CONT)

SUMMARY OF POTENTIAL REASONS WHY YOU MAY CHOOSE TO VOTE AGAINST THE SCHEME RESOLUTION

X	INDEPENDENT DIRECTORS' RECOMMENDATION OR INDEPENDENT EXPERT'S CONCLUSION: You may disagree with your Independent Directors' recommendation or the Independent Expert's conclusion.
X	PARTICIPATION IN POTENTIAL UPSIDE: if the Scheme is implemented, you will no longer participate in any potential upside that may result from being an Affinity Shareholder.
X	FUTURE PROPOSAL: implementation of the Scheme will preclude the possibility of receiving the benefit of any future proposal for your Affinity Shares.
X	TAX CONSEQUENCES: the tax consequences will depend on your own individual circumstances, and may not suit you.

These reasons are discussed in more detail in Section 4.3.

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FREQUENTLY ASKED QUESTIONS

This Section 2 answers some questions Affinity Shareholders may have about the Scheme, and should be read together with the other parts of this Scheme Booklet.

Question	Answer
AN OVERVIEW OF THE SCHEME	
What is the Scheme?	<p>The Scheme is a scheme of arrangement between Affinity and Affinity Shareholders under the Corporations Act.</p> <p>If the Scheme is implemented then:</p> <ul style="list-style-type: none"> all of the Affinity Shares will be transferred to Anchorage Childcare without the need for any action by Affinity Shareholders (and Affinity will become a wholly-owned subsidiary of Anchorage Childcare); and Affinity Shareholders will be paid \$0.92 cash for each Affinity Share they hold as at the Scheme Record Date (which is expected to be 7:00 pm (Melbourne time) on Tuesday, 8 December 2015).
What are the conditions to the Scheme?	<p>The Scheme is subject to a number of conditions, including:</p> <ul style="list-style-type: none"> the Scheme being approved by Affinity Shareholders at the Scheme Meeting; and the Scheme being approved by the Court at the Second Court Hearing. <p>The conditions to the Scheme are summarised in Section 3.2(a) and set out in full in clause 4 of the Scheme Implementation Deed, which is contained in Annexure A to this Scheme Booklet.</p>
Who is Anchorage Childcare?	<p>Anchorage Childcare is an Australian proprietary company ultimately owned by funds managed or advised by Anchorage.</p> <p>See Section 7 of this Scheme Booklet for further information regarding Anchorage Childcare, the Anchorage Childcare Group and Anchorage.</p>
THE SCHEME CONSIDERATION	
What will I be paid if the Scheme is implemented?	<p>If the Scheme is implemented, Affinity Shareholders will be paid \$0.92 cash for each Affinity Share they hold as at the Scheme Record Date (which is expected to be 7:00 pm (Melbourne time) on Tuesday, 8 December 2015).</p>
How will Anchorage Childcare fund the payment of the Scheme Consideration?	<p>Anchorage Childcare intends to fund the Scheme Consideration from committed funding through a combination of external debt, equity from Anchorage Capital Partners Fund II and binding equity commitments from institutional co-investors with whom Anchorage has long term established relationships. The total proceeds available to Anchorage Childcare under these funding arrangements are in excess of the maximum amount that could be required to fund the Aggregate Scheme Consideration.</p> <p>See Section 7.5 of this Scheme Booklet for further details in relation to how Anchorage Childcare will fund the Scheme Consideration.</p>
Is Anchorage Childcare bound to fund the payment of the Scheme Consideration?	<p>Yes. Under the Scheme, if the Scheme becomes Effective:</p> <ul style="list-style-type: none"> Anchorage Childcare must, by no later than the Business Day before the Implementation Date, deposit in cleared funds into the Scheme Trust Account an amount equal to the total amount of the Scheme Consideration payable to all Scheme Shareholders; and Affinity must, on the Implementation Date and subject to Anchorage Childcare having deposited the requisite funds into the Scheme Trust Account, pay or arrange for the payment of the Scheme Consideration to each Scheme Shareholder from the Scheme Trust Account.

Question	Answer
What is the premium of the Scheme Consideration?	<p>The Scheme Consideration of \$0.92 cash for each Affinity Share represents a:</p> <ul style="list-style-type: none"> • 30.8% premium to the implied value of the G8 Share Offer;⁵ • 15.0% premium to the G8 Cash Offer; • 70.4% premium to the closing price of Affinity Shares on 2 July 2015, being the last trading day before G8 initially announced its intention to make the G8 Share Offer; • 38.2% premium to the Affinity 5-day VWAP to 2 July 2015, being the last trading day before G8 initially announced its intention to make the G8 Share Offer; • 29.7% premium to the Affinity 1-month VWAP to 2 July 2015, being the last trading day before G8 initially announced its intention to make the G8 Share Offer; and • 11.9% premium to the Affinity 3-month VWAP to 2 July 2015, being the last trading day before G8 initially announced its intention to make the G8 Share Offer.
When will I be paid the Scheme Consideration?	<p>On the Implementation Date, Scheme Shareholders will be paid \$0.92 cash for each Affinity Share they hold as at the Scheme Record Date (which is expected to be 7:00 pm (Melbourne time) on Tuesday, 8 December 2015). The Implementation Date is expected to be Tuesday, 15 December 2015. However, this date may change (for example, if the Scheme Meeting is adjourned or the Effective Date is otherwise delayed). Any such change will be announced on ASX and set out on Affinity's website (www.affinityeducation.com.au).</p>
How will I receive the payment of the Scheme Consideration?	<p>Affinity will pay each Scheme Shareholder by:</p> <ul style="list-style-type: none"> • sending (or arranging for the Share Registry to send) the payment to the Scheme Shareholder's registered address by cheque in Australian currency drawn out of the Scheme Trust Account; or • depositing (or arranging for the Share Registry to deposit) the payment into an account with any Australian Authorised Deposit Taking Institution notified to Affinity (or the Share Registry) by an appropriate authority from the Scheme Shareholder.
What are the tax implications of the Scheme?	<p>The tax consequences of the Scheme will depend on your own individual circumstances, and may not suit you.</p> <p>You should carefully read and consider Section 8 of this Scheme Booklet, which contains a general overview of the Australian income taxation considerations for Australian resident Scheme Shareholders on implementation of the Scheme. However, you should not rely on the disclosure in Section 8 as being advice on your own affairs. You should consult with your own independent tax advisers regarding the tax consequences for you.</p>

SCHEME MEETING, VOTING AND APPROVALS

When and where will the Scheme Meeting be held?	<p>The Scheme Meeting will be held at 11:00 am (Melbourne time) on Friday, 20 November 2015 at Intercontinental Melbourne The Rialto, 495 Collins Street, Melbourne, VIC 3000, Australia.</p> <p>The Scheme Meeting may be adjourned. Any such adjournment will be announced on ASX and set out on Affinity's website (www.affinityeducation.com.au).</p>
What am I being asked to vote on?	<p>Affinity Shareholders are being asked to vote on the Scheme Resolution, which will approve the implementation of the Scheme.</p> <p>The text of the Scheme Resolution is set out in the Notice of Scheme Meeting, which is contained in Annexure D to this Scheme Booklet.</p>

⁵ Implied value of \$0.7035 for each Affinity Share, based on the closing price of G8 shares of \$2.99 on 28 September 2015 (being the date on which the G8 Takeover Offers closed).

FREQUENTLY ASKED QUESTIONS (CONT)

Question	Answer
What vote is required to approve the Scheme?	<p>For the Scheme to be approved by Affinity Shareholders at the Scheme Meeting, the Scheme Resolution must be passed by:</p> <ul style="list-style-type: none"> • unless the Court orders otherwise, a majority in number (ie more than 50%) of the Affinity Shareholders present and voting (either in person or by proxy); and • at least 75% of the votes cast on the resolution. <p>Even if the Scheme Resolution is passed by the Requisite Majorities at the Scheme Meeting, the Scheme will only be implemented if the other conditions to the Scheme are satisfied or (where allowed) waived.</p>
What are the voting restrictions?	<p>Each person who is an Affinity Shareholder as at 7:00 pm (Melbourne time) on Wednesday, 18 November 2015 is entitled to vote at the Scheme Meeting.</p> <p>Affinity will tag any Affinity Shares voted by the Giufre Entities and the Kern Entities on the Scheme Resolution at the Scheme Meeting so that, if any such votes would have affected the outcome of the vote on the Scheme, that fact can be taken into account by the Court in the exercise of its discretion whether or not to approve the Scheme at the Second Court Hearing. See Section 5.3 of this Scheme Booklet for further details.</p>
How do I vote?	<p>If you are an Affinity Shareholder entitled to vote at the Scheme Meeting, you may vote by:</p> <ul style="list-style-type: none"> • attending and voting in person; • appointing an attorney to attend and vote on your behalf, using a power of attorney; • in the case of a body corporate, appointing a corporate representative to attend the meeting and vote on your behalf, using a certificate of appointment of body corporate representative; or • appointing a proxy to attend and vote on your behalf, using the proxy form accompanying this Scheme Booklet. <p>Voting is not compulsory. However, your vote is important for the Scheme to proceed. Your Independent Directors strongly encourage you to exercise your right to vote.</p> <p>For further information in relation to voting at the Scheme Meeting, see Section 5 of this Scheme Booklet, and the Notice of Scheme Meeting, which is contained in Annexure D to this Scheme Booklet.</p>
What happens if I do not vote, or if I vote against the Scheme?	<p>Even if you do not vote or you vote against the Scheme Resolution at the Scheme Meeting, the Scheme may still be implemented if the Scheme Resolution is passed by the Requisite Majorities (and the other conditions to the Scheme are satisfied or (where allowed) waived).</p> <p>Accordingly, you may still be bound by the Scheme even if you do not vote or you vote against the Scheme Resolution at the Scheme Meeting.</p>
When will the results of the Scheme Meeting be available?	<p>The results of the Scheme Meeting will be announced to ASX shortly after the conclusion of the Scheme Meeting.</p>

Question	Answer
VOTING CONSIDERATIONS FOR THE SCHEME RESOLUTION	
What do your Independent Directors recommend?	Your Independent Directors unanimously recommend that you vote in favour of the Scheme Resolution at the Scheme Meeting, in the absence of a Superior Proposal. Your Independent Directors intend to vote all the Affinity Shares that they own or control in favour of the Scheme Resolution at the Scheme Meeting, in the absence of a Superior Proposal.
What is the opinion of the Independent Expert?	The Independent Expert has concluded that the Scheme is fair and reasonable and is in the best interests of Affinity Shareholders, in the absence of a Superior Proposal. The Independent Expert's Report is contained in Annexure E to this Scheme Booklet.
Why should I vote in favour of the Scheme?	Reasons why you should consider voting in favour of the Scheme Resolution at the Scheme Meeting are set out in Section 4.2 of this Scheme Booklet.
Why might I consider not voting in favour of the Scheme?	Reasons why you might consider not voting in favour of the Scheme Resolution at the Scheme Meeting are set out in Section 4.3 of this Scheme Booklet.
Are the Independent Directors aware of another proposal?	As at the date of this Scheme Booklet, your Independent Directors are not aware of any proposal, and are not in any discussions that could lead to a Superior Proposal. Your Independent Directors consider that a Superior Proposal is unlikely to emerge, given: the time that has elapsed since G8 initially announced its intention to make the G8 Share Offer on 3 July 2015; the subsequent G8 Takeover Offers; and G8's Relevant Interest (which, as at Friday, 9 October 2015, comprised 24.63% of the total issued Affinity Shares). ⁶
What happens if a Superior Proposal emerges?	During the Exclusivity Period, there is nothing preventing other parties from making unsolicited proposals for Affinity. Although Affinity has agreed to certain exclusivity provisions that restrict it from soliciting or inviting, or engaging with, the proponent of a proposal, these restrictions do not prevent Affinity from considering an unsolicited proposal that is or would reasonably be expected to result in a Superior Proposal. Anchorage Childcare has the right, but not the obligation, to match any such proposal. If a proposal for Affinity emerges prior to the Effective Date, your Independent Directors will carefully consider that proposal and will inform you of any material developments which may affect your Independent Directors' view that the Scheme is presently the most favourable proposal for all your Affinity Shares. Your Independent Directors consider that a Superior Proposal is unlikely to emerge, given: the time that has elapsed since G8 initially announced its intention to make the G8 Share Offer on 3 July 2015; the subsequent G8 Takeover Offers; and G8's Relevant Interest (which, as at Friday, 9 October 2015, comprised 24.63% of the total issued Affinity Shares). ⁷

⁶ As at Friday, 9 October 2015, G8 had a Relevant Interest in 24.63% of the total issued Affinity Shares: G8 was the registered holder of 20.04% of the total issued Affinity Shares (19.89% of which was acquired before G8 made the G8 Takeover Offers and 0.15% of which was acquired pursuant to acceptances of the G8 Share Offer); and G8 had a further Relevant Interest in 4.59% of the total issued Affinity Shares pursuant to acceptances of the G8 Share Offer that had been received (but which, as a result of the Takeovers Panel proceedings (which are discussed in section 3.3(b) of this Scheme Booklet), had not been processed) as at Friday, 9 October 2015. See the discussion in relation to the Takeovers Panel proceedings set out in section 3.3(b) of this Scheme Booklet and the details of the final orders which will be published on the Takeovers Panel's website and released to ASX in due course.

⁷ See footnote 6 above.

FREQUENTLY ASKED QUESTIONS (CONT)

Question	Answer
IMPLEMENTATION OF THE SCHEME	
What is the Effective Date?	The Effective Date is the date on which, if the Court approves the Scheme, the Scheme Order is lodged with ASIC and the Scheme becomes Effective (which is expected to be Tuesday, 1 December 2015).
What is the Scheme Record Date?	The Scheme Record Date is 7:00 pm (Melbourne time) on the fifth Business Day after the Effective Date (which is expected to be Tuesday, 8 December 2015), and is the date when the Register is examined to determine who is entitled to participate in the Scheme (ie a Scheme Shareholder) and be paid the Scheme Consideration.
What is the Implementation Date?	The Implementation Date is the fifth Business Day after the Scheme Record Date (which is expected to be Tuesday, 15 December 2015), and is the date on which: <ul style="list-style-type: none"> all of the Scheme Shares held by Scheme Shareholders will be transferred to Anchorage Childcare without the need for any action by Scheme Shareholders (and Affinity will become a wholly-owned subsidiary of Anchorage Childcare); and Scheme Shareholders will be paid \$0.92 cash for each Scheme Share they hold.
What happens if the Scheme is not implemented?	If the Scheme is not implemented: <ul style="list-style-type: none"> Affinity Shareholders will continue to hold their Affinity Shares and will not be paid the Scheme Consideration; and Affinity will continue to operate as a stand-alone listed company and Affinity Shareholders will continue to participate in the benefits of, and be exposed to the risks associated with, an investment in Affinity.
ADDITIONAL INFORMATION	
What will happen to the Affinity Performance Rights?	In accordance with the terms of the Affinity Equity Incentive Plan, if the Scheme is approved by the Court, the Affinity Performance Rights will be freed of any vesting conditions or disposal restrictions. <p>On or before the Scheme Record Date, Affinity will issue the underlying Affinity Shares to the Affinity Performance Right Holders and they will be registered in the Register.</p> <p>On the Implementation Date, subject to Anchorage Childcare having deposited the requisite funds into the Scheme Trust Account and Affinity paying the Scheme Consideration to each Scheme Shareholder, these Affinity Shares will be transferred to Anchorage Childcare without the need for any action by the Affinity Performance Rights Holders. The Affinity Performance Right Holders will be paid the Scheme Consideration as Scheme Shareholders.</p> <p>For further information in relation to the treatment of the Affinity Performance Rights under the Scheme, see Section 3.2(b) of this Scheme Booklet.</p>

FREQUENTLY ASKED QUESTIONS (CONT)

Question	Answer
What warranties am I deemed to have given when participating in the Scheme?	<p>Under the Scheme, each Scheme Shareholder is deemed to have warranted to Affinity that as at the Implementation Date:</p> <ul style="list-style-type: none"> • all of its Affinity Shares which are transferred to Anchorage Childcare under the Scheme, including any rights and entitlements attaching to those Affinity Shares, will, at the time of transfer, be free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any "security interests" within the meaning of section 12 of the <i>Personal Property Securities Act 2009</i> (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind; • all of its Affinity Shares which are transferred to Anchorage Childcare under the Scheme will, on the date on which they are transferred to Anchorage Childcare, be fully paid; • it has full power and capacity to transfer its Affinity Shares to Anchorage Childcare together with any rights attaching to those Affinity Shares; and • it has no existing right to be issued any Affinity Shares, Affinity Performance Rights, Affinity convertible notes or any other Affinity securities, other than, in the case of any Scheme Shareholder who is also the holder of Affinity Performance Rights, the right to be issued Affinity Shares on the exercise of those Performance Rights before the Scheme Record Date in accordance with their terms.
Can I sell my Affinity Shares on ASX?	<p>You can sell your Affinity Shares on ASX at any time before the close of trading on the Effective Date.</p> <p>Affinity will apply to ASX to suspend trading on ASX in Affinity Shares with effect from the close of trading on the Effective Date, so you will not be able to sell your Affinity Shares after this time.</p> <p>If you sell your Affinity Shares on ASX:</p> <ul style="list-style-type: none"> • you may pay brokerage on the sale; • you will not receive the Scheme Consideration; and • there may be different tax consequences compared with those that would apply if you were to remain an Affinity Shareholder and the Scheme were to be implemented.
Will I need to pay brokerage?	You will not incur any brokerage on the transfer of your Affinity Shares pursuant to the Scheme.
Is there a number that I can call if I have queries about this Scheme Booklet or the Scheme?	If you have any questions about this Scheme Booklet or the Scheme, please call the Affinity Shareholder Information Line on 1300 911 275.

3

SUMMARY AND BACKGROUND OF THE SCHEME

3.1 Overview of the Scheme

On 15 September 2015, your Independent Directors announced that Affinity had entered into the Scheme Implementation Deed with Anchorage Childcare, under which, subject to the satisfaction or waiver of a number of conditions, it is proposed that Anchorage Childcare will acquire all of the Affinity Shares pursuant to a scheme of arrangement.

Under the Scheme, Scheme Shareholders will, if the Scheme is implemented, be paid **\$0.92 cash** for each Affinity Share they hold on the Scheme Record Date (which is expected to be 7:00 pm (Melbourne time) on Tuesday, 8 December 2015).

If the Scheme is approved by Affinity Shareholders and by the Court, and all other conditions are satisfied or (where permitted) waived, Affinity will become a wholly-owned subsidiary of Anchorage Childcare and applications will be made to delist Affinity from ASX.

A copy of the Scheme is contained in Annexure C to this Scheme Booklet.

3.2 Summary of the Scheme

If the Scheme is implemented, Scheme Shareholders will be paid **\$0.92 cash** for each Affinity Share they hold on the Scheme Record Date (which is expected to be 7:00 pm (Melbourne time) on Tuesday, 8 December 2015) and Affinity will become a wholly-owned subsidiary of Anchorage Childcare.

(a) Conditions to the Scheme

In order for the Scheme to be implemented, a number of conditions must either be satisfied or (where allowed) waived. These conditions include:

- **(No Affinity Prescribed Occurrence)** no Affinity Prescribed Occurrence occurring between the date of the Scheme Implementation Deed and the Delivery Time on the Second Court Date;
- **(Restraints)** no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or Government Agency, or other material legal restraint or prohibition preventing or delaying the Proposed Transaction being in effect at the Delivery Time on the Second Court Date;

- **(Affinity Warranties)** the Affinity Warranties being true and correct in all material respects on the date of the Scheme Implementation Deed and at the Delivery Time on the Second Court Date;
- **(Anchorage Childcare Warranties)** the Anchorage Childcare Warranties being true and correct in all material respects on the date of the Scheme Implementation Deed and at the Delivery Time on the Second Court Date;
- **(Affinity Shareholder approval)** the Scheme being approved by Affinity Shareholders at the Scheme Meeting by:
 - unless the Court orders otherwise, a majority in number (ie more than 50%) of the Affinity Shareholders present and voting (either in person or by proxy); and
 - at least 75% of the votes cast on the resolution;
- **(Court approval)** the Scheme being approved by the Court, either unconditionally or on conditions that do not impose unduly onerous obligations on either Affinity or Anchorage Childcare (acting reasonably); and
- **(Affinity Performance Rights)** before the Delivery Time on the Second Court Date, all actions have been taken and/or arrangements have been put in place so that all Affinity Performance Rights will either vest, have lapsed or have been cancelled before the Scheme Record Date.

The conditions to the Scheme are set out in full in clause 4 of the Scheme Implementation Deed, which is contained in Annexure A to this Scheme Booklet. The Scheme will not be implemented unless all of the conditions are satisfied or (where allowed) waived in accordance with the Scheme Implementation Deed.

As at the date of this Scheme Booklet, Affinity and Anchorage Childcare are not aware of any circumstances that would cause any of the conditions to the Scheme not to be satisfied. Affinity will make a statement regarding the status of the conditions to the Scheme at the Scheme Meeting.

(b) Treatment of Affinity Performance Rights

As at Friday, 9 October 2015, Affinity had 1,327,141 Affinity Performance Rights on issue. The Affinity Performance Rights were issued under the Affinity Equity Incentive Plan. See Section 10.2(b) of this Scheme Booklet

3

SUMMARY AND BACKGROUND OF THE SCHEME (CONT)

for further details regarding the Affinity Performance Rights held by or on behalf of the Affinity Directors.

In accordance with the terms of the Affinity Equity Incentive Plan, following approval of the Scheme by the Court, the Affinity Performance Rights will be freed of any vesting conditions or disposal restrictions.

Upon automatic vesting of the Affinity Performance Rights, Affinity will issue all the underlying Affinity Shares to be issued by virtue of the vesting of Affinity Performance Rights to the relevant Affinity Performance Right Holders before the Scheme Record Date and they will be registered in the Register.

On the Implementation Date, subject to Anchorage Childcare having deposited the requisite funds into the Scheme Trust Account and Affinity paying the Scheme Consideration to each Scheme Shareholder, these Affinity Shares will be transferred to Anchorage Childcare without the need for any action by the Affinity Performance Rights Holders. The Affinity Performance Right Holders will be paid the Scheme Consideration as Scheme Shareholders.

(c) Implementation of the Scheme

If the Scheme is approved by the Court, there are three important dates in respect of implementation of the Scheme, being:

- the **Effective Date**, which is the date on which, if the Court approves the Scheme, the Scheme Order is lodged with ASIC and the Scheme becomes Effective (which is expected to be Tuesday, 1 December 2015);
- the **Scheme Record Date**, which is 7.00 pm (Melbourne time) on the fifth Business Day after the Effective Date (which is expected to be Tuesday, 8 December 2015), and is the date when the Register is examined to determine who is entitled to participate in the Scheme (ie a Scheme Shareholder) and be paid the Scheme Consideration; and
- the **Implementation Date**, which is the fifth Business Day after the Scheme Record Date (which is expected to be Tuesday, 15 December 2015), and is the date on which:
 - all of the Scheme Shares held by Scheme Shareholders will be transferred to Anchorage Childcare

without the need for any action by Scheme Shareholders (and Affinity will become a wholly-owned subsidiary of Anchorage Childcare); and

- Scheme Shareholders will be paid **\$0.92 cash** for each Scheme Share they hold.

Further details regarding implementation are set out in Section 9 of this Scheme Booklet.

(d) If the Scheme is not implemented

If the Scheme is not implemented:

- Affinity Shareholders will continue to hold their Affinity Shares and will not receive the Scheme Consideration; and
- Affinity will continue to operate as a stand-alone listed company and Affinity Shareholders will continue to participate in the benefits of, and be exposed to the risks associated with, an investment in Affinity.

Some of the risks associated with an investment in Affinity are set out in Section 6.9 of this Scheme Booklet.

3.3 Background to the Scheme

(a) G8 Takeover Offers

On 2 and 3 July 2015, G8 purchased a total of 46,051,790 Affinity Shares (representing approximately 19.89% of the total issued Affinity Shares) paying **\$0.70 cash** for each Affinity Share.

On 3 July 2015, G8 announced its intention to make the G8 Share Offer (offering 1 G8 Share for every 4.61 Affinity Shares) which, at 2 July 2015, implied a value of **\$0.70 cash** for each Affinity Share. G8 lodged its original bidder's statement for the G8 Share Offer on 30 July 2015.

On 3 August 2015, G8 announced the G8 Cash Offer (offering **\$0.80 cash** for each Affinity Share) and revised the G8 Share Offer (this time offering 1 G8 share for every 4.25 Affinity Shares, which, at 20 August 2015 (being the latest practicable date before the Affinity Target's Statement was lodged with ASIC) implied a value of **\$0.78** for each Affinity Share). G8 lodged the G8 Cash Offer Bidder's Statement on 3 August 2015. G8 lodged its second bidder's statement for the G8 Share Offer on 3 August 2015, and a third on 20 August 2015.

SUMMARY AND BACKGROUND OF THE SCHEME (CONT)

On 24 August 2015, the Affinity Target's Statement was lodged with ASIC. Your Independent Directors unanimously recommended that you reject the G8 Takeover Offers for the reasons set out in the Affinity Target's Statement, which included that the Independent Expert had concluded that the G8 Takeover Offers were neither fair nor reasonable, and that the consideration offered by G8 was not enough.

The G8 Takeover Offers have now closed.

(b) Takeovers Panel proceedings

On 26 August 2015, Affinity brought an application to the Takeovers Panel for a declaration of unacceptable circumstances in connection with the acquisition of Affinity Shares by Taxonomy Pty Ltd (**Taxonomy**), JB Super Fund Pty Ltd (**JB Super**) and West Bridge Holdings Pty Ltd (**West Bridge**):

On 28 August 2015, the Takeovers Panel accepted voluntary undertakings from G8 (in lieu of interim orders), which had the effect that G8 would not process (or further process) acceptances by Taxonomy or JB Super of the G8 Share Offer, or any acceptance by West Bridge of the G8 Takeover Offers.

Subsequently, the Takeovers Panel made interim orders:

- on 2 September 2015, restraining West Bridge from disposing of, transferring or granting a security interest over any shares or interests in Affinity except for a disposal by way of an on-market transaction where: any sale of Affinity Shares by West Bridge is for not less than \$0.805 for each Affinity Share; West Bridge has not provided any assistance, financial or otherwise, to the purchaser; and West Bridge notifies the Takeovers Panel by 9:30 am (Melbourne time) on the first business day after any trade of the number of Affinity Shares disposed of on the previous business day; and
- on 21 September 2015 (the day that the voluntary undertakings from G8 expired), restraining G8 from issuing consideration to, or taking any further step to process acceptances from, JB Super and Taxonomy until the earliest of further order from the Takeovers Panel, the determination of the proceedings and two months after the date of the interim orders.

On Monday, 5 October 2015, the Takeovers Panel made a declaration of unacceptable circumstances in relation to the application brought by Affinity. As noted in the Takeovers Panel's media release:

"The Panel has made a declaration of unacceptable circumstances ... in relation to an application dated 26 August 2015 by Affinity Education Group Limited (ASX code: AFJ) in relation to its affairs (see TP15/42).

Background

On 3 July 2015, G8 Education Limited, an ASX listed company (ASX Code: GEM) that held 19.89% of Affinity shares, announced its intention to make an off-market scrip takeover bid for all the shares in Affinity (implied value of \$0.703). On 3 August 2015, the scrip bid consideration was increased (implied value of \$0.80) and a separate on-market cash offer for Affinity was announced at \$0.80 per Affinity share. The scrip bid opened on 21 August 2015 and the on-market bid opened on 26 August 2015.

On 6 July 2015, JB Super Fund Pty Ltd acquired 97,500 Affinity shares (0.04%).

On 9 and 10 July 2015, Taxonomy Pty Ltd acquired in total 10,500,000 Affinity shares (4.54%).

Between 13 July and 28 July 2015, West Bridge Holdings Pty Ltd acquired 11,300,000 Affinity shares (4.88%).

By 24 August 2015, each of JB Super and Taxonomy had accepted its shares into the scrip bid.

Declaration

The Panel made a declaration of unacceptable circumstances because (among other things):

- *there are family links between Ms Jennifer Hutson, the chairperson of G8, and the owner of JB Super*
- *there are, or have been, structural links, common investments and common dealings between Ms Jennifer Hutson and each of the parties identified above*

SUMMARY AND BACKGROUND OF THE SCHEME (CONT)

- *there were unusual funding arrangements and unusual use of common intermediaries and*
- *the acceptances of the scrip bid by JB Super and Taxonomy occurred in uncommercial circumstances.*

The relevant interests, and associations, led to the market not being efficient, competitive and informed, to information deficiencies and to contraventions of provisions of chapters 6 and 6C of the Corporations Act 2001 (Cth).

The Panel did not consider it against the public interest to make the declaration, and in making it had regard to the matters in s657A(3)."

As at Friday, 9 October 2015, the Takeovers Panel had not decided what final orders to make. Details of the final orders will be published on the Takeovers Panel's website and released to ASX in due course.

(c) Anchorage proposals

In response to the G8 Takeover Offers, your Independent Directors sought out other interested parties with the aim of achieving a superior outcome for Affinity Shareholders:

- on 24 August 2015, your Independent Directors announced on ASX that Affinity had entered into a heads of agreement with Anchorage, under which, subject to certain conditions, Anchorage Childcare would acquire all of the assets and business of Affinity for \$208.3 million and Affinity would return **\$0.90 cash** for each Affinity Share to Affinity Shareholders (**Initial Anchorage Proposal**); and
- on 15 September 2015, your Independent Directors announced on ASX that Affinity had entered into the Scheme Implementation Deed with Anchorage Childcare, under which Affinity agreed to implement the Scheme. The Scheme replaces the Initial Anchorage Proposal. Under the Scheme, Scheme Shareholders will, if the Scheme is implemented, receive

\$0.92 cash for each Affinity Share they hold on the Scheme Record Date (which is expected to be 7:00 pm (Melbourne time) on Tuesday, 8 December 2015).

The Scheme Implementation Deed sets out the obligations of Affinity and Anchorage Childcare in connection with the implementation of the Scheme. A copy of the Scheme Implementation Deed is contained in Annexure A to this Scheme Booklet.

(d) G8 Voting Deed

As noted in Affinity's announcement to ASX in relation to the Scheme and the Scheme Implementation Deed on 15 September 2015, G8 has entered into a voting deed with Affinity (**G8 Voting Deed**), under which G8 has agreed to irrevocably appoint, for no consideration, the chair of Affinity as G8's proxy to vote 33,560,488 Affinity Shares held by G8 (representing approximately 14.5% of the total issued Affinity Shares as at the date of the G8 Voting Deed) in favour of the Scheme Resolution at the Scheme Meeting. The proxy may only be revoked if:

- the Scheme Meeting is not held before 14 January 2016;
- the Independent Directors withdraw their recommendation that Affinity Shareholders vote in favour of the Scheme Resolution at the Scheme Meeting in the absence of a Superior Proposal; or
- a Superior Proposal is announced, which is recommended by the Independent Directors,

(Prescribed Events).

The full text of the G8 Voting Deed was attached to the substantial holding notice issued by Affinity on 15 September 2015, which is available from ASX's website (www.asx.com.au) and Affinity's website (www.affinityeducation.com.au).

G8 has also announced that it will vote all other Affinity Shares it holds at the time of the Scheme Meeting in favour of the Scheme Resolution, subject to none of the Prescribed Events (as defined above) occurring before the Scheme Meeting.⁸

⁸ As at Friday, 9 October 2015, G8 had a Relevant Interest in 24.63% of the total issued Affinity Shares: G8 was the registered holder of 20.04% of the total issued Affinity Shares (19.89% of which was acquired before G8 made the G8 Takeover Offers and 0.15% of which was acquired pursuant to acceptances of the G8 Share Offer); and G8 had a further Relevant Interest in 4.59% of the total issued Affinity Shares pursuant to acceptances of the G8 Share Offer that had been received (but which, as a result of the Takeovers Panel proceedings (which are discussed in section 3.3(b) of this Scheme Booklet), had not been processed) as at Friday, 9 October 2015. See the discussion in relation to the Takeovers Panel proceedings set out in section 3.3(b) of this Scheme Booklet and the details of the final orders which will be published on the Takeovers Panel's website and released to ASX in due course.

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CONSIDERATIONS RELEVANT TO YOUR VOTE

4.1 Affinity Directors' recommendation

(a) Independent Directors' recommendation

Your Independent Directors – having assessed the Scheme having regard to the considerations set out in this Section 4 – consider that the Scheme is in the best interests of Affinity Shareholders.

Accordingly, your Independent Directors:

- unanimously recommend that you vote in favour of the Scheme Resolution at the Scheme Meeting, in the absence of a Superior Proposal; and
- intend to vote all the Affinity Shares that they own or control in favour of the Scheme Resolution at the Scheme Meeting, in the absence of a Superior Proposal.

The interests of your Independent Directors in Affinity Shares and Affinity Performance Rights are set out in Section 10.2 of this Scheme Booklet.

(b) Gabriel Giufre's recommendation

Chris Giufre, the husband of one of the Affinity Directors, Gabriel Giufre, worked with Anchorage and the Anchorage Childcare Group in relation to the Initial Anchorage Proposal. Accordingly, the Affinity Board established an independent board subcommittee to consider the G8 Takeover Offers and the Initial Anchorage Proposal, and adopted the Conflict Protocols. Chris Giufre is now working with the Anchorage Childcare Group in relation to the Scheme. Accordingly, the Conflict Protocols have also been applied in relation to the consideration of the Scheme. See Section 10.1 of this Scheme Booklet for further details in relation to the Conflict Protocols.

Ms Giufre – having assessed the Scheme having regard to the considerations set out in this Section 4 – considers that the Scheme is in the best interests of Affinity Shareholders.

Accordingly, Ms Giufre:

- recommends that you vote in favour of the Scheme Resolution at the Scheme Meeting, in the absence of a Superior Proposal; and
- intends to vote all the Affinity Shares that she owns or controls in favour of the Scheme Resolution at the Scheme Meeting, in the absence of a Superior Proposal.

The interests of Ms Giufre in Affinity Shares and Affinity Performance Rights are set out in Section 10.2 of this Scheme Booklet.

Affinity will tag any Affinity Shares voted by the Giufre Entities on the Scheme Resolution at the Scheme Meeting so that, if any such votes would have affected the outcome of the vote on the Scheme, that fact can be taken into account by the Court in the exercise of its discretion whether or not to approve the Scheme at the Second Court Hearing. See Section 5.3 of this Scheme Booklet for further details.

4.2 Reasons to vote in favour of the Scheme Resolution

Your Independent Directors consider that the Scheme is in the best interests of Affinity Shareholders and, accordingly, unanimously recommend that you vote in favour of the Scheme Resolution at the Scheme Meeting, in the absence of a Superior Proposal. The key reasons for this conclusion are set out below:

(a) The Independent Expert's conclusion

The Independent Expert has concluded that the Scheme is fair and reasonable and is in the best interests of Affinity Shareholders, in the absence of a Superior Proposal.

The Independent Expert has assessed the full underlying value of Affinity Shares to be in the range of \$0.92 to \$1.00. The Scheme Consideration of **\$0.92 cash** for each Affinity Share is within this range.

The Independent Expert made the following comments in the Independent Expert's Report:

"In our IER dated 20 August 2015, we assessed the market value of Affinity shares (on a 100% controlling interest basis) at between \$0.92 and \$1.00 per share. ...

We have considered the financial performance and financial position of Affinity subsequent to the date of our IER. Based on this review we are not aware of any developments which would cause us to materially change our valuation range. Consequently, we remain of the view that the value of Affinity shares (on a 100% controlling interest basis) ranges between \$0.92 and \$1.00 per share."

CONSIDERATIONS RELEVANT TO YOUR VOTE (CONT)

Your Independent Directors encourage you to read the Independent Expert's Report, which is contained in Annexure E to this Scheme Booklet.

(b) Premium

The Scheme Consideration of **\$0.92 cash** for each Affinity Share represents a:

- 30.8% premium to the implied value of the G8 Share Offer;⁹
- 15.0% premium to the G8 Cash Offer;
- 70.4% premium to the closing price of Affinity Shares on 2 July 2015, being the last trading day before G8 initially announced its intention to make the G8 Share Offer;
- 38.2% premium to the Affinity 5-day VWAP to 2 July 2015, being the last trading day before G8 initially announced its intention to make the G8 Share Offer;
- 29.7% premium to the Affinity 1-month VWAP to 2 July 2015, being the last trading day before G8 initially announced its intention to make the G8 Share Offer; and
- 11.9% premium to the Affinity 3-month VWAP to 2 July 2015, being the last trading day before G8 initially announced its intention to make the G8 Share Offer.

(c) Certainty

The Scheme Consideration of **\$0.92 cash** for each Affinity Share provides you with certainty of value and certainty of timing in relation to the receipt of the Scheme Consideration. If the Scheme is implemented, the Scheme Consideration will be paid to Scheme Shareholders on the Implementation Date (which is expected to be Tuesday, 15 December 2015).

In contrast, if the Scheme is not implemented, the amount Affinity Shareholders will be able to realise for their Affinity Shares will necessarily be uncertain, as the value of Affinity Shares will continue to be subject to risks, including the general and specific risks set out in Section 6.9 of this Scheme Booklet.

(d) No Superior Proposal

As at the date of this Scheme Booklet, your Independent Directors are not aware of any proposal, and are not in any discussions that could lead to a Superior Proposal.

Your Independent Directors consider that a Superior Proposal is unlikely to emerge, given: the time that has elapsed since G8 initially announced its intention to make the G8 Share Offer on 3 July 2015; the subsequent G8 Takeover Offers; and G8's Relevant Interest in Affinity Shares (which, as at Friday, 9 October 2015, comprised 24.63% of the total issued Affinity Shares).¹⁰

The Independent Expert has expressed a similar view in the Independent Expert's Report:

"Shareholders should note that Affinity shares have traded on the ASX in the range of 89.5 to 91.0 cents per share in the period since the announcement of the Scheme on 15 September 2015 through to 24 September 2015. These share prices are marginally lower than the Scheme Consideration and suggest that the market consensus view is that a superior offer or proposal is unlikely to emerge."

⁹ Implied value of \$0.7035 for each Affinity Share, based on the closing price of G8 shares of \$2.99 on 28 September 2015 (being the date on which the G8 Takeover Offers closed).

¹⁰ As at Friday, 9 October 2015, G8 had a Relevant Interest in 24.63% of the total issued Affinity Shares: G8 was the registered holder of 20.04% of the total issued Affinity Shares (19.89% of which was acquired before G8 made the G8 Takeover Offers and 0.15% of which was acquired pursuant to acceptances of the G8 Share Offer); and G8 had a further Relevant Interest in 4.59% of the total issued Affinity Shares pursuant to acceptances of the G8 Share Offer that had been received (but which, as a result of the Takeovers Panel proceedings (which are discussed in section 3.3(b) of this Scheme Booklet), had not been processed) as at Friday, 9 October 2015. See the discussion in relation to the Takeovers Panel proceedings set out in section 3.3(b) of this Scheme Booklet and the details of the final orders which will be published on the Takeovers Panel's website and released to ASX in due course.

CONSIDERATIONS RELEVANT TO YOUR VOTE (CONT)

During the Exclusivity Period, there is nothing preventing other parties from making unsolicited proposals for Affinity. Although Affinity has agreed to certain exclusivity provisions that restrict it from soliciting or inviting, or engaging with, the proponent of a proposal, these restrictions do not prevent Affinity from considering an unsolicited proposal that is or would reasonably be expected to result in a Superior Proposal. Anchorage Childcare has the right, but not the obligation, to match any such proposal.

If a proposal for Affinity emerges prior to the Effective Date, your Independent Directors will carefully consider that proposal and will inform you of any material developments which may affect your Independent Directors' view that the Scheme is presently the most favourable proposal for all your Affinity Shares.

(e) Fall in price of Affinity Shares

Your Independent Directors consider that the price of Affinity Shares is likely to fall (at least in the short-term) if the Scheme is not implemented and no Superior Proposal emerges.

The Independent Expert has expressed a similar view in the Independent Expert's Report. According to the Independent Expert:

"If the Scheme is not implemented we expect that, at least in the short-term, Affinity shares will trade at a discount to our valuation and the Scheme Consideration due to the difference between the value of Affinity shares on a portfolio basis and their value on a 100% takeover basis and recent falls in share markets generally. In this regard we note that:

- (a) on 2 July 2015, being the last trading day prior to the announcement of G8 Education's intention to make a takeover offer for the Company, Affinity shares traded between \$0.49 and \$0.75 per share and closed at \$0.54 per share
- (b) the S&P / ASX 200 Index has fallen by some 9.4% from 2 July 2015 through to and including 24 September 2015."

(f) No brokerage

You will not incur any brokerage on the transfer of your Affinity Shares pursuant to the Scheme.

(g) De facto influence or control by G8

The G8 Takeover Offers have closed.

G8 has:

- entered into the G8 Voting Deed with Affinity under which G8 has agreed to irrevocably appoint, for no consideration, the chair of Affinity as G8's proxy to vote 33,560,488 Affinity Shares held by G8 (representing approximately 14.5% of the total issued Affinity Shares as at the date of the G8 Voting Deed) in favour of the Scheme Resolution at the Scheme Meeting; and
- announced that it intends to vote all of the other Affinity Shares it holds at the time of the Scheme Meeting in favour of the Scheme Resolution at the Scheme Meeting,¹¹

subject to none of the Prescribed Events occurring before the Scheme Meeting. See Section 3.3(d) of this Scheme Booklet for further details.

¹¹ As at Friday, 9 October 2015, G8 had a Relevant Interest in 24.63% of the total issued Affinity Shares: G8 was the registered holder of 20.04% of the total issued Affinity Shares (19.89% of which was acquired before G8 made the G8 Takeover Offers and 0.15% of which was acquired pursuant to acceptances of the G8 Share Offer); and G8 had a further Relevant Interest in 4.59% of the total issued Affinity Shares pursuant to acceptances of the G8 Share Offer that had been received (but which, as a result of the Takeovers Panel proceedings (which are discussed in section 3.3(b) of this Scheme Booklet), had not been processed) as at Friday, 9 October 2015. See the discussion in relation to the Takeovers Panel proceedings set out in section 3.3(b) of this Scheme Booklet and the details of the final orders which will be published on the Takeovers Panel's website and released to ASX in due course.

CONSIDERATIONS RELEVANT TO YOUR VOTE (CONT)

If the Scheme is not implemented, G8 may continue to hold Affinity Shares and may be able to exercise some degree of de facto influence or control over Affinity's financial and operating policies through the appointment of directors of Affinity.¹²

In fact, G8 noted in the G8 Bidder's Statements that, if G8 were to acquire a Relevant Interest in less than 50% of the total issued Affinity Shares under the G8 Takeover Offers, G8 would:

"seek to procure the appointment of a majority of G8 Education nominees to the Affinity Education Board notwithstanding that the proportion of G8 Education nominees would exceed G8 Education's voting power in Affinity Education."

G8 also stated in the G8 Bidder's Statements that, if G8 were to acquire a relevant interest in less than 50% of the total issued Affinity Shares under the G8 Takeover Offers, G8 would "endeavour to implement its intentions [for where G8 had a Relevant Interest in 90% of the total issued Affinity Shares] ... to the extent to which it is able to do so".

G8's ability to exercise any degree of de facto influence or control over Affinity's financial and operating policies through the appointment of directors of Affinity may be increased if G8 becomes able (and exercises such ability) to acquire 3% of the total Affinity Shares every six months (without making a further takeover offer) under item 9 of section 611 of the Corporations Act.

For the reasons set out in the Affinity Target's Statement, your Independent Directors have concerns about G8. These concerns include G8's conduct in relation to the G8 Takeover Offers, which was the subject of Takeovers

Panel proceedings. For further details in relation to the Takeovers Panel proceedings, see Section 3.3(b) of this Scheme Booklet.

Furthermore, G8 is a competitor of Affinity and the Affinity Board is concerned that the continued presence of G8 as an Affinity Shareholder would not be positive for the future of Affinity as a stand alone listed company.

4.3 Reasons you may choose to vote against the Scheme Resolution

Your Independent Directors consider that the Scheme is in the best interests of Affinity Shareholders and, accordingly, unanimously recommend that you vote in favour of the Scheme Resolution at the Scheme Meeting, in the absence of a Superior Proposal. The key reasons for this conclusion are set out above in Section 4.2 of this Scheme Booklet. There may, however, be reasons why you may choose to vote against the Scheme Resolution at the Scheme Meeting, including the reasons set out below:

(a) Independent Directors' recommendation and Independent Expert's conclusion

In concluding that the Scheme is in the best interests of Affinity Shareholders, in the absence of a Superior Proposal, your Independent Directors and the Independent Expert are making judgements based on future trading conditions and events which cannot be predicted with certainty and which may prove to be inaccurate (either positively or negatively).

You may not agree with, and are not obliged to follow the recommendation of, your Independent Directors, and may not agree with the Independent Expert's conclusions. For example, you may wish to retain an exposure to the Affinity business because you take a long term view of Affinity's future financial performance or the future prospects of its ongoing business.

¹² As at Friday, 9 October 2015, G8 had a Relevant Interest in 24.63% of the total issued Affinity Shares: G8 was the registered holder of 20.04% of the total issued Affinity Shares (19.89% of which was acquired before G8 made the G8 Takeover Offers and 0.15% of which was acquired pursuant to acceptances of the G8 Share Offer); and G8 had a further Relevant Interest in 4.59% of the total issued Affinity Shares pursuant to acceptances of the G8 Share Offer that had been received (but which, as a result of the Takeovers Panel proceedings (which are discussed in section 3.3(b) of this Scheme Booklet), had not been processed) as at Friday, 9 October 2015. See the discussion in relation to the Takeovers Panel proceedings set out in section 3.3(b) of this Scheme Booklet and the details of the final orders which will be published on the Takeovers Panel's website and released to ASX in due course.

CONSIDERATIONS RELEVANT TO YOUR VOTE (CONT)

(b) Participation in potential upside

If the Scheme is implemented, you will cease to be an Affinity Shareholder. This means that you will no longer be able to participate in Affinity's future financial performance or the future prospects of its ongoing business. There are, however, risks associated with remaining an Affinity Shareholder. See Section 6.9 of this Scheme Booklet for further information.

(c) Future proposal

It is possible that, if Affinity were to continue as a stand-alone listed company, a corporate control proposal for Affinity may materialise in the future which is more favourable for Affinity Shareholders than the Scheme. Affinity Shareholders are being asked to vote on the Scheme on Friday, 20 November 2015 and, if the Scheme is implemented, the Scheme Consideration will be paid on the Implementation Date (which is expected to be Tuesday, 15 December 2015). Implementation of the Scheme would preclude the possibility of Affinity Shareholders obtaining the benefit of any future proposal for their Affinity Shares that could emerge if Affinity were to remain a stand-alone listed company.

As at the date of this Scheme Booklet, your Independent Directors are not aware of any proposal, and are not in any discussions that could lead to a Superior Proposal.

Your Independent Directors consider that a Superior Proposal is unlikely to emerge, given: the time that has elapsed since G8 initially announced its intention to make the G8 Share Offer on 3 July 2015; the subsequent G8 Takeover Offers; and G8's Relevant Interest in Affinity Shares (which, as at Friday, 9 October 2015, comprised 24.63% of the total issued Affinity Shares).¹³

The Independent Expert has expressed a similar view in the Independent Expert's Report:

"Shareholders should note that Affinity shares have traded on the ASX in the range of 89.5 to 91.0 cents per share in the period since the announcement of the Scheme on 15 September 2015 through to 24 September 2015. These share prices are marginally lower than the Scheme Consideration and suggest that the market consensus view is that a superior offer or proposal is unlikely to emerge."

During the Exclusivity Period, there is nothing preventing other parties from making unsolicited proposals for Affinity. Although Affinity has agreed to certain exclusivity provisions that restrict it from soliciting or inviting, or engaging with, the proponent of a proposal, these restrictions do not prevent Affinity from considering an unsolicited proposal that is or would reasonably be expected to result in a Superior Proposal. Anchorage Childcare has the right, but not the obligation, to match any such proposal.

If a proposal for Affinity emerges prior to the Effective Date, your Independent Directors will carefully consider that proposal and will inform you of any material developments which may affect your Independent Directors' view that the Scheme is presently the most favourable proposal for all your Affinity Shares.

(d) Tax consequences

The tax consequences of the Scheme will depend on your own individual circumstances, and may not suit you.

You should carefully read and consider Section 8 of this Scheme Booklet, which contains a general overview of the Australian income taxation considerations for Australian resident Scheme Shareholders on implementation of the Scheme. However, you should not rely on the disclosure in Section 8 as being advice on your own affairs. You should consult with your own independent tax advisers regarding the tax consequences for you.

¹³ As at Friday, 9 October 2015, G8 had a Relevant Interest in 24.63% of the total issued Affinity Shares: G8 was the registered holder of 20.04% of the total issued Affinity Shares (19.89% of which was acquired before G8 made the G8 Takeover Offers and 0.15% of which was acquired pursuant to acceptances of the G8 Share Offer); and G8 had a further Relevant Interest in 4.59% of the total issued Affinity Shares pursuant to acceptances of the G8 Share Offer that had been received (but which, as a result of the Takeovers Panel proceedings (which are discussed in section 3.3(b) of this Scheme Booklet), had not been processed) as at Friday, 9 October 2015. See the discussion in relation to the Takeovers Panel proceedings set out in section 3.3(b) of this Scheme Booklet and the details of the final orders which will be published on the Takeovers Panel's website and released to ASX in due course.

CONSIDERATIONS RELEVANT TO YOUR VOTE (CONT)

4.4 Other considerations that are relevant to the decision by Affinity Shareholders whether or not to vote in favour of the Scheme Resolution

(a) Exclusivity arrangements between Affinity and Anchorage Childcare

On 15 September 2015, Affinity and Anchorage Childcare entered into the Scheme Implementation Deed. The Scheme Implementation Deed sets out the obligations of Affinity and Anchorage Childcare in connection with the implementation of the Scheme. A copy of the Scheme Implementation Deed is contained in Annexure A to this Scheme Booklet.

Under the Scheme Implementation Deed, Affinity has agreed to certain exclusivity arrangements with Anchorage Childcare. The following is a summary only of the ongoing exclusivity arrangements agreed to in the Scheme Implementation Deed. The full terms of these exclusivity arrangements are set out in clause 14 of the Scheme Implementation Deed.

(i) No shop

During the Exclusivity Period (which is the period beginning on 15 September 2015 and ending on the earliest of 1 March 2016, the Effective Date and the date the Scheme Implementation Deed is terminated), Affinity must not solicit, invite, initiate or encourage any Competing Proposal or any enquiries, proposals, discussions or negotiations with any third party in relation to a Competing Proposal or to Affinity abandoning the Proposed Transaction, or communicate any intention to do any of these things.

(ii) No talk

During the Exclusivity Period, Affinity must not, (subject to the fiduciary exception set out in Section 4.4(a)(vi)), negotiate or enter into or participate in negotiations or discussions with any person in relation to, or which may reasonably be expected to lead to, a Competing Proposal.

(iii) No due diligence

During the Exclusivity Period, except with the prior written consent of Anchorage Childcare, Affinity must not:

- solicit, invite, initiate or encourage or (subject to the fiduciary exception set out in Section 4.4(a)(vi)) facilitate or permit any person (other than Anchorage Childcare) to undertake due diligence in respect of Affinity, or its business and operations; or
- (subject to the fiduciary exception set out in Section 4.4(a)(vi)) make available to any person (other than Anchorage Childcare) or permit any such person to receive any non-public information relating to Affinity, or its business and operations,

in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal.

(iv) Notification right

During the Exclusivity Period, Affinity must promptly notify Anchorage Childcare of:

- any approach, inquiry or proposal made by any person to Affinity to initiate any discussions or negotiations that concern or that could reasonably be expected to lead to a Competing Proposal; and
- any request made by any person to Affinity for any information relating to Affinity, its business and operations, in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal.

Subject to the fiduciary exception set out in Section 4.4(a)(vi), this notice must be accompanied by all material details of the relevant event, including:

- the identity of the person who made the relevant approach, inquiry or proposal to initiate discussions or negotiations, or who made the relevant request for information; and
- the material terms and conditions (including price, conditions precedent, timetable and break fee (if any) of any Competing Proposal (to the extent known).

CONSIDERATIONS RELEVANT TO YOUR VOTE (CONT)

(v) Matching Right

During the Exclusivity Period, Affinity must promptly provide Anchorage Childcare with any material non-public information relating to Affinity, its business and operations made available to any person in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal and which has not previously been provided to Anchorage Childcare.

If Affinity receives a Competing Proposal and as a result any Independent Director proposes to change, withdraw or modify his or her recommendation of the Proposed Transaction, or approve or recommend entry into an agreement, commitment, arrangement or understanding relating to the Competing Proposal, Affinity must not make an announcement or enter into an agreement, commitment or understanding unless and until (among other things) Affinity gives Anchorage Childcare written notice of your Independent Directors' proposal and the Independent Directors have made the good faith determination contemplated by the fiduciary exception set out in Section 4.4(a)(vi) in respect of the Competing Proposal. If Affinity gives Anchorage Childcare written notice of your Independent Directors' proposal, Anchorage Childcare will have the right, but not the obligation, during the period of two Business Days following receipt of the notice, to make a counter proposal, which your Independent Directors must review in good faith. If your Independent Directors determine that Anchorage Childcare's counter proposal would be more favourable, or no less favourable, to Affinity and the Affinity Shareholders than the Competing Proposal, then Affinity and Anchorage Childcare must use their best endeavours to enter into an amended agreement to implement the counter proposal and Affinity must recommend the counter proposal to Affinity Shareholders and not recommend the Competing Proposal.

(vi) Fiduciary exception to some of the exclusivity restrictions on Affinity

The restrictions identified above as being subject to a fiduciary exception, do not apply to the extent that they restrict Affinity or any Independent Director from taking or refusing to take any action with respect to an unsolicited Competing Proposal provided that:

- the Competing Proposal is bona fide and is made by or on behalf of a person that your Independent Directors reasonably consider is of sufficient commercial standing to implement the Competing Proposal; and
- your Independent Directors have determined in good faith after consultation with Affinity's financial advisers and receiving written advice from Affinity's external Australian legal adviser practising in the area of corporate law, that (A) the Competing Proposal is or may reasonably be expected to lead to a Superior Proposal and (B) failing to take the action or refusing to take the action (as the case may be) with respect to the Competing Proposal would be likely to constitute a breach of the fiduciary or statutory obligations of your Independent Directors.

(b) Conditions

The Scheme is subject to a number of conditions. These conditions are summarised in Section 3.2(a) and set out in full in clause 4 of the Scheme Implementation Deed, which is contained in Annexure A to this Scheme Booklet.

If these conditions are not satisfied or (where allowed) waived and Affinity and Anchorage Childcare do not agree an alternative means or method for the Scheme to proceed, the Scheme will not be implemented.

As at the date of this Scheme Booklet, Affinity and Anchorage Childcare are not aware of any circumstances that would cause any of the conditions to the Scheme not to be satisfied. Affinity will make a statement regarding the status of the conditions to the Scheme at the Scheme Meeting.

CONSIDERATIONS RELEVANT TO YOUR VOTE (CONT)

(c) Affinity's transaction costs

The aggregate of fees and expenses incurred (or expected to be incurred) by Affinity in connection with the G8 Takeover Offers, the Initial Anchorage Proposal and the Scheme is estimated to be approximately \$4.5 million (exclusive of GST).

In addition, under the Scheme Implementation Deed, Affinity has agreed to pay to the Anchorage Reimbursed Entities an amount equal to the reasonable out of pocket expenses of the Anchorage Reimbursed Entities, and the reasonable third party accounting, tax and legal advisory expenses (including GST) incurred by the Anchorage Reimbursed Entities up to the earlier of (i) the Effective Date or (ii) the date on which the Scheme Implementation Deed is terminated, in connection with the Proposed Transaction and its development, which is capped at a maximum of \$2,141,565 (excluding GST).

Affinity confirmed in the Affinity 2015 Half Year Financial Report for the six months ended 30 June 2015 (released to ASX on 18 August 2015) that it expected to pay its maiden dividend in February 2016. If the Scheme is not implemented, the transaction costs identified above would not prevent Affinity from paying a dividend. However, whether or not Affinity would be able to pay a dividend would depend on whether Affinity needs to impair the carrying value of its assets, which would require a determination by the Affinity Board at the time and would depend on a number of factors. See Section 6.5 of this Scheme Booklet for further information on impairment.

(d) The Scheme may proceed even if you vote against it

If you vote against the Scheme Resolution and the Scheme Resolution is passed by the Requisite Majorities and the Scheme is implemented, then any Affinity Shares you hold on the Scheme Record Date will be transferred to Anchorage Childcare, and you will be paid **\$0.92 cash** for each Affinity Share you hold on the Scheme Record Date (notwithstanding that you voted against the Scheme Resolution).

5

HOW TO VOTE AT THE SCHEME MEETING

5.1 The Scheme Meeting

The Scheme will only be implemented if the Scheme Resolution is passed by the Requisite Majorities at the Scheme Meeting.

The Scheme Meeting will be held at 11:00 am (Melbourne time) on Friday, 20 November 2015 at Intercontinental Melbourne The Rialto, 495 Collins Street, Melbourne, VIC 3000, Australia.

Details regarding the Scheme Meeting are set out in the Notice of Scheme Meeting, which is contained in Annexure D to this Scheme Booklet.

5.2 Voting entitlement

Each Affinity Shareholder who is registered on the Register at 7:00 pm (Melbourne time) on Wednesday, 18 November 2015 is entitled to attend and vote at the Scheme Meeting.

Voting is not compulsory. However, your vote is important for the Scheme to proceed. Your Independent Directors strongly encourage you to exercise your right to vote.

In the case of jointly held Affinity Shares, only one of the joint shareholders is entitled to vote. If more than one Affinity Shareholder votes in respect of jointly held Affinity Shares, only the vote of the Affinity Shareholder whose name appears first in the Register will be accepted.

5.3 Tagging

Anchorage has advised Affinity that:

- none of Anchorage, any Anchorage Childcare Group Entity, the Fund Entities, or the Co-Investor Funds, has a Relevant Interest in any Affinity Shares; and
- Chris Giufre (whose association with Anchorage and Anchorage Childcare is described in Section 7.6(a) of this Scheme Booklet) has a relevant interest in 3,799,759 Affinity Shares through entities associated with him and his wife Gabriel Giufre (an Affinity Director) (**Giufre Entities**). This holding represents 1.64% of the total issued Affinity Shares as at the date of this Scheme Booklet.

Affinity does not propose to put:

- the Giufre Entities; or
- Mr Kern and his Associates (whose connection with Anchorage and Anchorage Childcare

is described in Section 7.6(a) of this Scheme Booklet) (**Kern Entities**),

in a separate class of Affinity Shareholders for the purposes of voting on the Scheme Resolution at the Scheme Meeting under section 411 of the Corporations Act. However, Affinity will tag any Affinity Shares voted by the Giufre Entities and the Kern Entities on the Scheme Resolution at the Scheme Meeting so that, if any such votes would have affected the outcome of the vote on the Scheme, that fact can be taken into account by the Court in the exercise of its discretion whether or not to approve the Scheme at the Second Court Hearing.

5.4 How to vote

You may vote on the Scheme Resolution by:

- attending the Scheme Meeting in person; or
- proxy, attorney, or (in the case of corporate Affinity Shareholder) by corporate representative appointed in accordance with the Corporations Act.

Relevant details in respect of each of these methods are set out below.

Voting in person

To vote in person, you must attend the Scheme Meeting. If you attend, you will be admitted to the Scheme Meeting and given a voting card at the point of entry to the meeting upon disclosing your name and address. Please bring a form of personal identification with you, such as your driver's licence.

Voting by proxy

To vote by proxy, you must complete and return the personalised proxy form enclosed with this Scheme Booklet by the specified deadline, in accordance with the instructions on the form. You may appoint an individual or body corporate as your proxy.

The proxy form must be received by the Share Registry by no later than 11:00 am (Melbourne time) on Wednesday, 18 November 2015.

Voting by attorney

To vote by attorney, the attorney must have a duly executed power of attorney, specifying the Affinity Shareholder's name, the attorney, the meeting at which the appointment may be used and that the power of attorney applies in relation to Affinity. The appointment may be a standing one and the attorney need not be an Affinity Shareholder.

5

HOW TO VOTE AT THE SCHEME MEETING (CONT)

The power of attorney must be received by the Share Registry by no later than 11:00 am (Melbourne time) on Wednesday, 18 November 2015.

Voting by corporate representative

For a body corporate to vote by corporate representative, the representative must have a duly executed form which complies with the requirements of the Corporations Act. The representative should bring this appointment to the meeting or send this appointment to Affinity's Share Registry in advance of the Scheme Meeting.

Lodgement of proxy forms and powers of attorney

To be effective, the relevant documents to vote by proxy or attorney must be received by the Share Registry in any of the following ways at least 48 hours before the time for commencement of the Scheme Meeting (that is, by 11:00 am (Melbourne time) on Wednesday 18 November 2015), or if the Scheme Meeting is adjourned, at least 48 hours before the resumption of the Scheme Meeting:

- **By post to:**
Affinity Education Group Limited
C/- Link Market Services Limited
Locked Bag A14
SYDNEY SOUTH NSW 1235
- **By the internet** at the Share Registry's website (www.linkmarketservices.com.au)
- **By facsimile** to +61 2 9287 0309

5.5 Your choices

As an Affinity Shareholder, you have three choices available to you. These choices are set out below:

(a) Option 1 – Vote at the Scheme Meeting

You can vote at the Scheme Meeting by attending the Scheme Meeting in person, or by proxy, attorney, or (in the case of a corporate Affinity Shareholder) by corporate representative appointed in accordance with the Corporations Act, in respect of some or all of your Affinity Shares. Details of how to vote at the Scheme Meeting are set out in Section 5.4 above. You may vote in favour of or against the Scheme Resolution.

If you vote against the Scheme Resolution and the Scheme Resolution is passed by the Requisite Majorities (and the other conditions to the Scheme are satisfied or (where allowed) waived), then any Affinity Shares you hold on

the Scheme Record Date will be transferred to Anchorage Childcare, and you will be paid \$0.92 cash for each Affinity Share you hold on the Scheme Record Date (notwithstanding that you voted against the Scheme Resolution).

(b) Option 2 – Sell your Affinity Shares on market

You can sell your Affinity Shares on ASX at any time before the close of trading on the Effective Date.

Affinity will apply to ASX to suspend trading on ASX in Affinity Shares with effect from the close of trading on the Effective Date, so you will not be able to sell your Affinity Shares after this time.

If you sell your Affinity Shares on ASX:

- you may pay brokerage on the sale;
- you will not receive the Scheme Consideration; and
- there may be different tax consequences compared with those that would arise if you were to remain an Affinity Shareholder and the Scheme were to be implemented.

Affinity Shareholders who wish to sell some or all of their Affinity Shares on ASX should contact their broker for information on how to effect the sale.

(c) Option 3 – Do nothing

If you do not wish to vote for or against the Scheme Resolution, or sell your Affinity Shares on ASX, you may choose to do nothing.

If you do nothing and the Scheme Resolution is passed by the Requisite Majorities (and the other conditions to the Scheme are satisfied or (where allowed) waived), then any Affinity Shares you hold on the Scheme Record Date will be transferred to Anchorage Childcare, and you will be paid \$0.92 cash for each Affinity Share you hold on the Scheme Record Date (notwithstanding that you did not vote in favour of the Scheme Resolution).

5.6 What to do next

You should read and consider the remainder of this Scheme Booklet in full before making any decision on whether to vote in favour of the Scheme Resolution. If you have any questions about this Scheme Booklet or the Scheme, please consult your broker or financial or legal adviser, or call the Affinity Shareholder Information Line on 1300 911 275.

6 INFORMATION RELATING TO AFFINITY

6.1 Background

Affinity is a public company listed on ASX (ASX code: AFJ).

As at 30 June 2015, Affinity owned and operated 161 childcare centres and managed six childcare centres across Queensland, New South Wales, Victoria, Western Australia, the Northern Territory and the Australian Capital Territory, servicing over 15,000 children and families.

6.2 Overview of operations

Affinity's business model is to identify, acquire, integrate and manage childcare centres and extract operational improvement through managing a portfolio of childcare centres. In the ordinary course of business, Affinity aims to increase its portfolio by approximately 20-25% per annum.

In 2014, Affinity acquired 68 childcare centres funded using proceeds from an entitlement offer, banking facilities, cash flows from operations and the issue of Affinity Shares as approved at the 2014 annual general meeting.

In 2015, Affinity acquired a further 36 childcare centres to 30 June 2015.

With this significant growth, Affinity focussed on improving occupancy and optimising the cost base at the centre level.

The outlook for the Affinity business and industry generally is positive with strong fundamentals expected to lead to increases in demand for childcare services. Affinity has created a strong corporate platform that will allow it to drive further efficiencies with continued growth.

Affinity's approach for 2015 has been to maintain a focus on delivering continued growth and better margins with multiple initiatives underway to increase profitability. Affinity has been in discussions to diversify domestic bank funding, has an acquisition pipeline and is continuing to work with the Federal Government on future industry opportunities.

Affinity reported a positive outlook in the Affinity 2015 Half Year Financial Report for the six months ended 30 June 2015 (released to ASX on 18 August 2015).

Affinity reported significant growth, strong underlying cash flows and an upgrade to the lower end of its full year guidance, with underlying EBITDA for the full year ending on 31 December 2015 expected to be in the range of \$30 million to \$32 million (excluding any contribution from further anticipated acquisitions).

Affinity's intention was to pay its maiden dividend in February 2016 (see Section 4.4(c) of this Scheme Booklet for further information in relation to the payment of a dividend).

Affinity reported strong revenue and earnings growth in comparison to the prior corresponding period, with:

- revenue growth of 128%;
- underlying EBITDA growth of 76%;
- an improvement in relation to statutory net loss of 58%;
- underlying operating cashflow up 311%; and
- portfolio growth up 29%.

Affinity also reported a significant improvement on occupancy rates. As at 18 August 2015, Affinity's occupancy across its entire portfolio was 81%, up from 77% as at 30 June 2015.

6.3 Affinity Board and Senior Management

(a) Affinity Board

As at the date of this Scheme Booklet, the Affinity Board comprises:

Name	Position
Stuart James	Chairman and Independent Non-Executive Director
Justin Laboo	Chief Executive Officer and Managing Director
Stephanie Daveson	Independent Non-Executive Director
Jeffrey Forbes	Independent Non-Executive Director
Gabriel Giufre	Chief Operating Officer and Executive Director

(b) Senior Management

As at the date of this Scheme Booklet, the members of Affinity's management team include:

Name	Position
Justin Laboo	Chief Executive Officer and Managing Director
Gabriel Giufre	Chief Operating Officer and Executive Director
Paul Cochrane	Chief Financial Officer and Company Secretary
Fiona Alston	National Operations Manager

6.4 Affinity's securities and capital structure

(a) Affinity Shares on issue

As at Friday, 9 October 2015, Affinity had 231,451,639 Affinity Shares on issue.

Details of the Affinity Shares held by or on behalf of Affinity Directors are set out in Section 10.2 of this Scheme Booklet.

(b) Affinity Performance Rights on issue

As at Friday, 9 October 2015, Affinity had 1,327,141 Affinity Performance Rights on issue.

Details in relation to the treatment of Affinity Performance Rights under the Scheme are set out in Section 3.2(b) of this Scheme Booklet.

Details of the Affinity Performance Rights held by or on behalf of Affinity Directors are set out in Section 10.2 of this Scheme Booklet.

(c) Substantial shareholders

Based on publicly available information, as at Friday, 9 October 2015, Affinity had received notifications from the following substantial shareholders in accordance with section 671B of the Corporations Act:

Substantial Holder	Number of Affinity Shares	Voting Power
G8	57,015,902	24.63%
Affinity ¹⁴	46,003,793	19.88%
Renaissance Smaller Companies Pty Limited	19,186,500	8.29%
Argo Investments Limited (and its Associate Mr Jason Beddow)	15,512,010	6.70%
Bank of America Corporation and its related bodies corporate	13,589,881	5.87%
Deutsche Bank AG and its related bodies corporate	12,006,000	5.19%

6.5 Material changes in Affinity's financial position

Other than:

- the accumulation of profits in the ordinary course of trading; and
- as disclosed in this Scheme Booklet or the Affinity 2015 Half Year Financial Report for the six months ended 30 June 2015 (released to ASX on 18 August 2015),

no member of the Affinity Board is aware of any material change to the financial position of Affinity since 31 December 2014 (being the date of the Affinity 2014 Annual Report for the financial year ended 31 December 2014 (released to ASX on 27 February 2015 and laid before Affinity's 2015 AGM)).

Copies of the Affinity 2015 Half Year Financial Report for the six months ended 30 June 2015 and the Affinity 2014 Annual Report for the financial year ended 31 December 2014 are available from ASX's website (www.asx.com.au) and Affinity's website (www.affinityeducation.com.au), and are specifically incorporated into this Scheme Booklet.

The Affinity 2015 Half Year Financial Report for the six months ended 30 June 2015 reported intangible assets including goodwill of \$254 million. Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate it might be impaired. The Affinity Board considered the value of goodwill as at 30 June 2015 and was satisfied that no impairment was required. Although the market capitalisation of the Affinity Group based on the prevailing share price was lower than the net assets of the Affinity Group, the assessment of the value in use of the business did not require an impairment to be recognised.

The Board monitors, on an ongoing basis, whether an impairment is required. Such an assessment will need to be undertaken following the Scheme Meeting and, if required, the Second Court Hearing. This assessment will consider the transaction price paid by Anchorage Childcare, and, if the Scheme is not implemented, the prevailing price of Affinity Shares compared to the carrying value of the goodwill and other intangible assets and the assessment of the value in use of the business.

¹⁴ Affinity has the power to control the voting and disposal of 33,560,488 Affinity Shares under the G8 Voting Deed, which gives rise to a Relevant Interest under section 608(8) of the Corporations Act. In addition, Affinity has the power to control the disposal of 12,443,305 Affinity Shares the subject of voluntary restriction deeds entered into by Affinity and the parties set out in Annexure A of the substantial holding notice dated 15 June 2015, which gives rise to a Relevant Interest under section 608(1) of the Corporations Act. All voluntary restriction deeds are on the same terms other than the name of the shareholder and number of shares. Under the voluntary restriction deeds, for the 24-month period commencing on the date on which quotation of Affinity Shares on ASX commenced, the relevant Affinity Shareholders must not: sell, transfer or otherwise dispose of, or agree or offer to sell, transfer or otherwise dispose of, the restricted securities; or do, or omit to do, any act if the act or omission would have the effect of transferring effective ownership or control of the restricted securities. However, these restrictions cease to apply to the extent necessary to allow: the relevant Affinity Shareholders to accept a takeover bid where holders of at least 50% of the bid class securities that are not subject to escrow have accepted the takeover bid and the bid becomes unconditional; or the restricted securities to be transferred or cancelled as part of a scheme of arrangement.

6

INFORMATION RELATING TO AFFINITY (CONT)

6.6 Outlook

The outlook for the Affinity business and industry generally is positive with strong fundamentals expected to lead to increases in demand for childcare services. Affinity has created a strong corporate platform that will allow it to drive further efficiencies with continued growth.

Affinity's approach for 2015 has been to maintain a focus on delivering continued growth and better margins with multiple initiatives underway to increase profitability. Affinity has been in discussions to diversify domestic bank funding, has an acquisition pipeline and is continuing to work with the Federal Government on future industry opportunities.

6.7 Intentions regarding the continuation of Affinity's business

If the Scheme is implemented, the existing Affinity Board will be reconstituted in accordance with the instructions of the Anchorage Childcare Group (as it will be a wholly-owned subsidiary of Anchorage Childcare) on the Implementation Date.

Accordingly, it is not possible for the members of the existing Affinity Board to provide a statement of their intentions regarding:

- the continuation of the business of Affinity or how the existing business will be conducted;
- any major changes to be made to the business of Affinity; or
- the future employment of the present employees of Affinity,

in each case, after the Scheme is implemented.

The intentions of Anchorage Childcare if the Scheme is implemented are set out in Section 7.4 of this Scheme Booklet.

6.8 Affinity Share price performance from 1 January 2015 to 9 October 2015



Source: IRESS

6.9 Risks relating to a continued investment in Affinity

The risk factors in this Section 6.9 are existing factors relating to Affinity's business and the industry in which it operates. These risks will continue to be relevant to all Affinity Shareholders if the Scheme is not implemented and Affinity Shareholders retain their current investment in Affinity. Additional risks and uncertainties not currently known to Affinity may also have a material adverse effect on the business of Affinity and the information set out in this Section 6.9 does not purport to be, nor should it be construed as representing, an exhaustive list of the risks affecting Affinity. In particular, Affinity Shareholders should have regard to the disclosure regarding the risks associated with holding Affinity Shares set out in the first appendix of the Retail Offer Booklet. The Retail Offer Booklet was released by Affinity to ASX on 17 March 2015. Any Affinity Shareholder who would like to receive a copy of the Retail Offer Booklet should call the Affinity Shareholder Information Line on 1300 911 275.

If the Scheme is implemented, Affinity Shareholders will cease to be Affinity Shareholders and will no longer be exposed to the risks set out in this Section 6.9.

(a) General / industry

(i) Changes in law and government policy

The childcare industry in Australia is heavily regulated by each level of government. The state and territory governments are responsible for issuing licences to operate a childcare business and determining the standards that operators must meet in order to obtain and retain a licence. Any change or addition to the regulation imposed by any of the levels of government could negatively affect the operation of the centres and could negatively impact on the profitability of Affinity.

Changes in other laws (including tax and industrial relations laws) or their interpretation may affect the value of, and returns from, an investment in Affinity Shares. For instance, changes in the taxation treatment of companies may adversely affect the market price of Affinity Shares.

(ii) Changes to subsidies

Government subsidies through the Child Care Benefit and Child Care Rebate scheme represent a significant portion of Affinity's revenue. Any adverse changes to these childcare subsidies may have a significantly adverse impact on the operations and financial position of Affinity.

(iii) Regulatory risk and assessment and rating

The regulation and availability of the Child Care Benefit scheme is dependent upon individual childcare centres being registered with the National Quality Framework. The assessment and rating process and receipt of government subsidies involves regular review by representatives of the Australian Children's Education and Care Quality Authority, including inspections of childcare centres, the quality of services provided and facilities. Negative evaluations could result in loss of this registration, licences and the withdrawal of government subsidies. This would have a negative impact on Affinity's operations and financial position.

(iv) Economic

Changes in the general economic outlook both in Australia and globally may impact the performance of Affinity and its projects. Such changes may include: (a) contractions in the Australian economy or increases in the rate of inflation resulting from domestic or international conditions (including movements in domestic interest rates and reduced economy activity); (b) increases in expenses (including the cost of goods and services used by Affinity); (c) increase in unemployment rates; and (d) fluctuations in equity markets in Australia and internationally.

(v) Competition

Although there are barriers to entry in the childcare industry, increased competition from existing and new industry participants may reduce Affinity's revenues and profits. In addition, Affinity faces competition from other companies involved in the consolidation of childcare centres when seeking to acquire additional centres. This

competition may increase the price that Affinity may be required to pay to acquire centres or limit the centres Affinity can acquire in the future.

(vi) Reputation risk

Having a good reputation is an important factor in ensuring that Affinity maintains the occupancy rates and earnings of its childcare centres. Being an owner of a large number of childcare centres, there is a risk that an isolated incident occurring at one centre may impact on the reputation of Affinity and impact adversely on the profitability of all the other childcare centres.

(vii) Employee expense risk

Affinity's wage costs are the largest and most significant part of the group's total costs. Affinity has strategies in place to mitigate any wage increases and also assumes a commercial level of cost inflation per year. However, should circumstances arise through industry regulation or collective employee action that gives rise to costs outside of the inflation indexation assumption, then this event would reduce the profitability of Affinity.

(b) Specific

(i) Acquisition integration risk

There is a risk that fully integrating recently acquired centres (along with new centres) may take longer or cost more than anticipated by Affinity. This could impact the profitability of Affinity and occupy large amounts of management's time. There is also no guarantee these centres will operate as profitably after integration as they did prior to their acquisition by Affinity. Past and future acquisitions may subject Affinity to unanticipated risks and liabilities, or disrupt its operations and divert resources from Affinity's day-to-day operations.

(ii) Operational management

Management's ability to effectively monitor, maintain and improve centre performance is dependent on information/technology systems and centre management personnel who can identify

and respond to local supply and demand factors. If Affinity is not able to maintain these systems and attract and employ such personnel (or if such personnel do not properly identify and respond to these local factors), this could adversely impact ongoing occupancy, cost control and profitability of individual centres and the financial performance of Affinity as a whole.

(iii) Managing expansion

Management's ability to successfully manage Affinity's expansion and growth as a result of acquisitions is critical to its success. A failure or inability to properly manage expansion and growth, including failing to control costs, may negatively impact profitability and prospects.

6.10 Public information available for inspection

Affinity is a disclosing entity for the purposes of the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules, which (among other things) require Affinity to, once it is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of Affinity Shares, immediately release the information to ASX.

Affinity is required to prepare and lodge with ASIC and ASX both annual and half year financial reports and directors' reports. Copies of these and other documents lodged with ASIC and ASX may be obtained from ASIC or from ASX's website (www.asx.com.au) and Affinity's website (www.affinityeducation.com.au).

As noted above in Section 6.5 of this Scheme Booklet, copies of the Affinity 2015 Half Year Financial Report for the six months ended 30 June 2015 and the Affinity 2014 Annual Report for the financial year ended 31 December 2014 are specifically incorporated into this Scheme Booklet.

7

INFORMATION RELATING TO ANCHORAGE CHILDCARE AND ANCHORAGE

7.1 Introduction

The information contained in this Section 7 has been prepared by Anchorage Childcare. The information concerning Anchorage and the Anchorage Childcare Group and the intentions, views and opinions contained in this Section 7 are the responsibility of Anchorage Childcare. Affinity and its directors, officers and advisers do not assume any responsibility for the accuracy or completeness of this information.

The intentions of Anchorage Childcare and Anchorage have been formed on the basis of facts and information concerning Affinity which are known to them, the general business environment and the circumstances affecting the business of Affinity as at the date of this Scheme Booklet.

7.2 Anchorage Childcare

Anchorage Childcare is an Australian proprietary company incorporated on 24 August 2015. It is a wholly-owned subsidiary of Anchorage Childcare Group Pty Limited ACN 607 818 771 (**Anchorage MidCo**) (incorporated on 24 August 2015), which in turn is a wholly-owned subsidiary of Anchorage Childcare Sub-Holdings Pty Limited ACN 607 818 502 (**Anchorage MezzCo**) (incorporated on 24 August 2015). Anchorage MezzCo is a wholly-owned subsidiary of Anchorage Childcare Holdings Pty Limited ACN 607 818 057 (incorporated on 24 August 2015) (**Anchorage TopCo**). Each of these companies is a proprietary company limited by shares that was incorporated specifically for the purpose of the acquisition of the Scheme Shares pursuant to the Scheme.

These companies are ultimately owned by funds managed or advised by Anchorage.

The directors of Anchorage Childcare, Anchorage MidCo, Anchorage MezzCo and Anchorage TopCo are:

- Phillip Cave;
- Callen O'Brien;
- Daniel Wong; and
- Simon Woodhouse.

Further details on Anchorage Childcare and Anchorage are set out below, including the biographies of the directors of Anchorage Childcare.

7.3 Anchorage

(a) Overview of business and strategy

Anchorage is a specialised private equity firm that focuses on control investments in established businesses with a strong market position or brand.

Anchorage seeks investment opportunities where it can apply its unique combination of capital and operational expertise in partnership with high quality management. Anchorage manages two funds with a total of A\$450 million in funds under management:

- Anchorage Capital Partners Fund I: A\$200 million, raised in 2008 and which is closed for new investments; and
- Anchorage Capital Partners Fund II: A\$250 million, raised in 2013 and which is currently being invested.

Anchorage's current investments include Bisalloy Steel Group Limited, Acrow Formwork and Scaffolding, Brand Collective, Shoes & Sox and Mark Group Australia.

Anchorage's prior investments include Golden Circle, Burger King NZ, Total Eden, First Engineering and Dick Smith Electronics.

(b) Directors of Anchorage Childcare

Biographies of Anchorage Childcare's directors are set out below.

(i) Phillip Cave AM, Managing Director

Phillip Cave is one of the founding members of Anchorage. He is currently Chairman of Bisalloy and Mark Group Australia, and is a Director of Acrow. Previously Mr Cave was Chairman of Dick Smith Electronics, and also served on the board of First Engineering, Total Eden and Burger King NZ. Mr Cave also sits on Anchorage's Investment Committee.

Mr Cave has a track record of over 20 years of successful turnaround investments in the Australasian region, commencing in the 1980's with investments in Sunbeam, Victa and Wormald Ltd through his listed vehicle Reil Corporation, and more recently PayConnect Solutions (now ADP), Atlas Group, Smart Salary and Omni Plastics Group through his boutique

investment house, Minstar Capital (formerly Interbank Capital Partners). Prior to embarking on his turnaround investment path, Mr Cave was an Executive Director of Macquarie Bank.

Mr Cave was appointed a Member of the Order of Australia in 2007 for services to the community, particularly support services to children and young adults with disabilities, and to business as a company director. He is currently Chairman of the not-for-profit organisations Ability First Australia and Excelsia College (Formerly Wesley Institute).

Mr Cave holds a Bachelor of Business (Commerce) from The New South Wales Institute of Technology and is a Fellow of the Australian Society of Certified Practising Accountants (FCPA).

(ii) Daniel Wong, Managing Director

Mr Wong is one of the founding members of Anchorage. Mr Wong is a Director of Brand Collective and Shoes & Sox as well as Chairman of the Mark Group Australia Turnaround Committee. He was previously Chairman of First Engineering and Total Eden and was also on the Board of Burger King NZ. Mr Wong sits on Anchorage's Investment Committee.

Mr Wong has over 20 years experience in acquisitions, turnarounds and divestments in both Australia and Asia. He has been involved in a range of businesses across many industries including manufacturing, retail, insurance, education, and fast moving consumer goods. He has held various roles including Finance Director, Chief Financial Officer, and Chief Operating Officer within a range of private and publicly listed companies.

Mr Wong holds a Bachelor of Commerce from the University of Wollongong and is a Member of the Australian Society of Certified Practising Accountants (CPA).

(iii) Simon Woodhouse, Managing Director

Mr Woodhouse joined Anchorage in 2008 and was promoted to Managing Director in 2013. Mr Woodhouse is Chairman of Acrow Formwork and Scaffolding,

Brand Collective and Shoes & Sox. He was directly involved in Anchorage's investment in Bisalloy, its prior investments in Burger King NZ and Total Eden and was the Chairman of First Engineering's Turnaround Committee. Mr Woodhouse sits on Anchorage's Investment Committee.

Mr Woodhouse has extensive experience in strategic planning, M&A and business development, as well as direct operating experience across a range of industries, including media, manufacturing, housing and construction as well as gambling and entertainment, both within Australia and internationally. Prior to joining Anchorage, Mr Woodhouse worked with both public and private companies including, James Hardie Industries, Consolidated Press Holdings, Tab Limited and Crown Casino. Additionally, he has also held positions with Ernst & Young.

Mr Woodhouse holds a Masters of Applied Finance from Macquarie University and is a Member of the Australian Society of Certified Practising Accountants (CPA).

(iv) Callen O'Brien, Managing Director

Mr O'Brien joined Anchorage in 2014 as Managing Director, having worked with Anchorage as its legal adviser since before Anchorage was established. Mr O'Brien is a Director and member of the Turnaround Committee for Mark Group Australia. He also sits on Anchorage's Investment Committee.

Mr O'Brien has a strong track record of over 15 years advising on mergers and acquisition strategy, structuring and execution across a broad range of industries in Australia, New Zealand, the UK and the US. Prior to joining Anchorage, Mr O'Brien was a senior partner at Minter Ellison where he advised many of Australia's leading private equity firms on their investments in the region. In his previous role, Mr O'Brien worked closely with the Anchorage team on all its portfolio companies, commencing with the investment in Golden Circle in 2007. Mr O'Brien has also worked for a number of years with leading law firms in London and

New York advising on international M&A transactions.

Mr O'Brien holds a Bachelor of Commerce and a Bachelor of Laws from the University of NSW and has been admitted to practice law in Australia, England and New York. He also sits on the Council of the Australian Private Equity & Venture Capital Association.

7.4 Post-acquisition intentions of Anchorage Childcare

This Section 7.4 sets out Anchorage Childcare's intentions in relation to:

- the continuation of the business of Affinity;
- any major changes to the business of Affinity including the redeployment of the fixed assets and property of Affinity; and
- the future employment of the present employees of the Affinity Group,

in each case, if the Scheme is implemented.

Anchorage Childcare believes that, together with Anchorage's unique combination of capital and operational expertise, it is in a strong position to be able to support the Affinity Group's management to grow and develop Affinity Group's business.

If the Scheme is implemented, Anchorage Childcare will become the holder of all Affinity Shares and, accordingly, Affinity will become a wholly-owned subsidiary of Anchorage Childcare.

These statements of intention are based on the information concerning the Affinity Group and the circumstances affecting the business of the Affinity Group that are known to Anchorage Childcare at the date of this Scheme Booklet. Final decisions on these matters will only be made in the light of all material facts and circumstances at the relevant time if the Scheme is implemented. Accordingly, the statements set out in this Section 7.4 are statements of current intention only, which may change as new information becomes available or circumstances change.

Anchorage's intentions concerning the business, assets and employees of Affinity are the same as the intentions of Anchorage Childcare.

(a) General review of business

If the Scheme is implemented, Anchorage Childcare intends to continue the business of

the Affinity Group largely in its current form. Anchorage Childcare intends to collaborate with Affinity's management team and its consultants to optimise the prospects and operating performance of the business.

In order to achieve these outcomes, Anchorage Childcare intends to undertake a detailed review of the Affinity Group's business to verify (or to identify any deviation from) Anchorage Childcare's understanding of the information, facts and circumstances concerning the Affinity Group's assets, strategies and operations as at the date of this Scheme Booklet. Anchorage Childcare will then work with Affinity's management team and its consultants to determine how to further develop the Affinity Group's business in order to maximise its operating performance.

In the course of the review, Anchorage Childcare intends to focus on a number of key specific areas, including (but not limited to):

- opportunities to improve underlying business performance and sustainability through initiatives including:
 - reviewing each centre for profitability improvement and assess opportunities related to those centres; and
 - reviewing the organisational structure, business processes and performance monitoring;
- opportunities to enhance technology, systems, centre facilities and early learning curriculums; and
- opportunities for growth through acquisitions and consolidation opportunities, including with other operators and owners in the childcare industry.

(b) Affinity to be delisted

If the Scheme is implemented, Anchorage Childcare will arrange for application to be made to ASX for Affinity to be removed from ASX's official list with effect from or shortly after the Implementation Date.

(c) Head office

If the Scheme is implemented, it is the intention of Anchorage Childcare that Affinity Group's head office will remain located in Brisbane, Queensland.

(d) Affinity directors

In accordance with the Scheme Implementation Deed, on the Implementation Date, Affinity will appoint persons nominated by Anchorage Childcare to the Affinity Board and procure the resignation of each of the current Affinity Directors. Affinity will procure the resignation of the directors of its subsidiaries and appoint persons nominated by Anchorage Childcare to those positions.

The identity of Anchorage Childcare's nominees has not yet been determined but Anchorage Childcare expects that such nominees would at least include some of the directors of Anchorage Childcare identified in Section 7.3 above, an industry expert and that the CEO will be on the board.

(e) Employees and incentive plans

Anchorage Childcare expects there to be significant value and knowledge in the existing staff of Affinity. Accordingly, Anchorage Childcare intends to retain the services of Affinity's current centre-level employees in the ordinary course. Subject to the operational and strategic review described above, Anchorage Childcare will endeavour to minimise the disruption (if any) to Affinity and its employees.

Anchorage Childcare will evaluate the future management and administrative requirements of running the Affinity business following completion of the operational and strategic review described above. Anchorage Childcare plans to draw on the management expertise of Affinity's existing employees in partnership with Anchorage to ensure that the Affinity business and its culture operates effectively following implementation of the Scheme.

Overall, the key operational responsibilities held by Affinity's management are expected to be largely unchanged, however final decisions regarding the structure of Affinity's business (including in respect of less relevant corporate and administrative functions applicable to a private company) will be made following implementation of the Scheme.

Anchorage Childcare understands that Affinity has an employee performance rights plan (referred to in this Scheme Booklet as the **Affinity Equity Incentive Plan**) under which

all Affinity Performance Rights will either vest, have lapsed or have been cancelled before the Scheme Record Date under the Scheme Implementation Deed. After implementation of the Scheme, Anchorage Childcare intends to replace the Affinity Equity Incentive Plan with a new incentive plan for key employees so as to align their interests with those of Anchorage Childcare (**New Incentive Plan**).

The remuneration arrangements of employees, the terms of the New Incentive Plan and the employees who will be entitled to participate in that plan will be finalised by Anchorage Childcare after implementation of the Scheme, in consultation with Affinity's management team.

(f) Other intentions

Other than as set out in this Section 7.4, if the Scheme is implemented, Anchorage Childcare intends to:

- continue the business of the Affinity Group;
- not redeploy the fixed assets or property of the Affinity Group; and
- continue the employment of the present employees of the Affinity Group.

7.5 Funding of the Aggregate Scheme Consideration

If the Scheme is implemented, Anchorage Childcare will fund the payment of the Scheme Consideration to the Scheme Shareholders in accordance with the terms of the Scheme. See Section 9.2 of this Scheme Booklet for further details.

Based on Affinity's issued share capital as at the date of this Scheme Booklet, the maximum number of Affinity Performance Rights that may vest on or before the Scheme Record Date (see Section 6.4 of this Scheme Booklet) and the Scheme Consideration of **\$0.92 cash** for each Scheme Share, the maximum amount of cash required to be paid by Anchorage Childcare to Scheme Shareholders under the Scheme is A\$214,156,478 (**Aggregate Scheme Consideration**).

Anchorage Childcare intends to fund the Aggregate Scheme Consideration from committed funding through a combination of external debt, equity from Anchorage Capital Partners Fund II and binding equity

commitments from institutional co-investors with whom Anchorage has long term established relationships. The total proceeds available to Anchorage Childcare under these funding arrangements are in excess of the maximum amount that could be required to fund the Aggregate Scheme Consideration.

(a) Equity funding

Anchorage Childcare has at least A\$130 million in committed equity funding (**Total Equity Funding**). The source of the Total Equity Funding is the Anchorage Funding and the Co-Investor Funding set out below.

(i) Anchorage Funding

Anchorage Capital Partners Fund II is severally responsible for providing 33.33% of the Total Equity Funding (**Anchorage Funding**). In particular:

- Anchorage Capital Partners Trust II A (of which Anchorage Capital Services II A Pty Limited is the trustee) is severally responsible for providing 16.66% of the Total Equity Funding; and
- Anchorage Capital Partners Trust II C (of which Anchorage Capital Services II C Pty Limited is trustee) is severally responsible for providing 16.66% of the Total Equity Funding,

(Fund Entities).

As at the date of this Scheme Booklet, Anchorage Capital Partners Fund II has undrawn and available funding in excess of the Anchorage Funding amount.

The Fund Entities have issued an equity commitment letter to Anchorage TopCo, dated 25 September 2015 (**Anchorage Equity Commitment Letter**) under which each Fund Entity irrevocably commits to make available to Anchorage TopCo its proportion of the Total Equity Funding for the purposes of enabling Anchorage Childcare to meet its obligation to pay the Aggregate Scheme Consideration.

The Anchorage Funding will be made available to Anchorage TopCo pursuant to subscriptions by the Fund Entities for fully paid ordinary shares in the capital of Anchorage TopCo. The subscription monies, together with the Co-Investor Funding, will then be advanced

by Anchorage TopCo to Anchorage MezzCo, and, subsequently, by Anchorage MezzCo to Anchorage MidCo and, subsequently, by Anchorage MidCo to Anchorage Childcare under the terms of shareholder loan agreements. The subscriptions by the Fund Entities, and the subsequent advances of the Anchorage Funding and the Co-Investor Funding pursuant to the shareholder loan agreements will occur in time to allow payment in full of the Aggregate Scheme Consideration for the Scheme Shares as and when due under the terms of the Scheme. The amounts advanced to Anchorage MezzCo pursuant to the Mezzanine Facility (see below) will also be on-lent by Anchorage MezzCo to Anchorage MidCo, and by Anchorage MidCo to Anchorage Childcare pursuant to the shareholder loan agreements.

(ii) Co-investor funding

The Co-Investor Funds (defined below) are severally responsible for providing the remaining 66.66% of the Total Equity Funding (**Co-Investor Funding**) in equal proportions. The Co-Investor Funds are:

- Anchorage Childcare Co-investment Trust A (of which the trustee is Anchorage Childcare Co-Investment Fund A Pty Limited) (**Co-Investor Fund I**), which is severally responsible for providing 33.33% of the Total Equity Funding; and
- Anchorage Childcare Co-investment Trust B (of which the trustee is Anchorage Childcare Co-Investment Fund B Pty Limited) (**Co-Investor Fund II**), which is severally responsible for providing 33.33% of the Total Equity Funding,

(Co-Investor Funds).

Anchorage is the sole shareholder of Anchorage Childcare Co-Investment Fund A Pty Limited and Anchorage Childcare Co-Investment Fund B Pty Limited. Each of Co-Investor Fund I and Co-Investor Fund II are unit trusts, the units in which are held by funds managed or advised by ROC Capital Pty Limited, Pantheon Ventures Inc., Pantheon Ventures (HK) LLC and Cambooya Pty Ltd (**Co-Investor Fund Subscribers**). Each of the Co-Investor Fund Subscribers have agreed to subscribe for units in Co-Investor Fund I and/

or Co-Investor Fund II (as relevant) such that the Co-Investor Funding is available in time to allow payment in full of the Aggregate Scheme Consideration for the Scheme Shares as and when due under the terms of the Scheme.

The Co-Investor Funds have also issued an equity commitment letter to Anchorage TopCo, dated 25 September 2015 (**Co-Investor Equity Commitment Letter**) under which each of the Co-Investor Funds irrevocably commits to make available to Anchorage TopCo its proportion of the Total Equity Funding for the purposes of enabling Anchorage Childcare to meet its obligation to pay the Aggregate Scheme Consideration.

The Co-Investor Funding will be made available to Anchorage TopCo pursuant to subscriptions by the Co-Investor Funds for fully paid ordinary shares in the capital of Anchorage TopCo. The subscription monies will then, together with the Anchorage Funding, be advanced by Anchorage TopCo to Anchorage MezzCo, and, subsequently, by Anchorage MezzCo to Anchorage MidCo and, subsequently, by Anchorage MidCo to Anchorage Childcare under the terms of shareholder loan agreements. The subscriptions by the Co-Investor Funds, and the subsequent advances of the Co-Investor Funding and Anchorage Funding pursuant to the shareholder loan agreements will occur in time to allow payment in full of the Aggregate Scheme Consideration for the Scheme Shares as and when due under the terms of the Scheme.

(b) Debt funding

Anchorage Childcare has two sources of debt funding being the senior debt funding under the Senior Facilities and the mezzanine debt funding under the Mezzanine Facility.

(i) Senior Facilities

Anchorage Childcare (as borrower) and Anchorage MidCo have executed the Syndicated Facility Agreement with, among others, Westpac Banking Corporation (as Agent and Mandated Lead Arranger and Bookrunner) (SFA).

Under the SFA:

- Anchorage Childcare can draw at least A\$75,000,000 available under two facilities: Term Facility A and Term Facility B (**Term Facilities**); and
- Anchorage Childcare can draw funds from two further facilities, being the Multi-Option Working Capital Facility for general working capital requirements and general corporate requirements, and a Capital Expenditure and Acquisition Facility for permitted acquisitions and growth capital expenditure,

(together, the **Senior Facilities**).

The proceeds available to Anchorage Childcare under the Term Facilities are available for the purposes of:

- funding the Aggregate Scheme Consideration for the Scheme Shares;
- retiring or refinancing any existing indebtedness of the Affinity Group; and
- paying certain costs and expenses incurred in connection with the Scheme.

The Senior Facilities are subject to satisfaction of a number of conditions precedent, including:

- Court approval of the Scheme on the Second Court Date;
- evidence that Anchorage Childcare:
 - has received loan funds or equity contributions (not funded from the Mezzanine Facility) of not less than, in aggregate, A\$110,000,000;
 - will receive, at the same time or prior to the funding under the Term Facilities, loan funds or equity contributions funded from the Mezzanine Facility, of not less than in aggregate A\$60,000,000,

such that together with the debt funding under the Term Facilities, loan funds Anchorage Childcare will have sufficient funds to pay the Aggregate Scheme Consideration and the anticipated acquisition costs of Anchorage Childcare; and

- satisfaction of other conditions which are customary for facilities of this kind.

It is expected that these conditions will be satisfied before the Second Court Date (other than Court approval and certain

other conditions which are intended to be satisfied concurrently with, or prior to, the first drawdown under the Senior Facilities on the Implementation Date including the payment of fees and expenses, repayment of indebtedness and releases of certain security interests).

If all the conditions precedent are satisfied (including those described above) and the Anchorage Funding and Co-Investor Funding has been provided or will simultaneously be provided with the debt funding, then the financiers must provide the funds for their portion of the commitment under the Senior Facilities.

The Senior Facilities are also provided on customary 'certain funds' terms, which means that from the period from and including the date of the SFA to and including the last day of the Availability Period for the Term Facilities, the Financiers must comply with any draw down request by Anchorage Childcare to pay the Aggregate Scheme Consideration. This is subject only to any major representation being untrue or misleading in any material respect with respect to Anchorage Childcare and Anchorage MidCo; any major default occurring with respect to Anchorage Childcare or Anchorage MidCo; an insolvency event occurring with respect to Anchorage Childcare or Anchorage MidCo; it being lawful for the Financiers to perform their obligations under the Senior Facilities; and the satisfaction or waiver of all documentary and other conditions precedent under the SFA.

(ii) Mezzanine Facility

Anchorage Childcare also has in place debt funding through a Mezzanine Subscription Agreement executed between Anchorage MezzCo, Sankaty Advisors (as Arranger) and Perpetual Corporate Trust Limited (as Agent) and P.T. Limited (as Security Trustee) (**Mezzanine Document**).

Under the Mezzanine Document, Anchorage Childcare will have additional proceeds of up to A\$60,000,000 available to it to fund the Aggregate Scheme Consideration (**Mezzanine Facility**).

The proceeds available to Anchorage Childcare under the Mezzanine Facility are

available for the purposes of:

- funding the Aggregate Scheme Consideration for the Scheme Shares;
 - retiring or refinancing any existing indebtedness of the Affinity Group; and
 - paying certain costs and expenses incurred in connection with the Scheme.
- The Mezzanine Facility is subject to satisfaction of a number of conditions precedent, including:
 - Court approval of the Scheme on the Second Court Date;
 - evidence that:
 - MezzCo and Anchorage Childcare have each received loan funds equity contributions (not funded from the Mezzanine facility) of not less than in aggregate A\$110,000,000;
 - Anchorage Childcare will receive, at the same time or prior to the funding under the Mezzanine Facility, funding under the Senior Facilities of not less than in aggregate A\$75,000,000,
- such that together with the debt funding under the Mezzanine Facility, Anchorage Childcare will have sufficient funds to pay the Aggregate Scheme Consideration and the anticipated acquisition costs of Anchorage Childcare; and
- satisfaction of other conditions which are customary for facilities of this kind.

It is expected that these conditions will be satisfied before the Second Court Date (other than Court approval and certain other conditions which are intended to be satisfied concurrently with, or prior to, the first drawdown under the Mezzanine Facility on the Implementation Date) including the payment of fees and expenses, repayment of indebtedness and releases of certain security interests.

If all the conditions precedent are satisfied (including those described above) and the Anchorage Funding and Co-Investor Funding has been provided or will simultaneously be provided with the debt funding, then the financiers must provide the funds for their portion of the commitment under the Mezzanine Facility.

INFORMATION RELATING TO ANCHORAGE CHILDCARE AND ANCHORAGE (CONT)

The Mezzanine Facility is also provided on customary 'certain funds' terms, which means that from the period from and including the date of the Mezzanine Document to and including the last day of the Availability Period for the Mezzanine Facility, the Financiers must comply with any draw down request to pay the Aggregate Scheme Consideration. This is subject only to any major representation being untrue or misleading in any material respect; any major default occurring with respect to Anchorage Childcare, Anchorage MidCo or Anchorage MezzCo that is subsisting or would result from the draw request; an insolvency event occurring with respect to Anchorage Childcare, Anchorage MidCo or Anchorage MezzCo; it being lawful for the Financiers to perform their obligation under the Mezzanine Facility; and the satisfaction or waiver of all documentary and other conditions precedent under the Mezzanine Document.

The amounts advanced to Anchorage MezzCo pursuant to the Mezzanine Facility will be on-lent by Anchorage MezzCo to Anchorage MidCo, and by Anchorage MidCo to Anchorage Childcare pursuant to the shareholder loan agreements described above.

(iii) Status of conditions precedent under the Senior and Mezzanine Facilities

As at the date of this Scheme Booklet, Anchorage Childcare, Anchorage MidCo and Anchorage MezzCo are not aware of any reason why any of the conditions precedent to the Senior Facilities or Mezzanine Facility will not be satisfied, and are confident they will be satisfied in time to allow payment in full of the Aggregate Scheme Consideration for the Scheme Shares as and when due under the terms of the Scheme.

The availability of the Senior Facilities and Mezzanine Facility is subject to the correctness of representations and that events of default have not occurred and are not subsisting (in each case, as are customary for facilities of this kind). As at the date of this Scheme Booklet, Anchorage Childcare, Anchorage MidCo and Anchorage MezzCo are not aware of the occurrence of any misrepresentation or event of default or any circumstance that would lead

to any misrepresentation or an event of default or which would give rise to a right to the financiers to terminate the applicable facilities.

(iv) Conclusion

On the basis of the arrangements described above, Anchorage Childcare believes that it has reasonable grounds for holding the view, and holds the view, that Anchorage Childcare will be able to satisfy its obligation to pay the Aggregate Scheme Consideration as and when it is due under the terms of the Scheme.

7.6 Other information

(a) Background to establishment of independent board subcommittee

Shortly prior to its engagement with Affinity, Anchorage began working with Chris Giufre and Greg Kern. Mr Giufre and Mr Kern have considerable experience in the childcare sector, and have provided consultancy services to Anchorage in connection with its evaluation of Affinity and its assessment of the merits of acquiring Affinity by way of the Scheme. Mr Giufre has also agreed to provide such reasonable assistance as Anchorage Childcare or Anchorage requests in connection with Anchorage Childcare's business following the Implementation Date. Anchorage has agreed:

- with Wraith Education Group Pty Limited (being an entity associated with Mr Giufre) that it or Mr Giufre will be entitled to participate in an equity incentive plan that will be linked to the gross returns generated by Anchorage Childcare. As at the date of this Scheme Booklet, the terms of that equity incentive plan have not been agreed, however it has been agreed in-principle that Mr Giufre will receive options over up to 2% of the share capital of Anchorage TopCo; and
- with Kern Group Education Pty Limited (being an entity associated with Mr Kern)¹⁵ that Anchorage Childcare will pay \$1.5 million plus GST to it in payment for the services that it has previously provided to Anchorage as noted above. This amount will not be payable if the Scheme is not implemented.

¹⁵ Anchorage understands that, as at the date of this Scheme Booklet, Mr Kern and his Associates have a Relevant Interest in 4,328,906 Affinity Shares representing 1.87% of the total issued Affinity Shares as at the date of this Scheme Booklet.

INFORMATION RELATING TO ANCHORAGE CHILDCARE AND ANCHORAGE (CONT)

Mr Giufre is married to Gabriel Giufre. Ms Giufre is the Chief Operating Officer and Executive Director of Affinity.

Accordingly, Anchorage notified Affinity of the fact of Chris Giufre's involvement in its evaluation of the opportunity involving Affinity at the time it first approached Affinity in relation to the Initial Anchorage Proposal to allow Affinity to establish the Conflict Protocols and the independent board subcommittee, consistent with Takeovers Panel Guidance Note 19: Insider Participation in Control Transactions, prior to further engagement with Anchorage.

See also Section 10.1 of this Scheme Booklet.

(b) Interests in Affinity Shares

As at the date of this Scheme Booklet:

- none of Anchorage, any Anchorage Childcare Group Entity, the Fund Entities, or the Co-Investor Funds, has a Relevant Interest in any Affinity Shares; and
- Chris Giufre (whose association with Anchorage is described in Section 7.6(a) above) has a Relevant Interest in 3,799,759 Affinity Shares through entities associated with him. This holding represents 1.64% of the total issued Affinity Shares as at the date of this Scheme Booklet.

(c) No dealings in Affinity Shares in the previous four months

During the period of four months ending on the date of this Scheme Booklet, none of Anchorage, any Anchorage Childcare Group Entity or, to the best of their knowledge, any of their Associates has provided, or agreed to provide, consideration for any Affinity Shares under any purchase or agreement.

(d) Benefits to holders of Affinity Shares

Other than as set out in Section 7.6(a) and Section 7.4(e) above, during the four months before the date of this Scheme Booklet, none of Anchorage, any Anchorage Childcare Group Entity or, to the best of their knowledge, any of their Associates has given or offered to give

or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an Associate, to:

- vote in favour of the Scheme; or
- dispose of their Affinity Shares,

where the benefit was not offered to all Affinity Shareholders.

(e) Benefits to current Affinity Directors

Neither Anchorage nor any Anchorage Childcare Group Entity will make any payment or give any benefit to any current member of the Affinity Board as compensation for loss of office with, or as consideration for or in connection with his or her retirement from, the Affinity Board (as they case may be) if the Scheme is implemented.

(f) Other material information

Except as set out in this Scheme Booklet, there is no information material to the making of a decision by Affinity Shareholders whether or not to vote in favour of the Scheme that is within the knowledge of the directors of Anchorage Childcare at the date of this Scheme Booklet that has not previously been disclosed to Affinity Shareholders.



TAXATION IMPLICATIONS



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Affinity Education Group Limited shareholder

Our ref 24634716_4

29 September 2015

Dear Shareholder

Anchorage Childcare scheme of arrangement General Australian income tax implications for shareholders

This outline provides a general overview of the Australian income taxation considerations for the Australian resident shareholders (other than temporary residents) of Affinity Education Group Limited (“Affinity”) on implementation of the scheme of arrangement (“Scheme”) who hold Affinity Shares (being fully paid ordinary shares only and not Performance Rights or shares acquired pursuant to an employee share scheme) on capital account. This outline does not address the tax treatment for Affinity shareholders who hold their shares on revenue account, hold the shares as trading stock or are not Australian tax residents.

The information as set out below is being provided as a general guide only and does not constitute tax advice and should not be relied upon as such.

We recommend you obtain your own tax advice to confirm the potential tax consequences in relation to your specific circumstances with respect to the Scheme.

Australian income tax consequences for Affinity shareholders

On implementation of the Scheme, Affinity shareholders will have a capital gains tax (“CGT”) event and be taken to have disposed of each Share for the Scheme Consideration. This means that:

- a capital gain will arise to the extent that the Scheme Consideration exceeds the cost base of the Shares; and
- a capital loss will arise to the extent that the Scheme Consideration is less than the reduced cost base of the Shares.

The cost base is generally the cost paid for the shares plus the cost of acquisition, less any capital returns received to date.

The capital gain or capital loss arises at the time of the implementation of the Scheme which should be when the Affinity Shares are transferred to Anchorage Childcare.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.



*Affinity Education Group Limited shareholder
Anchorage Childcare scheme of arrangement
General Australian income tax implications for
shareholders
29 September 2015*

The CGT discount may apply to any capital gain that arises under the Scheme for shareholders who are individuals, trusts or complying superannuation funds to reduce the capital gain. Where the shareholder has held their Shares for a period of more than 12 months the capital gain can be reduced by 50% for individuals and trusts and 33 1/3% for complying superannuation funds. The CGT discount is not available to a shareholder that is a company.

If a capital loss arises as a result of the Scheme, the capital loss can only be used to offset capital gains. Capital losses that are not used in the income year in which they arise may be carried forward and used to offset capital gains made in later income years. For companies there are specific loss recoupment rules that need to be satisfied to use the carry forward capital losses.

* * * * *

Disclaimer

Our tax advice has been prepared specifically in response to a request for advice by Affinity Education Group Limited. In providing its views, KPMG has relied upon facts as set out by Affinity Education Group Limited that have not been independently verified by KPMG. Accordingly, neither the firm nor any member or employee of the firm undertakes responsibility in any way whatsoever to any person or company other than Affinity Education Group Limited for any errors or omissions in the advice given, however caused. This advice, therefore, is not intended to address the specific circumstances of any particular individual or entity, and should not be relied upon to do so.

Our tax advice is based on current taxation law as at the date our advice is provided. You will appreciate that the tax law is frequently being changed, both prospectively and retrospectively. A number of key tax reform measures have been implemented, a number of other key reforms have been deferred and the status of some key reforms remains unclear at this stage. This advice will not be updated to take account of subsequent changes to the tax legislation, case law, rulings and determinations issued by the Australian Commissioner of Taxation or other practices of taxation authorities.

We are, of course, unable to give any guarantee that our interpretation will ultimately be sustained in the event of challenge by the Australian Commissioner of Taxation. The information contained herein is not legal advice. You should always seek tax and legal advice specific to your circumstances.

KPMG's Tax practice is not licensed to provide financial product advice under the Corporations Act and taxation is only one of the matters that must be considered when making a decision on a financial product. You should consider taking advice from an Australian Financial Services Licence holder before making a decision on a financial product.

Yours faithfully

Tim Lynch
Partner



IMPLEMENTATION OF THE SCHEME AND OTHER ASPECTS OF THE TRANSACTION

9.1 Scheme Implementation Deed

On 15 September 2015, Affinity and Anchorage Childcare entered into the Scheme Implementation Deed. The Scheme Implementation Deed sets out the obligations of Affinity and Anchorage Childcare in connection with the implementation of the Scheme.

A full copy of the Scheme Implementation Deed is contained in Annexure A to this Scheme Booklet.

9.2 Scheme and Deed Poll

Anchorage Childcare has executed the Deed Poll under which Anchorage Childcare undertakes in favour of each Scheme Shareholder to provide or procure the provision of the Scheme Consideration to each Scheme Shareholder in accordance with the terms of the Scheme.

Under the Scheme, if the Scheme becomes Effective:

- Anchorage Childcare must, by no later than the Business Day before the Implementation Date, deposit in cleared funds into the Scheme Trust Account an amount equal to the total amount of the Scheme Consideration payable to all Scheme Shareholders; and
- Affinity must, on the Implementation Date and subject to Anchorage Childcare having deposited the requisite funds, pay or arrange for the payment of the Scheme Consideration to each Scheme Shareholder from the Scheme Trust Account.

Under the Deed Poll, Anchorage Childcare agrees that the Deed Poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not a party to it.

Copies of the Deed Poll and the Scheme are contained in Annexure B and Annexure C to this Scheme Booklet, respectively.

9.3 Key steps to implement the Scheme

Each key step to implement the Scheme and relevant information concerning these steps is set out below. All dates following the Scheme Meeting are indicative only and are subject to change. Affinity will announce any change to the dates set out in the Important Dates section to ASX.

Step 1: Scheme Meeting – Affinity Shareholders to vote on the Scheme at the Scheme Meeting

In accordance with an order of the Court dated Wednesday, 14 October 2015, Affinity has convened the Scheme Meeting to be held at 11:00 am (Melbourne time) on Friday, 20 November 2015 at Intercontinental Melbourne The Rialto, 495 Collins Street, Melbourne, VIC 3000, Australia. The Notice of Scheme Meeting is contained in Annexure D to this Scheme Booklet.

At the Scheme Meeting, the Affinity Shareholders will vote on whether to approve the Scheme. For this to occur, the Scheme Resolution must be approved by:

- **(headcount test)** unless the Court orders otherwise, a majority in number (ie more than 50%) of the Affinity Shareholders present and voting at the Scheme Meeting (either in person or by proxy); and
- **(voting test)** at least 75% of the votes cast on the resolution.

The Court has the power under the Corporations Act to order that the headcount test be disregarded. ASIC has said in Regulatory Guide 60 that – if ASIC feels there is evidence that a scheme vote has been unfairly influenced by activities such as share splitting – ASIC would generally advise a court to utilise its powers under the Corporations Act to disregard the need for a majority vote.

Instructions on how to vote at the Scheme Meeting are set out in Section 5.4 of this Scheme Booklet and the Notice of Scheme Meeting in Annexure D to this Scheme Booklet.

Steps 2 to 5 described below will only occur if the Scheme Resolution is passed by the Requisite Majorities at the Scheme Meeting.

Step 2: Second Court Hearing – Affinity to apply to the Court for approval of the Scheme

In the event that:

- the Scheme is approved by the Requisite Majorities at the Scheme Meeting; and
- all of the other conditions to the Scheme (other than Court approval) have been satisfied or (where allowed) waived,

Affinity will apply to the Court for an order approving the Scheme (referred to in this Scheme Booklet as the **Scheme Order**).

IMPLEMENTATION OF THE SCHEME AND OTHER ASPECTS OF THE TRANSACTION (CONT)

Any Affinity Shareholder and, with the Court's permission, any other interested person has a right to appear at the Second Court Hearing.

Step 3: Effective Date – Affinity to make the Scheme Effective

If the Court makes the Scheme Order, Affinity will lodge an office copy of the Scheme Order with ASIC. Once lodged, the Scheme will become Effective and binding on Anchorage Childcare, Affinity and each Scheme Shareholder (referred to in this Scheme Booklet as the **Effective Date**).

On the Effective Date, Affinity will notify ASX that the Scheme has become Effective. Trading in Affinity Shares will be suspended from close of trading on the Effective Date.

Each Scheme Shareholder, without the need for any action, irrevocably appoints Affinity and all of its directors, secretaries and officers (jointly and severally) as its attorney and agent for the purpose of executing any document necessary to give effect to the Scheme, including a proper instrument of transfer in respect of its Scheme Shares.

Step 4: Scheme Record Date – Affinity to determine entitlements to Scheme Consideration

Those Affinity Shareholders on the Register on the Scheme Record Date, which is expected to be 7:00 pm (Melbourne time) on Tuesday, 8 December 2015 (the fifth Business Day after the Effective Date), will be entitled to receive the Scheme Consideration in respect of the Affinity Shares they hold on that date.

(a) Dealings on or prior to the Scheme Record Date

For the purposes of determining who is a Scheme Shareholder (ie an Affinity Shareholder on the Register on the Scheme Record Date), dealings in Affinity Shares will only be recognised if:

- in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant Affinity Shares on or before 7:00pm (Melbourne time) on the Scheme Record Date; and

- in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before 7:00pm (Melbourne time) on the Scheme Record Date at the place where the Register is kept.

Affinity will not accept for registration or recognise for any purpose except a transfer to Anchorage Childcare under the Scheme and any subsequent transfer by Anchorage Childcare or its successors in title, any transfer or transmission application or other request received after 7:00pm (Melbourne time) on the Scheme Record Date or received prior to 7:00pm (Melbourne time) on the Scheme Record Date but not in registrable or actionable form (as appropriate).

(b) Dealings after the Scheme Record Date

For the purposes of determining entitlements to the Scheme Consideration, Affinity will maintain the Register in its form as at the Scheme Record Date until the Scheme Consideration has been paid to the Scheme Shareholders. The Register in this form will solely determine entitlements to the Scheme Consideration.

From the Scheme Record Date:

- all statements of holding for Affinity Shares will cease to have any effect as documents of title in respect of those Affinity Shares; and
- each entry on the Register will cease to have effect, other than as evidence of entitlement to the Scheme Consideration in respect of the Scheme Shares relating to that entry.

Step 5: Implementation Date – Scheme Shareholders receive the Scheme Consideration and Affinity Shares transferred to Anchorage Childcare

The Implementation Date is expected to be Tuesday, 15 December 2015 (the fifth Business Day after the Scheme Record Date).

Under the Scheme, Anchorage Childcare must, by no later than the Business Day before the Implementation Date, deposit in cleared funds into the Scheme Trust Account an amount equal to the total amount of the Scheme Consideration payable to all Scheme Shareholders.

IMPLEMENTATION OF THE SCHEME AND OTHER ASPECTS OF THE TRANSACTION (CONT)

On the Implementation Date:

- subject to Anchorage Childcare having deposited the requisite funds into the Scheme Trust Account, each Scheme Shareholder will be paid \$0.92 cash for each Affinity Share; and
- once paid, the Scheme Shares will be transferred to Anchorage Childcare, without the need for Scheme Shareholders to take any action, and the Register will be updated so that Anchorage Childcare is listed as the holder of all of the Scheme Shares.

Details regarding the funding of the Scheme Consideration are set out in Section 7.5 of this Scheme Booklet.

9.4 Deemed warranties by Scheme Shareholders

Under the Scheme, each Scheme Shareholder is deemed to have warranted to Affinity that as at the Implementation Date:

- all of its Affinity Shares which are transferred to Anchorage Childcare under the Scheme, including any rights and entitlements attaching to those Affinity Shares, will, at the time of transfer, be free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any "security interests" within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind;
- all of its Affinity Shares which are transferred to Anchorage Childcare under the Scheme will, on the date on which they are transferred to Anchorage Childcare, be fully paid;
- it has full power and capacity to transfer its Affinity Shares to Anchorage Childcare together with any rights attaching to those Affinity Shares; and
- it has no existing right to be issued any Affinity Shares, Affinity Performance Rights, Affinity convertible notes or any other Affinity securities, other than, in the case of any Scheme Shareholder who is also the holder of Affinity Performance Rights, the right to be issued Affinity Shares on the exercise of those Affinity Performance Rights before the Scheme Record Date in accordance with their terms.

9.5 Delisting from ASX

On or after the Implementation Date, Affinity will apply for termination of the official quotation of Affinity Shares on ASX, and for Affinity to be removed from the official list of ASX.

10 ADDITIONAL INFORMATION

This Section 10 sets out the statutory information required under section 412(1) of the Corporations Act and Part 3 of Schedule 8 of the Corporations Regulations, but only to the extent that this information is not otherwise disclosed in other sections of this Scheme Booklet. This Section 10 also includes additional information that your Independent Directors consider material to a decision on how to vote on the Scheme Resolution.

10.1 Management of potential conflict issues

Chris Giufre, the husband of one of the Affinity Directors, Gabriel Giufre, worked with Anchorage and the Anchorage Childcare Group in relation to the Initial Anchorage Proposal. Accordingly, the Affinity Board established an independent board subcommittee to consider the G8 Takeover Offers and the Initial Anchorage Proposal, and adopted protocols (in accordance with the Takeovers Panel's Guidance Note 19: Insider Participation in Control Transactions) to ensure that Affinity's consideration of the G8 Takeover Offers and the Initial Anchorage Proposal was free from any influence from Ms Giufre and that any disclosure of sensitive information was subject to appropriate oversight and control (**Conflict Protocols**).

Chris Giufre is now working with the Anchorage Childcare Group in relation to the Scheme. Accordingly, the Conflict Protocols have also been applied in relation to the consideration of the Scheme.

10.2 Interests of Affinity Directors in Affinity securities

(a) Affinity Directors' interests in Affinity Shares

As at the Friday, 9 October 2015, the number of Affinity Shares held by or on behalf of each Affinity Director are as follows:

Director	Number of Affinity Shares
Stuart James	4,473,525 Affinity Shares
Justin Laboo	269,500 Affinity Shares
Stephanie Daveson	52,500 Affinity Shares
Jeffrey Forbes	48,334 Affinity Shares
Gabriel Giufre	3,799,759 Affinity Shares
Total	8,643,618 Affinity Shares

Your Independent Directors (being, Stuart James, Justin Laboo, Stephanie Daveson and Jeffrey Forbes) intend to vote any Affinity Shares held or controlled by them in favour of the Scheme Resolution at the Scheme Meeting, in the absence of a Superior Proposal.

Gabriel Giufre, whose husband is working with the Anchorage Childcare Group in relation to the Scheme, also intends to vote all the Affinity Shares that she owns or controls in favour of the Scheme Resolution at the Scheme Meeting, in the absence of a Superior Proposal. Affinity will tag any Affinity Shares voted by the Giufre Entities on the Scheme Resolution at the Scheme Meeting so that, if any such votes would have affected the outcome of the vote on the Scheme, that fact can be taken into account by the Court in the exercise of its discretion whether or not to approve the Scheme at the Second Court Hearing. See Section 5.3 of this Scheme Booklet for further details.

(b) Affinity Directors' interests in Affinity Performance Rights

As Friday, 9 October 2015, the number of Affinity Performance Rights held by or on behalf of each Affinity Director are as follows:

Director	Number of Affinity Performance Rights
Stuart James	Nil
Justin Laboo	576,922 Affinity Performance Rights
Stephanie Daveson	Nil
Jeffrey Forbes	Nil
Gabriel Giufre	335,462 Affinity Performance Rights
Total	912,384 Affinity Performance Rights

See Section 3.2(b) of this Scheme Booklet for details in relation to the treatment of Affinity Performance Rights under the Scheme.

10 ADDITIONAL INFORMATION (CONT)

10.3 Affinity Directors' dealings in Affinity securities

No Affinity Director acquired or disposed of a Relevant Interest in any Affinity security in the four month period ending on the date of this Scheme Booklet.

10.4 Interests and dealings of Affinity Directors in securities in Anchorage and Anchorage Childcare Group Entities

(a) Affinity Directors' interests in securities in Anchorage and Anchorage Childcare Group Entities

As at Friday, 9 October 2015, no securities in Anchorage or any Anchorage Childcare Group Entity were held by or on behalf of any Affinity Director.

(b) Affinity Directors' dealings in securities in Anchorage and Anchorage Childcare Group Entities

No Affinity Director acquired or disposed of a Relevant Interest in any securities in Anchorage or any Anchorage Childcare Group Entity in the four month period ending on the date of this Scheme Booklet.

10.5 Benefits and agreements

(a) Benefits in connection with retirement from office

No payment or other benefit is proposed to be made or given to any director, secretary or executive officer of Affinity or a Related Body Corporate of Affinity, as compensation for loss of, or as consideration for or in connection with his or her retirement from, office in Affinity or in a Related Body Corporate of Affinity, other than as follows:

Person	Benefit
Justin Laboo	In the event of the termination of Mr Laboo's employment by Affinity, Mr Laboo will be entitled to a payment equivalent to 12 months salary and, in accordance with his contract, a pro rata payment of STI at the Affinity Board's discretion.
Gabriel Giufre	In the event of the termination of Ms Giufre's employment by Affinity, Ms Giufre will be entitled to a payment equivalent to 12 months salary and, in accordance with her contract, a pro rata payment of STI at the Affinity Board's discretion.
Paul Cochrane	In the event of the termination of Mr Cochrane's employment by Affinity, Mr Cochrane will be entitled to a payment equivalent to 11 months salary and, in accordance with his contract, a pro rata payment of STI at the Affinity Board's discretion.

(b) Other agreements or arrangements connected with or conditional on the Scheme

Other than as set out in:

- Section 7.6(a) above in connection with Gabriel Giufre's husband, Chris Giufre; and
- Section 7.4(e) above in connection with the New Incentive Plan to the extent that the New Incentive Plan applies to any Affinity Director who continues as an employee of Affinity following implementation of the Scheme,

there is no agreement or arrangement made between any Affinity Director and another person in connection with or conditional on the outcome of the Scheme, other than in their capacity as a holder of Affinity securities.

(c) Interests of Affinity Directors in contracts with Anchorage and Anchorage Childcare Group Entities

Other than as set out in:

- Section 7.6(a) above in connection with Gabriel Giufre's husband, Chris Giufre; and
- Section 7.4(e) above in connection with the New Incentive Plan to the extent that the New Incentive Plan applies to any Affinity Director who continues as an employee of Affinity following implementation of the Scheme,

none of the Affinity Directors are interested in any contract entered into by Anchorage or an Anchorage Childcare Group Entity, other than in their capacity as a holder of Affinity securities.

(d) Benefits from Anchorage and Anchorage Childcare Group Entities

Other than as set out in:

- Section 7.6(a) above in connection with Gabriel Giufre's husband, Chris Giufre; and
- Section 7.4(e) above in connection with the New Incentive Plan to the extent that the New Incentive Plan applies to any Affinity Director who continues as an employee of Affinity following implementation of the Scheme,

none of the Affinity Directors has agreed to receive, or is entitled to receive, any benefit from Anchorage or an Anchorage Childcare Group Entity which is conditional on, or is related to, the Scheme, other than in their capacity as a holder of Affinity securities.

10.6 ASIC and ASX relief

(a) ASIC relief

No ASIC relief was required for the purposes of the Scheme or the issue of this Scheme Booklet.

(b) ASX waivers

No ASX waivers were required for the purposes of the Scheme or the issue of this Scheme Booklet.

10.7 Formal disclosures and consents

The following parties have given and have not, before the date of this Scheme Booklet, withdrawn their written consent:

- to be named in this Scheme Booklet in the form and context in which they are named; and
- if applicable, to the inclusion of each statement it has made (if any) in the form and context in which the statement appear in this Scheme Booklet.

Name	Role
Corrs Chambers Westgarth	Legal adviser to Affinity
Lonergan Edwards	Independent Expert
Luminis Partners Pty Ltd	Financial adviser to Affinity
KPMG	Tax adviser to Affinity
Link	Share Registry

Anchorage Childcare has accepted responsibility for the Anchorage Information. Anchorage Childcare and Anchorage have given and have not, before the date of this Scheme Booklet, withdrawn their written consent to the inclusion of the Anchorage Information in the form and context in which it appears in this Scheme Booklet.

Lonergan Edwards has given, and not withdrawn before the date of this Scheme Booklet, its written consent to the inclusion of its Independent Expert's Report in this Scheme Booklet in the form and context in which it appears in Annexure E to this Scheme Booklet and references to the Independent Expert's Report in the form and context in which they appear.

KPMG has given, and not withdrawn before the date of this Scheme Booklet, its written consent to the inclusion of Section 8 of this Scheme Booklet in the form and context in which it appears.

Each person named above:

- does not make or purport to make any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than Anchorage

Childcare and Anchorage in respect of the Anchorage Information, Lonergan Edwards in respect of the Independent Expert's Report and KPMG in respect of the Section entitled "Taxation Implications";

- to the maximum extent permitted by law, disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet, other than a reference to its name and any statement included in this Scheme Booklet with the consent of that person as specified in this Section 10.7; and
- has not authorised or caused the issue of this Scheme Booklet.

10.8 Material litigation

To the best knowledge of the Affinity Board and senior management, Affinity is not currently involved in any litigation or dispute which is material in the context of Affinity and its Subsidiaries taken as a whole.

10.9 No unacceptable circumstances

The Affinity Board believes that the Scheme does not involve any circumstances in relation to the affairs of Affinity that could reasonably be characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

10.10 Foreign jurisdictions

The distribution of this Scheme Booklet outside of Australia may be restricted by law and persons who come into possession of it should seek advice on, and observe, any such restrictions. Any failure to comply with such restrictions may contravene applicable securities laws. Affinity disclaims all liabilities to such persons.

Affinity Shareholders who are nominees, trustees or custodians are encouraged to seek independent advice as to how they should proceed.

No action has been taken to register or qualify this Scheme Booklet or any aspect of the Scheme in any jurisdiction outside Australia.

10.11 Other information material to the making of a decision in relation to the Scheme

Except as set out in this Scheme Booklet, so far as your Affinity Directors are aware, there is no information material to the making of a decision by an Affinity Shareholder in relation to the Scheme, being information that is within the knowledge of any Affinity Director or director of any Related Bodies Corporate of Affinity, as at the date of this Scheme Booklet, which has not been previously disclosed to Affinity Shareholders.

10.12 Supplementary information

Affinity will issue a supplementary document to this Scheme Booklet if it becomes aware of any of the following between the date of this Scheme Booklet and the Effective Date:

- a material statement in this Scheme Booklet is or becomes false or misleading in a material respect;
- a material omission from this Scheme Booklet;
- a significant change affecting a matter included in this Scheme Booklet; or
- a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if it had arisen before the date of this Scheme Booklet.

Depending on the nature and timing of the changed circumstances, and subject to obtaining any relevant approvals, Affinity may circulate and publish any supplementary document by:

- making an announcement to ASX;
- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- posting the supplementary document to Affinity Shareholders at their registered address as shown in the Register; or
- posting a statement on Affinity's website (www.affinityeducation.com.au),

as Affinity, in its absolute discretion, considers appropriate.

11

GLOSSARY

11.1 Definitions

The meanings of the terms used in this Scheme Booklet are set out below.

Term	Meaning
Affinity	Affinity Education Group Limited ABN 37 163 864 195.
Affinity Board	the board of directors of Affinity.
Affinity Director	a director on the Affinity Board.
Affinity Equity Incentive Plan	the equity incentive plan adopted by the Affinity Board, the terms and conditions of which are summarised in the notice of Affinity's 2015 annual general meeting dated 17 March 2015.
Affinity Group	Affinity and its Controlled Entities.
Affinity Performance Right	a performance right in respect of an Affinity Share granted under the 2015 Affinity Equity Incentive Plan.
Affinity Performance Right Holder	a person who holds one or more Affinity Performance Rights.
Affinity Prescribed Occurrence	the meaning given to that term in the Scheme Implementation Deed.
Affinity Share	a fully paid ordinary share in the capital of Affinity.
Affinity Shareholder	each person who is registered in the Register as a holder of Affinity Shares.
Affinity Shareholder Information Line	the information line set up for the purpose of responding to enquiries from Affinity Shareholders in relation to the Scheme, being 1300 911 275.
Affinity Target's Statement	Affinity's target's statement in response to the G8 Takeover Offers dated 24 August 2015.
Affinity Warranties	the meaning given to that term in the Scheme Implementation Deed.
Aggregate Scheme Consideration	the meaning given in Section 7.5 of this Scheme Booklet.
Anchorage	Anchorage Capital Partners Pty Limited ACN 127 136 341.
Anchorage Childcare	Anchorage Childcare Pty Limited ACN 607 819 081.
Anchorage Childcare Group	Anchorage TopCo and each of its Subsidiaries. A reference to a member of the Anchorage Childcare Group or an Anchorage Childcare Group Entity is a reference to Anchorage TopCo or any such Subsidiary.
Anchorage Childcare Group Entity	an entity in the Anchorage Childcare Group.
Anchorage Childcare Warranties	the meaning given to the term "Bidder Warranties" in the Scheme Implementation Deed.
Anchorage Equity Commitment Letter	the meaning given to that term in Section 7.5(a) of this Scheme Booklet.
Anchorage Funding	the meaning given to that term in Section 7.5(a) of this Scheme Booklet.

Term	Meaning
Anchorage Information	<p>the information contained in:</p> <p>the information contained in:</p> <p>(a) the sub-section of this Scheme Booklet headed "Responsibility for information" insofar as it relates to Anchorage or Anchorage Childcare or their directors, officers or advisers;</p> <p>(b) the sub-section of this Scheme Booklet headed "Forward looking statements and intentions" insofar as it relates to Anchorage or the Anchorage Childcare Group or their directors, officers or advisers;</p> <p>(c) the sub-section of this Scheme Booklet headed "Privacy" insofar as it relates to Anchorage Childcare;</p> <p>(d) the sub-sections in Section 2 of this Scheme Booklet headed "Who is Anchorage Childcare?" and "How will Anchorage Childcare fund the payment of the Scheme Consideration";</p> <p>(e) Section 3.1 of this Scheme Booklet insofar as it relates to Affinity being delisted;</p> <p>(f) Section 3.2(a) of this Scheme Booklet insofar as it relates to the non-satisfaction of any conditions to the Scheme;</p> <p>(g) Section 4.4(b) of this Scheme Booklet insofar as it relates to the non-satisfaction of any conditions to the Scheme;</p> <p>(h) Section 5.3 of this Scheme Booklet insofar as it relates to advice given by Anchorage;</p> <p>(i) Section 6.7 of this Scheme Booklet insofar as it relates to the reconstitution of the Affinity Board;</p> <p>(j) Section 7 of this Scheme Booklet; and</p> <p>(k) Section 9.5 of this Scheme Booklet,</p> <p>and all statements of intention or belief of Anchorage Childcare and Anchorage, and in relation to Affinity following implementation of the Scheme.</p>
Anchorage MezzCo	the meaning given to that term in Section 7.2 of this Scheme Booklet.
Anchorage MidCo	the meaning given to that term in Section 7.2 of this Scheme Booklet.
Anchorage TopCo	the meaning given to that term in Section 7.2 of this Scheme Booklet.
Anchorage Reimbursed Entities	Anchorage and Anchorage Childcare.
ASIC	the Australian Securities and Investments Commission.
Associate	the meaning given to that term in section 9 of the Corporations Act.
ASX	ASX Limited ACN 008 624 691 or the financial market operated by it, as the context requires.
ASX Listing Rules	the official listing rules of ASX.
Australian Authorised Deposit Taking Institution	the meaning given to the term "Australian ADI" in the Corporations Act.

Term	Meaning
Business Day	a business day as defined in the ASX Listing Rules.
CHESS	the clearing house electronic subregister system for the electronic transfer of securities operated by ASX Settlement Pty Limited ABN 49 008 504 532.
Co-Investor Equity Commitment Letter	the meaning given to that term in Section 7.5(a) of this Scheme Booklet.
Co-Investor Fund I	the meaning given to that term in Section 7.5(a) of this Scheme Booklet.
Co-Investor Fund II	the meaning given to that term in Section 7.5(a) of this Scheme Booklet.
Co-Investor Fund Subscribers	the meaning given to that term in Section 7.5(a) of this Scheme Booklet.
Co-Investor Funding	the meaning given to that term in Section 7.5(a) of this Scheme Booklet.
Co-Investor Funds	the meaning given to that term in Section 7.5(a) of this Scheme Booklet.
Competing Proposal	the meaning given to that term in the Scheme Implementation Deed.
Conflict Protocols	the meaning given in Section 10.1 of this Scheme Booklet.
Control	the meaning given to that term in section 50AA of the Corporations Act.
Controlled Entity	in respect of a party, an entity that party Controls.
Corporations Act	the <i>Corporations Act 2001</i> (Cth).
Corporations Regulations	the <i>Corporations Regulations 2001</i> (Cth).
Court	the Federal Court of Australia, or such other court of competent jurisdiction determined by Affinity (after consultation, in good faith, with Anchorage Childcare).
Deed Poll	the deed poll entered into by Anchorage Childcare in the form set out in Annexure B to this Scheme Booklet.
Delivery Time	the meaning given to that term in the Scheme Implementation Deed.
EBITDA	earnings before interest, tax, depreciation and amortisation.
Effective	when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme.
Effective Date	the date on which the Scheme becomes Effective.
End Date	the later of: (a) 1 March 2016; and (b) such other date and time as Affinity and Anchorage Childcare agree in writing.

Term	Meaning
Exclusivity Period	the period commencing on 15 September 2015 and ending on the earliest of: (a) the End Date; (b) the Effective Date; and (c) the date the Scheme Implementation Deed is terminated in accordance with its terms.
First Court Hearing	the hearing at which an application was made to the Court for orders under section 411(1) of the Corporations Act convening the Scheme Meeting.
Fund Entities	the meaning given to that term in Section 7.5(a) of this Scheme Booklet.
G8	G8 Education Limited ABN 95 123 828 553.
G8 Bidder's Statements	the G8 Cash Offer Bidder's Statement and the G8 Share Offer Bidder's Statement.
G8 Cash Offer	the market takeover offer by G8 for all Affinity Shares contained in the G8 Cash Offer Bidder's Statement.
G8 Cash Offer Bidder's Statement	the bidder's statement from G8 dated 3 August 2015 setting out the terms, conditions and other information in relation to the G8 Cash Offer, read in conjunction with the supplementary bidder's statement from G8 in relation to the G8 Cash Offer.
G8 Share Offer	the off-market takeover offer by G8 for all Affinity Shares contained in the G8 Share Offer Bidder's Statement.
G8 Share Offer Bidder's Statement	the bidder's statement from G8 dated 20 August 2015, which replaces the bidder's statements from G8 dated 3 August 2015 and 30 July 2015 setting out the terms, conditions and other information in relation to the G8 Share Offer, read in conjunction with the supplementary bidder's statement from G8 in relation to the G8 Share Offer.
G8 Takeover Offers	the G8 Cash Offer and the G8 Share Offer.
G8 Voting Deed	the meaning given to that term in Section 3.3(d) of this Scheme Booklet.
Government Agency	any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any State, and any other federal, state, provincial, or local government, whether foreign or Australian.
Giufre Entities	the meaning given to that term in Section 5.3 of this Scheme Booklet.
GST	the meaning given to that term in the A New Tax System (Goods and Services Tax) Act 1999 (Cth).
Implementation Date	the fifth Business Day after the Scheme Record Date or such other date as Affinity and Anchorage Childcare agree.
Independent Directors	a director on the Affinity Board other than Gabriel Giufre.
Independent Expert	Loneragan Edwards.

Term	Meaning
Independent Expert's Report	the report by the Independent Expert contained in Annexure E to this Scheme Booklet.
Initial Anchorage Proposal	the meaning given to that term in Section 3.3(c) of this Scheme Booklet.
Kern Entities	the meaning given to that term in Section 5.3 of this Scheme Booklet.
Link	Link Market Services Limited ACN 083 214 537.
Lonergan Edwards	Lonergan Edwards & Associates Limited ACN 095 445 560.
Mezzanine Document	the meaning given to that term in Section 7.5(b) of this Scheme Booklet.
Mezzanine Facility	the meaning given to that term in Section 7.5(b) of this Scheme Booklet.
New Incentive Plan	the meaning given to that term in Section 7.4(e) of this Scheme Booklet.
Notice of Scheme Meeting	the notice in relation to the Scheme Meeting contained in Annexure D to this Scheme Booklet.
Prescribed Events	the meaning given to that term in Section 3.3(d) of this Scheme Booklet.
Proposed Transaction	the meaning given to that term in the Scheme Implementation Deed.
Register	the share register of Affinity.
Registered Address	in relation to a Affinity Shareholder, the address of the shareholder shown in the Register as at the Scheme Record Date.
Related Body Corporate	the meaning given to that term in section 50 of the Corporations Act.
Relevant Interest	the meaning given to that term in sections 608 and 609 of the Corporations Act.
Representative	the meaning given to that term in the Scheme Implementation Deed.
Retail Offer Booklet	the retail offer booklet released by Affinity to ASX on 17 March 2015.
Requisite Majorities	<p>a) unless the Court orders otherwise, a majority in number (ie more than 50%) of the Affinity Shareholders present and voting (either in person or by proxy); and</p> <p>(b) at least 75% of the votes cast on the resolution.</p>
Scheme	the scheme of arrangement under Part 5.1 of the Corporations Act pursuant to which all Scheme Shares will be transferred to Anchorage Childcare, in the form set out in Annexure C to this Scheme Booklet together with any amendment or modification made pursuant to section 411(6) of the Corporations Act.
Scheme Booklet	this document, including any annexure to it.
Scheme Consideration	in respect of each Scheme Share, \$0.92 cash for each Affinity Share.
Scheme Implementation Deed	the Scheme Implementation Deed between Affinity and Anchorage Childcare dated 15 September 2015. A copy is contained in Annexure A to this Scheme Booklet.
Scheme Meeting	the meeting of Affinity Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act.

Term	Meaning
Scheme Order	the order of the Court under section 411(4)(b) of the Corporations Act approving the Scheme, with or without modifications.
Scheme Shareholder	each person who is an Affinity Shareholder as at the Scheme Record Date.
Scheme Record Date	the record date for determining entitlements to the Scheme Consideration, being 7:00 pm (Melbourne time) on the fifth Business Day after the Effective Date, or such other date as Affinity and Anchorage Childcare agree.
Scheme Resolution	the resolution to approve the Scheme to be voted on at the Scheme Meeting, as set out in the Notice of Scheme Meeting.
Scheme Share	an Affinity Share held by a Scheme Shareholder.
Scheme Trust Account	a bank account operated by Affinity (as trustee or agent for each Scheme Shareholder) established to hold the Scheme Consideration.
Second Court Date	the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.
Second Court Hearing	the hearing of the application made to the Court for the order under section 411(4)(b) of the Corporations Act approving the Scheme.
Senior Facilities	the meaning given to that term in Section 7.5(b) of this Scheme Booklet.
SFA	the meaning given to that term in Section 7.5(b) of this Scheme Booklet.
Share Registry	Link.
STI	short term incentives issued under the Affinity STI Plan, the key aspects of which are described in Affinity's results for the financial year ending 31 December 2014.
Subsidiary	the meaning given to that term in the Corporations Act.
Superior Proposal	the meaning given to that term in the Scheme Implementation Deed.
Term Facilities	the meaning given to that term in Section 7.5(b) of this Scheme Booklet.
Total Equity Funding	the meaning given to that term in Section 7.5 of this Scheme Booklet.
Voting Power	the meaning given in the Corporations Act.
VWAP	the volume-weighted average price.

11.2 Interpretation

In this Scheme Booklet, unless the context requires otherwise:

- headings are inserted for convenience and do not affect the interpretation of this Scheme Booklet;
- words and phrases in this Scheme Booklet have the same meaning given to them (if any) in the Corporations Act;
- the singular includes the plural and vice versa;
- a gender includes all genders;
- a reference to a person includes a corporation, partnership, joint venture, association, unincorporated body or other body corporate and vice versa;
- if a word is defined, another part of speech has a corresponding meaning;
- a reference to a Section or Annexure is a reference to a Section or Annexure of this Scheme Booklet;
- a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- unless expressly stated otherwise, a reference to time is a reference to time in Melbourne, Victoria; and
- unless expressly stated otherwise, a reference to dollars, \$, A\$ or AUD is a reference to the lawful currency of Australia.

ANNEXURE A
SCHEME IMPLEMENTATION DEED

Affinity Education Group Limited

Anchorage Childcare Pty Limited

Scheme Implementation Deed

Ref: SM/FBJ AFFI19527-9113191 14300578/11
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SCHEME IMPLEMENTATION DEED (CONT)

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Date 15 September 2015

Parties

Affinity Education Group Limited ACN 163 864 195 of Level 14, 100 Creek Street, Brisbane QLD 4000 (**Affinity**)

Anchorage Childcare Pty Limited ACN 607 819 081 of c/- Level 39, 259 George Street, Sydney NSW 2000 (**Bidder**)

Background

- A Affinity and Bidder have agreed to implement the Proposed Transaction on and subject to the terms and conditions of this deed.
- B Affinity and Bidder have agreed certain other matters in connection with the Proposed Transaction as set out in this deed.

Agreed terms

1 Definitions and interpretation

1.1 Definitions

In this deed these terms have the following meanings:

- Affinity Board** means the board of directors of Affinity as constituted from time to time (or any committee of the board of directors of Affinity constituted from time to time to consider the Proposed Transaction on behalf of Affinity).
- Affinity Group** means Affinity and its Controlled Entities.
- Affinity Information** means information to be included by Affinity in the Explanatory Booklet that explains the effect of the Scheme and sets out the information prescribed by the Corporations Act and the *Corporations Regulations 2001* (Cth), and any other information that is material to the making of a decision by Affinity Shareholders whether or not to vote in favour of the Scheme, being information that is within the knowledge of Affinity's directors and has not previously been disclosed to Affinity Shareholders, but does not include the Bidder Information and the Independent Expert's Report.
- Affinity Parties** means each member of the Affinity Group and their

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SCHEME IMPLEMENTATION DEED (CONT)

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Affinity Prescribed Occurrence

Related Bodies Corporate and Authorised Persons.

means the occurrence of any of the following on or after the date of this deed:

- (a) Affinity converts all or any of its shares into a larger or smaller number of shares (see section 254H of the Corporations Act);
- (b) any member of the Affinity Group resolves to reduce its share capital in any way;
- (c) any member of the Affinity Group:
 - (i) enters into a buy-back agreement; or
 - (ii) resolves to approve the terms of a buy-back agreement under subsection 257C(1) or 257D(1) of the Corporations Act;
- (d) any member of the Affinity Group issues shares, or grants a performance right or an option over its shares, or agrees to make such an issue or grant such a right or an option other than pursuant to the exercise of an option or performance right before the Record Date where that option or performance right was on issue immediately before the date of this deed;
- (e) any member of the Affinity Group issues, or agrees to issue, convertible notes or any other security or instrument that is convertible into shares;
- (f) any member of the Affinity Group disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;
- (g) any member of the Affinity Group creates or agrees to create, any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property other than a lien which arises by operation of law or legislation securing an obligation that is not yet due;
- (h) any member of the Affinity Group resolves to be wound up;
- (i) a liquidator or provisional liquidator of any member of the Affinity Group is appointed;
- (j) a court makes an order for the winding up of any member of the Affinity Group;
- (k) an administrator of any member of the Affinity Group is appointed under section 436A, 436B or

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SCHEME IMPLEMENTATION DEED (CONT)

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436C of the Corporations Act;

- (l) any member of the Affinity Group executes a deed of company arrangement;
- (m) a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of any member of the Affinity Group; or
- (n) Affinity declares or pays a dividend, provided that an Affinity Prescribed Occurrence will not include any matter:
 - (o) required to be done or procured by Affinity pursuant to this deed or which is otherwise contemplated by this deed or the Scheme;
 - (p) Fairly Disclosed in filings of Affinity with the ASX prior to the date of this deed;
 - (q) to the extent it is Fairly Disclosed in the Due Diligence Materials or the Disclosure Letter; or
 - (r) the undertaking of which Bidder has approved in writing.

Affinity Shareholder

means each person who is registered in the register maintained by Affinity under section 168(1) of the Corporations Act as a holder of one or more Shares.

Affinity Warranties

means the representations and warranties of Affinity set out in clause 10.1.

ASIC

means the Australian Securities and Investments Commission.

ASX

means ASX Limited ABN 98 008 624 691 or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

Authorised Person

means, in respect of a person:

- (a) a director, officer, member or employee of the person;
- (b) an Adviser of the person; and
- (c) a director, officer or employee of an Adviser of the person.

Bidder Group

means Bidder and each of its Subsidiaries (excluding, at any time, Affinity and its Subsidiaries to the extent that Affinity and its Subsidiaries are Subsidiaries of Bidder at that time). A reference to a **member of the Bidder Group** or a **Bidder Group Member** is a reference to Bidder or

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	any such Subsidiary.
Bidder Information	means such information regarding the Bidder Group that is provided or approved by Bidder or any of their Advisors to Affinity or the Independent Expert: <ul style="list-style-type: none"> (a) to enable the Explanatory Booklet to be prepared and completed in compliance with all applicable laws; and (b) otherwise in compliance with Bidder's obligations under clause 6.2(a).
Bidder Parties	means the members of the Bidder Group and their respective Authorised Persons.
Bidder Reimbursed Entities	means the Bidder and Anchorage Capital Partners Pty Limited ABN 89 163 169 800.
Bidder Warranties	means the representations and warranties of Bidder set out in clause 10.2.
Business	means the business of owning, operating and managing childcare and long day care centres.
Business Day	means a business day as defined in the ASX Listing Rules.
Claim	means, in relation to a person, a demand, claim, action or proceeding made or brought by or against the person, however arising and whether present, unascertained, immediate, future or contingent.
Competing Proposal	means any proposal, offer or transaction by a third party (other than Bidder or its related bodies corporate) that, if completed, would mean: <ul style="list-style-type: none"> (a) a person would acquire a relevant interest or voting power in 20% or more of the Shares or of the securities of any of member of the Affinity Group; (b) a person would enter into any synthetic, economic or derivative transaction connected with or relating to 20% or more of the Shares or of the securities of any member of the Affinity Group; (c) a person would directly or indirectly acquire or obtain an interest (including an economic interest) in all or a substantial part or material part of the business conducted by, or assets or property of, Affinity or any member of the Affinity Group; (d) a person would acquire Control of Affinity or any member of the Affinity Group;

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- (e) a person may otherwise acquire, or merge with, Affinity or any member of the Affinity Group (including by way of takeover bid, scheme of arrangement, capital reduction, buy-back, sale of assets, sale of securities, strategic alliance, dual listed company structure, joint venture or partnership); or
- (f) Affinity will issue, on a fully diluted basis, 20% or more of its capital as consideration for the assets or share capital or another person,

or any proposal by Affinity to implement any reorganisation of capital or any proposal, offer or transaction that is similar in structure to, or that would be reasonably regarded as being an alternative proposal to, the Proposed Transaction. Each successive modification or variation to the fundamental commercial terms of any proposal, offer or transaction in relation to a Competing Proposal will constitute a new Competing Proposal.

Conditions	means the conditions set out in clause 4.1 and Condition means any one of them.
Confidentiality Deed	means the Confidentiality Deed between Affinity and Bidder dated 5 August 2015.
Control	has the meaning given in section 50AA of the Corporations Act.
Controlled Entity	means, in respect of a party, an entity that party Controls.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Cost Reimbursement	is defined in clause 13.2(a).
Cost Reimbursement Cap	is defined in clause 13.2(a).
Court	means the Federal Court of Australia or such other court of competent jurisdiction determined by Affinity (after consultation, in good faith, with Bidder).
Deed Poll	means the deed poll to be executed by Bidder prior to the First Court Date, in the form set out in Schedule 2 or in such other form as is agreed in writing between the parties.
Delivery Time	in relation to the Second Court Date means not later than 2 hours before the commencement of the hearing or if the commencement of the hearing is adjourned, the commencement of the adjourned hearing, of the Court to

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

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	approve the Scheme in accordance with section 411(4)(b) of the Corporations Act.
Disclosure Letter	means the letter so entitled from Affinity provided to Bidder on or before the date of this deed.
Due Diligence Material	means: <ul style="list-style-type: none">(a) all documents and written information disclosed by or on behalf of Affinity and its Subsidiaries (including management presentations and all written responses provided in response to written questions or requests for information) to the Bidder Parties prior to the date of this deed for the purposes of the Proposed Transaction; and(b) all documents and information disclosed by or on behalf of Affinity and its Subsidiaries (including management presentations) contained in the Project A-Team online data room, the index for which materials have been initialled for identification by Affinity's solicitors on behalf of Affinity and by Bidder's solicitors on behalf of Bidder.
Effective	means, when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to that Scheme.
Effective Date	with respect to the Scheme, means the date on which the Scheme becomes Effective.
End Date	means the later of: <ul style="list-style-type: none">(a) 1 March 2016; and(b) such other date and time agreed in writing between Affinity and Bidder.
Exclusivity Period	means the period commencing on the date of this deed and ending on the earliest of: <ul style="list-style-type: none">(a) the End Date;(b) the Effective Date of the Scheme; and(c) the date this deed is terminated in accordance with its terms.
Explanatory Booklet	means the explanatory booklet to be prepared by Affinity in respect of the Proposed Transaction in accordance with the terms of this deed and to be despatched to Affinity Shareholders.
Fairly Disclosed	has the meaning given in clause 1.2(p) .

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Financing Condition	has the meaning given in clause 3 .
First Court Date	means the date the Court first hears the application to order the convening of the Scheme Meeting under section 411(1) of the Corporations Act or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard.
Government Agency	means any foreign or Australian government or governmental, semi- governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any State, and any other federal, state, provincial, or local government, whether foreign or Australian.
Headcount Test	means the requirement under section 411(4)(a)(ii)(A) of the Corporations Act that the resolution to approve the Scheme at the Scheme Meeting is passed by a majority in number of Affinity Shareholders present and voting, either in person or by proxy.
Identifying Details	has the meaning given in clause 14.5(b)(i).
Implementation Date	means the fifth Business Day after the Record Date or such other date after the Record Date agreed to in writing between the parties.
Independent Directors	means all of the directors of Affinity, other than Gabriel Giufre.
Independent Expert	means the independent expert in respect of the Scheme appointed by Affinity.
Independent Expert's Report	means a report (including any updates to such report) of the Independent Expert stating whether or not in its opinion the Scheme is in the best interest of Affinity Shareholders.
Insolvency Event	means in relation to a person: <ul style="list-style-type: none">(a) insolvency official: the appointment of a liquidator, provisional liquidator, administrator, statutory manager, controller, receiver, receiver and manager or other insolvency official (whether under an Australian law or a foreign law) to the person or to the whole or a substantial part of the property or assets of the person and the action is not stayed, withdrawn or dismissed within 14 days;(b) arrangements: the entry by the person into a

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compromise or arrangement with its creditors generally;

- (c) **winding up:** the calling of a meeting to consider a resolution to wind up the person (other than where the resolution is frivolous or cannot reasonably be considered to be likely to lead to the actual winding up of the person) or the making of an application or order for the winding up or deregistration of the person other than where the application or order (as the case may be) is set aside or withdrawn within 14 days;
- (d) **suspends payments:** the person suspends or threatens to suspend payment of its debts as and when they become due;
- (e) **ceasing business:** the person ceases or threatens to cease to carry on business;
- (f) **insolvency:** the person is or becomes unable to pay its debts when they fall due within the meaning of the Corporations Act or is otherwise presumed to be insolvent under the Corporations Act;
- (g) **deregistration:** if the person is a company, the person being deregistered as a company or otherwise dissolved;
- (h) **deed of company arrangement:** the person executing a deed of company arrangement;
- (i) **person as trustee or partner:** the person incurs a liability while acting or purporting to act as trustee (or co-trustee) or general partner of a trust or partnership (including a limited partnership) and the person is not entitled to be fully indemnified against the liability out of trust or partnership assets because of one or more of the following:
 - (i) a breach of trust or obligation as partner by the person;
 - (ii) the person acting outside the scope of its powers as trustee or partner;
 - (iii) a term of the trust or partnership denying, or limiting, the person's right to be indemnified against the liability;
 - (iv) the assets of the trust or partnership being insufficient to discharge the liability; or
- (j) **analogous events:** anything analogous to those

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	set out in any of paragraphs (a) to (i) inclusive occurs in relation to the person under the laws of a foreign jurisdiction.
Listing Rules	means the official listing rules of ASX as amended from time to time.
Performance Right	a performance right in respect of a Share, granted under Affinity's 2015 Equity Incentive Plan.
Performance Rights Holder	means a person who holds one or more Performance Right.
Proposed Transaction	means: <ul style="list-style-type: none">(a) the proposed acquisition by Bidder in accordance with the terms and conditions of this deed, of all of the Scheme Shares through the implementation of the Scheme; and(b) all associated transactions and steps contemplated by this deed.
Record Date	means 7.00pm on the fifth Business Day after the Effective Date or such other time and date agreed to in writing between the parties.
Related Body Corporate	of a person, means a related body corporate of that person under section 50 of the Corporations Act and includes any body corporate that would be a related body corporate if section 48(2) of the Corporations Act was omitted.
Related Entity or Related Entities	means, in relation to a party, any entity that is related to that party within the meaning of section 50 of the Corporations Act or that is a Controlled Entity of that party.
Representatives	means, in relation to an entity: <ul style="list-style-type: none">(a) each of the entity's Related Entities; and(b) each of its directors, officers, employees, contractors, advisers (including legal, financial and other expert advisers) and agents, but excluding the Independent Expert.
RG 60	means ASIC Regulatory Guide 60.
Scheme	means the proposed scheme of arrangement pursuant to Part 5.1 of the Corporations Act between Affinity and Scheme Shareholders in respect of all Scheme Shares, substantially in the form set out in Schedule 3 or in such other form as the parties agree in writing, subject to any alterations or conditions made or required by the Court

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	under section 411(6) of the Corporations Act and approved in writing by each party.
Scheme Consideration	means, in respect of each Scheme Share held by a Scheme Shareholder, \$0.92 per Share.
Scheme Meeting	means the meeting of Affinity Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on the Scheme and includes any meeting convened following any adjournment or postponement of that meeting.
Scheme Share	means a Share on issue as at the Record Date.
Scheme Shareholder	means a person who holds one or more Scheme Shares.
Second Court Date	means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.
Share	means an issued fully paid ordinary share in the capital of Affinity.
Share Splitting	means the splitting by a holder of Shares into two or more parcels of Shares whether or not it results in any change in beneficial ownership of the Shares.
Subsidiary	has the meaning given to that term in section 46 of the Corporations Act.
Superior Proposal	means a bona fide Competing Proposal which the Independent Directors unanimously determine, acting in good faith and in order to satisfy what the Independent Directors reasonably consider to be their fiduciary or statutory duties, would, if completed substantially in accordance with its terms, be likely to result in a transaction more favourable to Affinity Shareholders than the Proposed Transaction having regard to all relevant matters including consideration, conditionality, funding, certainty and timing.
Third Party	means any person or entity other than a member of the Bidder Group or a member of the Affinity Group.
Timetable	means the indicative timetable in relation to the Proposed Transaction set out in Schedule 1 with such modifications as may be agreed in writing by the parties.
Treasurer	means the Treasurer of the Commonwealth of Australia.

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1.2 Interpretation

In this deed, except where the context otherwise requires:

- (a) the singular includes the plural, and the converse also applies;
- (b) gender includes other genders;
- (c) if a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- (d) a reference to a clause, paragraph, schedule or annexure is to a clause or paragraph of, or schedule or annexure to, this deed, and a reference to this deed includes any schedule or annexure;
- (e) a reference to a document or instrument includes the document or instrument as novated, altered, supplemented or replaced from time to time;
- (f) a reference to **A\$, \$A, dollar** or **\$** is to Australian currency;
- (g) a reference to time is to Sydney, Australia time;
- (h) a reference to a party is to a party to this deed, and a reference to a party to a document includes the party's executors, administrators, successors and permitted assigns and substitutes;
- (i) a reference to a person includes a natural person, partnership, body corporate, association, governmental or local authority or agency or other entity;
- (j) a reference to legislation or to a provision of legislation (including a listing rule or operating rule of a financial market or of a clearing and settlement facility) includes a modification or re enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it;
- (k) a word or expression defined in the Corporations Act has the meaning given to it in the Corporations Act;
- (l) a reference to conduct includes an omission, statement or undertaking, whether or not in writing;
- (m) the meaning of general words is not limited by specific examples introduced by **including, for example** or similar expressions;
- (n) a rule of construction does not apply to the disadvantage of a party because the party was responsible for the preparation of this deed or any part of it;
- (o) if a day on or by which an obligation must be performed or an event must occur is not a Business Day, the obligation must be performed or the event must occur on or by the next Business Day; and
- (p) a reference to **Fairly Disclosed** means disclosed in writing to a member of the Bidder Group or their respective Authorised Persons (or, where the context requires, to the ASX) in sufficient detail and with sufficient

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SCHEME IMPLEMENTATION DEED (CONT)

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specificity so as to enable a reasonable and sophisticated recipient of the relevant information who is experienced in transactions similar to the Proposed Transaction in the childcare industry to identify and understand the nature and scope of the relevant matter, event or circumstance.

1.3 Headings

Headings are for ease of reference only and do not affect interpretation.

1.4 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

1.5 Consents or approvals

If the doing of any act, matter or thing under this deed is dependent on the consent or approval of a party or is within the discretion of a party, the consent or approval may be given or the discretion may be exercised conditionally or unconditionally or withheld by the party in its absolute discretion unless expressly provided otherwise.

1.6 Listing requirements included as law

A listing rule or operating rule of a financial market or of a clearing and settlement facility will be regarded as a law, and a reference to such a rule is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

1.7 Reasonable and best endeavours

Any provision of this deed which requires a party to use reasonable endeavours or best endeavours to procure that something is performed or occurs or does not occur does not include any obligation:

- (a) to pay any money or provide any financial compensation, valuable consideration or any other incentive to or for the benefit of any person except for payment of any applicable fee for the lodgement or filing of any relevant application with any Government Agency; or
- (b) to commence any legal action or proceeding against any person, except where that provision expressly specifies otherwise.

2 Agreement to propose Scheme

- (a) Affinity agrees to propose and implement the Scheme on and subject to the terms and conditions of this deed, and substantially in accordance with the Timetable.
- (b) Bidder agrees to assist Affinity to propose and implement the Scheme on and subject to the terms of this deed.

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SCHEME IMPLEMENTATION DEED (CONT)

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3 Financing Condition

The obligations of Affinity and the Bidder to implement the Scheme are conditional upon the Bidder announcing to ASX by no later than 10:00 am (Sydney time) on 21 September 2015 that it has sufficiently detailed binding commitments in place to fund its obligations to pay the Scheme Consideration in accordance with its obligations under this deed, the Scheme and the Deed Poll, which are conditional only upon procedural items such as delivery of a draw request, mechanical conditions that can only be satisfied on implementation of the Scheme such as repayment of Affinity's existing banking facility and conditions relating to progressing the Scheme such as requisite Affinity shareholder approval, Court approval and lodging of the court order with ASIC (**Financing Condition**).

4 Conditions precedent and pre-implementation steps

4.1 Conditions to Scheme

Subject to this clause 4, the Scheme will not become Effective, and the respective obligations of the parties in relation to the implementation of the Scheme will not be binding, until each of the following conditions precedent is satisfied or waived to the extent and in the manner set out in this clause 4:

- (a) (**No Affinity Prescribed Occurrence**) no Affinity Prescribed Occurrence occurs between the date of this deed and the Delivery Time on the Second Court Date;
- (b) (**Restraints**) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or Government Agency, or other material legal restraint or prohibition, preventing or delaying the Proposed Transaction is in effect at the Delivery Time on the Second Court Date;
- (c) (**Affinity Warranties**) the Affinity Warranties being true and correct in all material respects on the date of this deed and at the Delivery Time on the Second Court Date;
- (d) (**Bidder Warranties**) the Bidder Warranties being true and correct in all material respects on the date of this deed and at the Delivery Time on the Second Court Date;
- (e) (**Shareholder approval**) the Scheme is approved by Affinity Shareholders at the Scheme Meeting by the majorities required under section 411(4)(a)(ii) of the Corporations Act;
- (f) (**Court approval**) the Scheme is approved by the Court in accordance with section 411(4)(b) of the Corporations Act either unconditionally or on conditions that do not impose unduly onerous obligations on either party (acting reasonably); and
- (g) (**Performance Rights**) before the Delivery Time on the Second Court Date, all actions have been taken and/or arrangements have been put in

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

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place so that all Performance Rights will either vest, have lapsed or have been cancelled before the Record Date.

4.2 Benefit and waiver of Conditions

- (a) The Conditions in clauses 4.1(a) (No Affinity Prescribed Occurrence), 4.1(c) (Affinity Warranties) and 4.1(g) (Performance Rights) are for the sole benefit of Bidder and any breach or non-fulfilment of them may only be waived by Bidder giving its written consent.
- (b) The Condition in clauses 4.1(d) (Bidder Warranties) is for the sole benefit of Affinity and any breach or non-fulfilment of it may only be waived by Affinity giving its written consent.
- (c) A party entitled to waive a Condition pursuant to this clause 4.2 may do so in its absolute discretion. Any waiver of a Condition by a party for whose benefit the Condition applies must take place on or prior to the Delivery Time on the Second Court Date.
- (d) The Conditions in clauses 4.1(b) (Restraints), 4.1(e) (Shareholder approval) and 4.1(f) (Court approval) cannot be waived.
- (e) If a party waives the breach or non-fulfilment of any of the Conditions in clause 4.1, that waiver will not preclude it from suing the other party for any breach of this deed including without limitation a breach that resulted in the non-fulfilment of the Condition that was waived.

4.3 Reasonable endeavours

Affinity and Bidder will use their respective reasonable endeavours to procure that the Financing Condition and each of the Conditions is satisfied as soon as reasonably practicable after the date of this deed and continues to be satisfied at all times until the last time they are to be satisfied (as the case may require).

4.4 Notifications

Each of Bidder and Affinity must:

- (a) keep the other promptly and reasonably informed of the steps it has taken and of its progress towards satisfaction of the Financing Condition and the Conditions;
- (b) promptly notify the other in writing if it becomes aware that the Financing Condition or any Condition has been satisfied; and
- (c) promptly notify the other in writing if it becomes aware that the Financing Condition or any Condition is or has become incapable of being satisfied (having regard to the respective obligations of each party under clause 4.3).

4.5 Certificate

Before the Delivery Time on the Second Court Date:

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- (a) Bidder and Affinity will provide a joint certificate to the Court confirming whether or not the Condition set out in clause 4.1(b) (Restraints) has been satisfied or waived in accordance with the terms of this deed;
- (b) Affinity will provide a certificate to the Court confirming whether or not the Conditions set out in clauses 4.1(a) (No Affinity Prescribed Occurrence), 4.1(c) (Affinity Warranties), 4.1(e) (Shareholder approval) and 4.1(g) (Performance Rights) have been satisfied or waived in accordance with the terms of this deed;
- (c) Bidder will provide a certificate to the Court confirming whether or not the Conditions set out in clause 4.1(d) (Bidder Warranties) have been satisfied or waived in accordance with the terms of this deed;
- (d) Affinity will provide a certificate to Bidder confirming whether or not it has breached any of its obligations under this deed (including a breach of a representation or warranty), and if it has, giving details of such breaches; and
- (e) Bidder will provide a certificate to Affinity confirming whether or not it has breached any of its obligations under this deed (including a breach of a representation or warranty), and if it has, giving details of such breaches.

4.6 Scheme voted down

If the Scheme is not approved by Affinity Shareholders at the Scheme Meeting by reason only of the non-satisfaction of the Headcount Test and Affinity or Anchorage considers acting reasonably that Share Splitting or some abusive or improper conduct may have caused or contributed to the Headcount Test not having been satisfied then Affinity must:

- (a) apply for an order of the Court contemplated by section 411(4)(a)(ii)(A) of the Corporations Act to disregard the Headcount Test and seek Court approval of the Scheme under section 411(4)(b) of the Corporations Act, notwithstanding that the Headcount Test has not been satisfied; and
- (b) make such submissions to the Court and file such evidence as counsel engaged by Affinity to represent it in Court proceedings related to the Scheme, in consultation with Anchorage, considers is reasonably required to seek to persuade the Court to exercise its discretion under section 411(4)(a)(ii)(A) of the Corporations Act by making an order to disregard the Headcount Test.

4.7 Conditions not capable of being fulfilled

- (a) If:
 - (i) any Condition is not satisfied or (where capable of waiver) waived by the date specified in this deed for its satisfaction (or an event occurs which would or is likely to prevent a condition precedent being satisfied by the date specified in this deed);
 - (ii) a circumstance occurs with the result that a Condition is not capable of being fulfilled and, if the Condition is able to be waived

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SCHEME IMPLEMENTATION DEED (CONT)

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- by a party under clause 4.2, the party does not waive the Condition within seven Business Days after the occurrence of the circumstance; or
- (iii) the Scheme does not become Effective by the End Date and a Superior Proposal has not been publicly recommended by a majority of the Independent Directors,
- then Affinity and Bidder must consult reasonably with a view to determining whether:
- (iv) the Scheme may proceed by way of alternative means or methods;
 - (v) to extend the relevant time or date for satisfaction of the Condition;
 - (vi) to change the date of the application to be made to the Court for orders under section 411(4)(b) of the Corporations Act approving the Scheme or adjourning that application (as applicable) to another date agreed by the parties; or
 - (vii) to extend the End Date.
- (b) Subject to clause 4.7(c), if a Condition becomes incapable of being satisfied before the End Date and Affinity and Bidder are unable to reach agreement under clause 4.7(a) within five Business Days of the date on which they both become aware that the Condition has become incapable of being satisfied (or, if earlier, by the Delivery Time on the Second Court Date), then unless the relevant Condition (where capable of waiver) is waived:
 - (i) in relation to the Condition in clauses 4.1(b) (Restraints) or 4.1(e) (Shareholder approval) either Bidder or Affinity may terminate this deed by giving the other notice without any liability to any party by reason of that termination alone;
 - (ii) in relation to the Conditions in clauses 4.1(a) (No Affinity Prescribed Occurrence), 4.1(c)(Affinity Warranties) and 4.1(g) (Performance Rights), Bidder may terminate this deed by giving Affinity notice without any liability to any party by reason of that termination alone; and
 - (iii) in relation to the Condition in clause 4.1(d) (Bidder Warranties), Affinity may terminate this deed by giving Bidder notice without any liability to any other party by reason of that termination alone.
 - (c) A party will not be entitled to terminate this deed pursuant to clause 4.7(b) if the relevant Condition has not been satisfied as a result of:
 - (i) a breach of this deed by that party; or
 - (ii) a deliberate act or omission of that party which either alone or together with other circumstances prevents that Condition being satisfied.

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SCHEME IMPLEMENTATION DEED (CONT)

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4.8 Interpretation

For the purposes of this clause 4, a Condition will be incapable of satisfaction, or incapable of being fulfilled if there is an act, failure to act or occurrence that will prevent the Condition being satisfied by the End Date (and the breach or non-fulfilment that would otherwise have occurred has not already been waived in accordance with this deed).

5 Transaction Steps

5.1 Scheme

Affinity must, as soon as reasonably practicable after the satisfaction of the Financing Condition and substantially in compliance with the Timetable, propose the Scheme under which, subject to the Scheme becoming Effective, all of the Scheme Shares will be transferred to Bidder and the Scheme Shareholders will be entitled to receive, for each Scheme Share held at the Record Date, the Scheme Consideration.

5.2 Scheme Consideration

Bidder covenants in favour of Affinity (in Affinity's own right and separately as trustee for each Scheme Shareholder) that, in consideration of the transfer to Bidder of the Scheme Shares under the terms of the Scheme, on the Implementation Date, Bidder will:

- (a) accept that transfer; and
- (b) provide each Scheme Shareholder the Scheme Consideration, in accordance with the Scheme.

5.3 Deed poll

Bidder covenants in favour of Affinity (in Affinity's own right and separately as trustee for each of the Scheme Shareholders) to execute, deliver and perform the Deed Poll prior to the First Court Date.

6 Implementation

6.1 Affinity's obligations

Affinity must take all steps reasonably necessary to propose and (subject to the Financing Condition and all of the Conditions being satisfied or waived in accordance with their terms) implement the Scheme as soon as reasonably practicable after the date of this deed and substantially in accordance with the Timetable, including taking each of the following steps:

- (a) **(Explanatory Booklet)** prepare the Explanatory Booklet in accordance with clause 6.3;
- (b) **(Independent Expert)** promptly appoint the Independent Expert and provide all assistance and information reasonably requested by the

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SCHEME IMPLEMENTATION DEED (CONT)

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Independent Expert in connection with the preparation of the Independent Expert's Report for inclusion in the Explanatory Booklet;

- (c) **(approval of draft for ASIC)** as soon as reasonably practicable after the preparation of an advanced draft of the Explanatory Booklet suitable for review by ASIC, procure that a meeting of the Affinity Board, or of a committee of the Affinity Board appointed for the purpose, is held to consider approving that draft as being in a form appropriate for provision to ASIC for its review and approval for the purposes of section 411(2) of the Corporations Act;
- (d) **(draft to ASIC)** as soon as reasonably practicable after the date of this deed:
 - (i) provide an advanced draft of the Explanatory Booklet, in a form approved in accordance with clauses 6.1(c) and 6.2(e), to ASIC for its review and approval for the purposes of section 411(2) of the Corporations Act; and
 - (ii) liaise with ASIC during the period of its consideration of that draft of the Explanatory Booklet and keep Bidder reasonably informed of any matters raised by ASIC in relation to the Explanatory Booklet and use reasonable endeavours, in consultation with Bidder, to resolve any such matters;
- (e) **(approval of Explanatory Booklet)** as soon as reasonably practicable after the conclusion of the review by ASIC of the Explanatory Booklet, procure that a meeting of the Affinity Board, or of a committee of the Affinity Board appointed for the purpose, is held to consider approving the Explanatory Booklet for despatch to the Affinity Shareholders, subject to orders of the Court under section 411(1) of the Corporations Act;
- (f) **(section 411(17)(b) statements)** apply to ASIC for the production of:
 - (i) an indication of intent letter stating that it does not intend to appear before the Court on the First Court Date; and
 - (ii) a statement in writing pursuant to section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme;
- (g) **(first Court hearing)** lodge all documents with the Court and take all other reasonable steps to ensure that promptly after, and provided that, the approvals in clauses 6.1(e) and 6.2(f) have been received, an application is heard by the Court for an order under section 411(1) of the Corporations Act directing Affinity to convene the Scheme Meeting;
- (h) **(registration of explanatory statement)** request ASIC to register the explanatory statement included in the Explanatory Booklet in relation to the Scheme in accordance with section 412(6) of the Corporations Act;
- (i) **(convening Scheme Meeting)** take all reasonable steps necessary to comply with the orders of the Court including, as required, despatching

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the Explanatory Booklet to the Affinity Shareholders and convening and holding the Scheme Meeting;

- (j) **(Court approval application if parties agree that conditions are capable of being satisfied)** if the resolution submitted to the Scheme Meeting is passed by the majorities required under section 411(4)(a)(ii) of the Corporations Act, and if the parties agree on the Business Day immediately following the Scheme Meeting that it can be reasonably expected that all of the remaining Conditions will be satisfied or waived prior to the proposed Second Court Date, apply (and, to the extent necessary, re-apply) to the Court for orders approving the Scheme;
- (k) **(appeal process)** if the Court refuses to make any orders directing Affinity to convene the Scheme Meeting or approving the Scheme, Affinity and Bidder must:
 - (i) consult with each other, each acting reasonably, as to whether to appeal the Court's decision; and
 - (ii) appeal the court decision unless the parties agree otherwise or an independent senior counsel instructed by Affinity opines that, in his or her view, an appeal would have no reasonable prospect of success;
- (l) **(implementation of Scheme)** if the Scheme is approved by the Court:
 - (i) subject to the Listing Rules, promptly lodge with ASIC an office copy of the orders approving the Scheme in accordance with section 411(10) of the Corporations Act;
 - (ii) determine entitlements to the Scheme Consideration as at the Record Date in accordance with the Scheme;
 - (iii) execute proper instruments of transfer of and effect and register the transfer of the Scheme Shares to Bidder on the Implementation Date; and
 - (iv) do all other things contemplated by or necessary to give effect to the Scheme and the orders of the Court approving the Scheme;
- (m) **(Bidder Information)** without the prior written consent of Bidder, not use the Bidder Information for any purposes other than those expressly contemplated by this deed or the Scheme;
- (n) **(Documents)** consult with Bidder in relation to the content of the documents required for the purpose of the Scheme (including originating process, affidavits, submissions and draft minutes of Court orders) and consider, for the purpose of amending drafts of those documents, comments from Bidder on those documents;
- (o) **(Shareholder support)** promote to its Shareholders the merits of the Scheme, including soliciting proxy votes in favour of the Scheme; and

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SCHEME IMPLEMENTATION DEED (CONT)

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- (p) **(Compliance with laws)** do everything reasonably within its power to ensure that all transactions contemplated by this deed are effected in accordance with all applicable laws and regulations; and
- (q) **(Performance rights)** upon the automatic vesting of the Performance Rights in accordance with the 2015 Equity Incentive Plan, issue all Shares to be issued by virtue of the vesting of Performance Rights to the relevant Performance Rights Holders before the Record Date.

6.2 Bidder's obligations

Bidder must take all steps reasonably necessary to assist Affinity to implement the Scheme as soon as reasonably practicable and substantially in accordance with the Timetable including taking each of the following steps:

- (a) **(Bidder Information)** provide to Affinity, in a form appropriate for inclusion in the Explanatory Booklet, all information regarding Bidder, the arrangements Bidder has in place to fund the Scheme Consideration, and Bidder's intentions with respect to the assets, business and employees of Affinity if the Scheme is approved and implemented that is required by all applicable law, the Listing Rules and ASIC Regulatory Guides for inclusion in the Explanatory Booklet, which information must (without limiting the foregoing):
 - (i) contain all information necessary to enable Affinity to ensure that the Explanatory Booklet complies with the requirements of RG 60;
 - (ii) not be misleading or deceptive in any material respect (whether by omission or otherwise) including in the form and context in which it appears in the Explanatory Booklet; and
 - (iii) be updated by all such further or new material information which may arise after the Explanatory Booklet has been despatched until the date of the Scheme Meeting which is necessary to ensure that it is not misleading or deceptive in any material respect (whether by omission or otherwise);
- (b) **(assist Independent Expert)** promptly provide all assistance and information reasonably requested by the Independent Expert to enable it to prepare the Independent Expert's Report for inclusion in the Explanatory Booklet;
- (c) **(review drafts of Explanatory Booklet)** as soon as reasonably practicable after delivery, review the drafts of the Explanatory Booklet prepared by Affinity and provide comments on those drafts;
- (d) **(approval of draft for ASIC)** as soon as reasonably practicable after the preparation of an advanced draft of the Explanatory Booklet suitable for review by ASIC, procure that a meeting of the appropriate decision-making organ of Bidder is held to consider approving those sections of that draft that relate to Bidder as being in a form appropriate for provision to ASIC for review;

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- (e) **(approval of Explanatory Booklet)** as soon as reasonably practicable after the conclusion of the review by ASIC of the Explanatory Booklet, procure that a meeting of the appropriate decision-making organ of Bidder is held to consider approving those sections of the Explanatory Booklet that relate to Bidder as being in a form appropriate for despatch to Affinity Shareholders, subject to approval of the Court;
- (f) **(Representation)** procure that, if requested by Bidder or Affinity, Bidder is represented by counsel at the Court hearings convened for the purposes of sections 411(1) and 411(4)(b) of the Corporations Act;
- (g) **(Affinity Information)** without the prior written consent of Affinity, not use Affinity Information for any purposes other than those expressly contemplated by this deed or the Scheme;
- (h) **(Compliance with laws)** do everything reasonably within its power to ensure that all transactions contemplated by this deed are effected in accordance with all applicable laws and regulations; and
- (i) **(No denigration)** from the date of this deed until the date the Independent Expert's Report is received, Bidder will ensure that Bidder and its Authorised Persons do not publicly (or otherwise to third parties) denigrate the Proposed Transaction or Affinity in any way.

6.3 Explanatory Booklet – preparation principles

- (a) As soon as reasonably practicable after the satisfaction of the Financing Condition and substantially in accordance with the Timetable, Affinity must prepare the Explanatory Booklet in compliance with:
 - (i) all applicable laws, in particular with the Corporations Act, RG 60 and the Listing Rules; and
 - (ii) this clause 6.3.
- (b) The Explanatory Booklet will include:
 - (i) the terms of the Scheme;
 - (ii) the notice of Scheme Meeting, and any other notice of meeting in respect of any resolution that is necessary, expedient or incidental to give effect to the Scheme, together with a proxy form for the Scheme Meeting and for any ancillary meeting;
 - (iii) the Affinity Information;
 - (iv) the Bidder Information;
 - (v) a copy of this deed (without the schedules or annexures) or a summary of it;
 - (vi) a copy of the executed Deed Poll; and
 - (vii) a copy of the Independent Expert's Report.
- (c) The Explanatory Booklet must include a statement that:

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- (i) other than the Bidder Information and the Independent Expert's Report, the Explanatory Booklet has been prepared by Affinity and is the responsibility of Affinity, and that Bidder assumes no responsibility for the accuracy or completeness of the Explanatory Booklet (other than the Bidder Information); and
 - (ii) the Bidder Information has been provided by Bidder and is the responsibility of Bidder, and Affinity assumes no responsibility for the accuracy or completeness of the Bidder Information.
- (d) Affinity must make available to Bidder drafts of the Explanatory Booklet (excluding any draft of the Independent Expert's Report), consult with Bidder in relation to the content of those drafts (other than the Bidder Information), and consider, acting reasonably and in good faith, for the purpose of amending those drafts, comments from Bidder on those drafts. Bidder acknowledges and agrees that Affinity has ultimate discretion with respect to the preparation, form and content of the Explanatory Booklet, other than as expressly provided in this deed with respect to the Bidder Information.
- (e) Affinity must seek approval from Bidder for the form and context in which the Bidder Information appears in the Explanatory Booklet, which approval Bidder must not unreasonably withhold or delay, and Affinity must not lodge the Explanatory Booklet with ASIC until such approval is obtained from Bidder.
- (f) Affinity must take all reasonable steps to ensure that the Explanatory Booklet (other than the Bidder Information) is not misleading or deceptive in any material respect (whether by omission or otherwise) as at the date it is despatched to Affinity Shareholders.
- (g) Bidder must take all reasonable steps to ensure that the Bidder Information is not misleading or deceptive in any material respect (whether by omission or otherwise) as at the date on which the Explanatory Booklet is despatched to Affinity Shareholders.
- (h) Affinity must provide to Bidder all such further or new information of which Affinity becomes aware that arises after the Explanatory Booklet has been despatched until the date of the Scheme Meeting where this is or may be necessary to ensure that the Explanatory Booklet continues to comply with the Corporations Act, RG 60 and the Listing Rules.
- (i) Bidder must provide to Affinity all such further or new information of which Bidder becomes aware that arises after the Explanatory Booklet has been despatched until the date of the Scheme Meeting where this is or may be necessary to ensure that the Bidder Information continues to comply with the Corporations Act, RG 60 and the Listing Rules.
- (j) Affinity and Bidder each agree that the efficient preparation of the Explanatory Booklet and the implementation of the Scheme are in the interests of Affinity Shareholders and Bidder and that they will use all reasonable endeavours and utilise all necessary resources (including

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management resources and the resources of external advisers) to comply with their respective obligations under this clause 6.3 and to implement the Scheme as soon as reasonably practicable and substantially in accordance with the Timetable.

7 Affinity Board recommendation

7.1 Recommendation

Subject to **clause 7.3** Affinity represents and warrants to Anchorage, as at the date of this deed, that it has been advised by each Independent Director that, subject to the satisfaction of the Financing Condition, he or she will recommend that Affinity Shareholders vote in favour of the Scheme, qualified only by the words "in the absence of a superior proposal".

7.2 Explanatory Booklet to contain recommendation

Subject to **clause 7.3** and the satisfaction of the Financing Condition, Affinity must ensure that the Explanatory Booklet includes:

- (a) a unanimous recommendation by the Independent Directors that Affinity Shareholders vote in favour of the Scheme qualified only by the words "in the absence of a superior proposal"; and
- (b) a statement by each Independent Director that he or she will vote in favour of the Scheme, in respect of all Shares controlled or held by, or on behalf of, that Independent Director (as appropriate), qualified only by the words "in the absence of a superior proposal".

7.3 Withdrawal or modification of recommendation

Affinity represents and warrants to Anchorage, as at the date of this deed, subject to satisfaction of the Financing Condition, that it has been advised by each Independent Director that he or she will not:

- (a) change, withdraw or modify his or her recommendation that Affinity Shareholders vote in favour of the Scheme; or
- (b) make any public statement or take any other action that is inconsistent with his or her recommendation that Affinity Shareholders vote in favour of the Scheme,

in each case except where Affinity receives a Competing Proposal and the Independent Directors unanimously determine, after all of Anchorage's rights under clause 14.6 have been exhausted, that the Competing Proposal constitutes a Superior Proposal.

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8 Conduct of business before the Implementation Date

8.1 Conduct of Affinity business

Subject to clause 8.3, from the date of this deed up to and including the Implementation Date, Affinity must, and must cause each of its Controlled Entities to:

- (a) carry on and operate the Business as a going concern, in the ordinary and normal course and in substantially the same manner as it was conducted in the twelve months before the date of this deed; and
- (b) use reasonable endeavours to preserve their relationships with customers, suppliers, landlords, licensors, licensees and others having material business dealings with them, and to retain the services of all key employees.

8.2 Prohibited actions

Subject to clause 8.3, from the date of this deed up to and including the Implementation Date, Affinity must not, and must procure that the Affinity Group does not:

- (a) make an election to form a consolidated tax group, whether for direct or indirect taxes;
- (b) pay any financial adviser any fee, cost or other form of compensation that is directly or indirectly as a result of, contingent on, or contingent with the Proposed Transaction;
- (c) purchase, lease, acquire or dispose of any assets (including any child care centres), the value of which exceeds \$100,000 in aggregate;
- (d) enter into, terminate, amend or vary any lease or material agreement;
- (e) do anything that would have a material adverse effect on the goodwill of the Business, including the relationship of the Business with customers, suppliers, landlords and employees;
- (f) increase, reduce or otherwise alter its share capital or grant any options or performance rights for the issue of shares or other securities in Affinity;
- (g) declare or pay a dividend or make any other distribution to shareholders;
- (h) change or agree to change the terms of employment, including salaries and benefits, of employees on a salary of more than \$150,000 per year or grant any bonus, severance or retention benefit to any employee or officer other than in accordance with such employee's or officer's contractual entitlements;
- (i) incur additional borrowing, grant any loan or advance, or enter into any off balance sheet financing or assume, guarantee or endorse the obligations of any person;

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- (j) enter into any new agreements, arrangements or understandings involving more than \$100,000 in aggregate;
- (k) increase salaries and benefits of employees which in aggregate amount to more than \$100,000 per year, other than in accordance with such employees' contractual or legal entitlements;
- (l) hire, or agree to hire, any employee, agent or contractor except in the ordinary course of business;
- (m) give or agree to give a financial benefit to a related party of Affinity;
- (n) amend its constitution;
- (o) make any draw downs on its existing senior debt facility with Commonwealth Bank of Australia (or any other debt facility); or
- (p) authorise, commit or agree to take any of the steps or actions set out above.

8.3 Affinity permitted activities

The obligations of Affinity under clauses 8.1 and 8.2 do not apply in respect of any matter:

- (a) that was disclosed to Bidder in writing prior to execution of the heads of agreement between Affinity and Anchorage Capital Partners on 24 August 2015;
- (b) required to respond, on a reasonable and prudent basis, to an emergency or a disaster;
- (c) otherwise disclosed in the Disclosure Letter; or
- (d) otherwise contemplated in this deed or agreed between the parties.

8.4 Access

- (a) From the date of this deed up to and including the Implementation Date, Affinity must:
 - (i) procure that at least two members of its executive management team meet (either in person or by teleconference) with representatives of the Bidder on a weekly basis to assist with, among other things, keeping the Bidder fully informed of the matters contemplated by this clause 8.4(a);
 - (ii) provide the Bidder with all reasonable access during Business Hours and on reasonable notice to the management, offices, books, records and business operations of Affinity that the Bidder reasonably requires in order to implement the Proposed Transaction or for the Bidder to prepare for the transition of ownership of the Business, provided that such access is at all times in the presence of a representative of Affinity, if Affinity so requires;

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- (iii) keep the Bidder fully informed of all material developments relating to the Affinity Group and provide to the Bidder weekly management, financial and operational reports (including those provided to the Affinity board); and
- (iv) share such information as is reasonably required to implement the Proposed Transaction, provided that the Bidder must:
 - (A) keep all information obtained by it as a result of clause 8.4(a) confidential;
 - (B) provide Affinity with reasonable notice of any request for meetings or access;
 - (C) comply with the reasonable requirements of Affinity in relation to such access; and
 - (D) not interfere with the Business or the operations of the Affinity Group.
- (b) The parties must use all reasonable endeavours to obtain any third party consents required in connection with, or as a result of, the Proposed Transaction.
- (c) Nothing in clause 8.4(a) gives the Bidder any rights to undertake further due diligence investigations, or any rights as to the decision-making of any member of the Affinity Group or the Business.
- (d) Nothing in this clause 8.4 obliges Affinity to provide to the Bidder or its Representatives any information:
 - (i) concerning its directors' consideration of the Proposed Transaction or any Competing Proposal (save as otherwise provided in this deed);
 - (ii) which would breach an obligation of confidentiality to any person or any applicable privacy laws; or
 - (iii) which would be reasonably likely to result in a loss of legal professional privilege.

9 Actions on and following Implementation Date

9.1 Reconstitution of the board of each member of the Affinity Group

- (a) On the Implementation Date, but subject to the Scheme Consideration having been paid in by Bidder in accordance with the Scheme and receipt by Affinity of signed consents to act, Affinity must take all actions necessary (and in accordance with the constitution of the Affinity Group member, the Corporations Act and the Listing Rules) to appoint the persons nominated by Bidder as new Affinity Directors and new directors of each Controlled Entity of Affinity.

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- (b) Without limiting clause 9.1(a), on the Implementation Date, but subject to receipt by Affinity of written notices of resignation to the effect that the outgoing directors have no claim outstanding against any member of the Affinity Group, Affinity must procure that:
 - (i) all outgoing Affinity Directors resign from the Affinity Board; and
 - (ii) all outgoing directors of each Controlled Entity of Affinity resign from their office of director.

9.2 Sequence of actions on the Implementation Date

On the Implementation Date, the transactions which form part of the Scheme and the ancillary transactions contemplated by this deed will be implemented in the following sequence:

- (a) Bidder will provide the Scheme Consideration in accordance with the Scheme;
- (b) Affinity will disburse the Scheme Consideration to Scheme Shareholders in accordance with the Scheme;
- (c) the Affinity Board and the board of each Controlled Entity of Affinity will be reconstituted in accordance with clause 9.1; and
- (d) Bidder will acquire all of the Scheme Shares in accordance with the Scheme.

10 Representations and warranties

10.1 Affinity representations and warranties

Affinity represents and warrants to the Bidder that:

- (a) it is validly existing under the laws of its place of incorporation or registration;
- (b) it has the power to enter into and perform its obligations under this deed and to carry out the transactions contemplated by this deed;
- (c) it has taken all necessary action to authorise its entry into and performance of this deed and to carry out the transactions contemplated by this deed;
- (d) Affinity's obligations under this deed are valid and binding and enforceable against it in accordance with their terms;
- (e) as at the date of this deed, Affinity is not in breach of its continuous disclosure obligations under the Listing Rules and is not relying on the exclusion in Listing Rule 3.1A to withhold any information from disclosure (other than in relation to the Transaction or as disclosed in writing to Anchorage on or before the date of this deed);
- (f) as at the date of this deed:
 - (i) the issued capital of Affinity is 231,451,639 Shares; and

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- (ii) 1,327,141 Performance Rights are on issue; and
no member of the Affinity Group has issued, or agreed to issue, any other securities or instruments which may convert into Shares or any other securities in Affinity other than pursuant to the Performance Rights.

10.2 Representations and warranties by the Bidder

The Bidder represents and warrants to Affinity that:

- (a) it is validly existing under the laws of its place of incorporation or registration;
- (b) it has the power to enter into and perform its obligations under this deed and to carry out the transactions contemplated by this deed;
- (c) it has taken all necessary action to authorise its entry into and performance of this deed and to carry out the transactions contemplated by this deed;
- (d) its obligations under this deed are valid and binding and enforceable against it in accordance with their terms;
- (e) any announcement it makes to ASX to satisfy the Financing Condition will not be false in a material particular or materially misleading; and
- (f) subject to the Financing Condition being satisfied, at least five Business Days prior to the Second Court Date, it will have binding agreements in place to fund its obligations to pay the Scheme Consideration in accordance with its obligations under this deed, the Scheme and the Deed Poll conditional only upon procedural items such as delivery of a draw request, mechanical conditions that can only be satisfied on implementation of the Scheme such as repayment of Affinity's existing banking facility and conditions relating to progressing the Scheme such as requisite Affinity shareholder approval, Court approval and lodging of the court order with ASIC.

10.3 Timing of representations and warranties

Each representation and warranty made or given under clause 10.1 and clause 10.2 is given:

- (a) at the date of this deed and at the Delivery Time; or
- (b) where expressed, at the time at which the representation or warranty is expressed to be given.

10.4 Survival of representations and warranties

Each representation and warranty in clauses 10.1 and 10.2:

- (a) is severable;
- (b) will survive the termination of this deed; and
- (c) is given with the intent that liability under them will not be confined to breaches which are discovered prior to the date of termination of this deed.

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11 Confidentiality and Public Announcement

11.1 Confidentiality

Each party agrees and acknowledges that it is bound by the terms of the Confidentiality Deed save that the terms of this deed will prevail over the Confidentiality Deed to the extent of any inconsistency.

11.2 Public Announcements on execution

Immediately after the execution of this deed, the parties must issue public announcements in a form previously agreed to in writing between them.

11.3 Further public announcements

Subject to clause 11.4, any further public announcements by Affinity or Bidder in relation to, or in connection with, the Proposed Transaction or any other transaction the subject of this deed or the Scheme may only be made in a form approved by each party in writing (acting reasonably) subject to where a party is required by law or the Listing Rules to make any announcement or to make any disclosure in relation to, or in connection with, the Proposed Transaction or any other transaction the subject of this deed or the Scheme.

11.4 Required announcement

Where a party is required by applicable law, the ASX Listing Rules or any other applicable financial market regulation to make any announcement or to make any disclosure in connection with the Proposed Transaction or any other transaction the subject of this deed or the Scheme, it may do so but must use reasonable endeavours, to the extent practicable and lawful, to consult with the other party before making the relevant disclosure and must give the other party as much notice as reasonably practical.

11.5 Statements on termination

The parties must use all reasonable endeavours to issue agreed statements in respect of any termination of this deed and, to that end but without limitation, clauses 11.3 and 11.4 apply to any such statements or disclosures.

12 Termination

12.1 Termination by notice

- (a) The Bidder or Affinity may, by notice in writing to the other, terminate this deed at any time prior to the Delivery Time on the Second Court Date:
 - (i) if the Financing Condition has not been satisfied by 10.00am on 21 September 2015;
 - (ii) if the other is in material breach of a material obligation under this deed (other than a breach of a representation or warranty), and, if capable of remedy, the other party has failed to remedy that breach within five Business Days (or 5.00 pm on the day before the date of the Second Court Date if earlier) of receipt by it of a notice in writing from the terminating party setting out details of the

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- relevant circumstance and requesting the other party to remedy the breach;
- (iii) if the Court refuses to make any order directing Affinity to convene the Scheme Meeting, provided that both Affinity and Bidder have met and consulted and agreed that they do not wish to proceed with the Scheme; or
 - (iv) if the Effective Date for the Scheme has not occurred on or before the End Date.
- (b) Affinity may, by notice in writing to the Bidder, terminate this deed at any time prior to the Delivery Time on the Second Court Date if, at any time before then:
- (i) Anchorage is in material breach of a representation and warranty contained in clauses 10.2(e) or 10.2(f), and the breach cannot be remedied to the reasonable satisfaction of Affinity by subsequent action on the part of Anchorage before 10.00am on the day before the Second Court Date;
 - (ii) a majority of the Independent Directors change, withdraw or modify their recommendations of the Proposed Transaction in the manner described in clause 7.3; or
 - (iii) an Insolvency Event occurs in relation to the Bidder or Anchorage Capital Partners Pty Limited.
- (c) The Bidder may, by notice in writing to Affinity, terminate this deed at any time prior to the Delivery Time on the Second Court Date if, at any time before then:
- (i) Affinity materially breaches the representation and warranty contained in clause 10.1(e), and the breach:
 - (A) cannot be remedied to the reasonable satisfaction of Anchorage by subsequent action on the part of Affinity before 10.00am on the day before the Second Court Date; and
 - (B) the breach was of a kind that, had it been disclosed to Anchorage prior to its entry into this deed, could reasonably be expected to have resulted in Anchorage either not entering into this deed or entering into it on materially different terms; or
 - (ii) any Independent Director:
 - A. fails to recommend the Proposed Transaction in the manner described in clause 7.3; or
 - B. changes, withdraws or modifies his or her recommendation of the Transaction or makes any public statement, or takes any other action that is inconsistent with his or her recommendation of the Transaction (including where a

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Competing Proposal is announced and is recommended by any Independent Director); or

- (iii) an Insolvency Event occurs in relation to Affinity.

12.2 Automatic termination

Without limiting any other term of this deed, this deed will terminate automatically if the Scheme is not approved by the necessary majorities at the Scheme Meeting.

12.3 Effect of termination

- (a) In the event of termination of this deed under clause 4.6, 12.1 or 12.2, this deed will become void and have no effect, except that the provisions of clauses 10.4, 11, 13 and 17.3 to 17.14 (inclusive) survive termination.
- (b) Termination of this deed does not affect any accrued rights of a party in respect of a breach of this deed prior to termination or in respect of right to payment of an amount under clause 13.

13 Reimbursement of costs

13.1 Acknowledgement

Affinity acknowledges and agrees that:

- (a) the Bidder Reimbursed Entities have incurred and will continue to incur significant costs and expenses in pursuing and implementing the Proposed Transaction including advisory costs, costs of management and directors' time, funding costs and out of pocket expenses;
- (b) the entry by the parties into this deed and the Bidder Reimbursed Entities' agreement to continue to pursue the Proposed Transaction (and incur significant costs, expenses and losses as a result) is of substantial value to Affinity and its shareholders;
- (c) the Bidder Reimbursed Entities would not have continued to explore the Proposed Transaction or its development through to the matters outlined in this deed without an agreement on the matters covered by this clause 13; and
- (d) Affinity has received external legal and financial advice in relation to this clause 13 and represents to the Bidder that:
 - (i) it concluded that it was reasonable and appropriate for Affinity to agree to the matters set out in this clause 13 in order to secure the Bidder Reimbursed Entities' engagement on the development of the Proposed Transaction; and
 - (ii) Affinity will not seek to resist payment of any part of the moneys contemplated by this clause 13 on any legal basis whatsoever.

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13.2 Reimbursement of costs and expenses

- (a) Subject to clause 13.2(b), Affinity will pay to the Bidder Reimbursed Entities an amount equal to the reasonable out of pocket expenses of the Bidder Reimbursed Entities, and the reasonable third party accounting, tax and legal advisory expenses (including GST) incurred by the Bidder Reimbursed Entities up to the earlier of (i) the Effective Date or (ii) the date on which this deed is terminated in accordance with its terms, in connection with the Proposed Transaction and its development including its due diligence investigations into Affinity, its negotiation of an agreeable transaction structure with Affinity, its negotiation and drafting of this deed, the Scheme, the Deed Poll and the Explanatory Booklet, its negotiations with potential financiers and all reasonable incidental advice, and the Bidder Reimbursed Entities' financiers' reasonable legal fees (**Cost Reimbursement**) capped at a maximum of \$2,141,565 (excluding GST) less any Cost Reimbursement paid by Affinity to the Bidder Reimbursed Entities prior to the date of this deed (**Cost Reimbursement Cap**).

However, the amount to be reimbursed is to be reduced by the amount of any input tax credits the Bidder, or the representative member of any GST group of which the Bidder is a member, is entitled to in relation to the expense.

- (b) For the avoidance of doubt, Cost Reimbursements will only be payable in respect of reasonable out of pocket expenses incurred by the Bidder Reimbursed Entities and reasonable costs incurred by the Bidder Reimbursed Entities in respect of the fees of its reasonable third party accounting, tax and legal advisers and the Bidder Reimbursed Entities' financiers' reasonable legal fees in accordance with clause 13.2(a), and no Cost Reimbursement will be payable in respect of any costs incurred by any investment partners involved with the Bidder Reimbursed Entities in the Transaction.
- (c) The Bidder Reimbursed Entities may seek Cost Reimbursement on a weekly basis in respect of expenses incurred by the Bidder Reimbursed Entities in accordance with clause 13.2(a) in the previous week or earlier (as the case may be).

13.3 Payment

- (a) Affinity must pay the full amount demanded by a Bidder Reimbursed Entity (provided the aggregate payment made under this clause 13 does not exceed the Cost Reimbursement Cap) within five Business Days of a written demand by any Bidder Reimbursed Entity for payment provided the Bidder Reimbursed Entity has provided Affinity with copies of its invoices (which copies may redact privileged information) in support of its demand.
- (b) For the avoidance of doubt, Affinity's maximum liability under this clause 13 is the Cost Reimbursement Cap.

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13.4 Benefit

The acknowledgements, confirmations and agreements given and made by Affinity in this clause 13 is given to the Bidder on its own behalf and separately as trustee for each of the Bidder Reimbursed Entities.

14 Exclusivity

14.1 No existing discussions

Other than in relation to the discussions with the Bidder in connection with the Proposed Transaction and this deed, Affinity represents and warrants to the Bidder that, as at the date of this deed:

- (a) neither itself nor any of its Representatives is a party to any agreement with a third party entered into for the purpose of facilitating a Competing Proposal; and
- (b) neither itself nor any of its Representatives is participating in any discussions or negotiations with a third party that concern, or that could reasonably be expected to lead to, a Competing Proposal or to Affinity abandoning the Proposed Transaction.

14.2 No-shop

During the Exclusivity Period, Affinity must not, and must ensure that its Representatives do not, directly or indirectly solicit, invite, initiate or encourage any Competing Proposal or any enquiries, proposals, discussions or negotiations with any third party in relation to (or that could reasonably be expected to lead to) a Competing Proposal or to Affinity abandoning the Transaction, or communicate any intention to do any of these things.

14.3 No-talk

Subject to clause 14.7, during the Exclusivity Period, Affinity must not, and must ensure that its Representatives do not, directly or indirectly:

- (a) negotiate or enter into or participate in negotiations or discussions with any person; or
- (b) communicate any intention to do any of these things, in relation to (or which may reasonably be expected to lead to) a Competing Proposal, even if that person's Competing Proposal was not directly or indirectly solicited, encouraged or initiated by Affinity or any of its Representatives, or that person has publicly announced the Competing Proposal.

14.4 No due diligence

During the Exclusivity Period, except with the prior written consent of Bidder, Affinity must not, and must ensure that its Representatives do not, directly or indirectly:

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- (a) solicit, invite, initiate, or encourage, or (subject to clause 14.7) facilitate or permit, any person (other than Bidder) to undertake due diligence investigations in respect of Affinity, its related bodies corporate, or any of their businesses and operations, in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal; or
- (b) subject to clause 14.7, make available to any person (other than Bidder) or permit any such person to receive any non-public information relating to Affinity, its related bodies corporate, or any of their businesses and operations, in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal.

14.5 Notification of approaches

- (a) During the Exclusivity Period, Affinity must promptly notify Bidder in writing of the fact of:
 - (i) any approach, inquiry or proposal made by any person to Affinity or any of its Representatives, to initiate any discussions or negotiations that concern, or that could reasonably be expected to lead to, a Competing Proposal; and
 - (ii) any request made by any person to Affinity or any of its Representatives, for any information relating to Affinity, its related bodies corporate, or any of their businesses and operations, in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal.
- (b) Subject to clause 14.7, a notice given under clause (a) must be accompanied by all material details of the relevant event, including (as the case may be):
 - (i) the identity of the person who made the relevant approach, inquiry or proposal to initiate discussions or negotiations referred to in clause 14.5(a)(i), or who made the relevant request for information referred to in clause 14.5(a)(ii) (**Identifying Details**); and
 - (ii) the material terms and conditions (including price, conditions precedent, timetable and break free (if any)) of any Competing Proposal or any proposed Competing Proposal (to the extent known).
- (c) During the Exclusivity Period, Affinity must promptly provide the Bidder with:
 - (i) in the case of written materials, a copy of; or
 - (ii) in any other case, a written statement of,any material non-public information relating to Affinity, its related bodies corporate, or any of their businesses and operations made available or

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received by any person in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal and which has not previously been provided to the Bidder.

14.6 Affinity's response to Rival Acquirer and the Bidder's right to respond

- (a) If Affinity is permitted by virtue of clause 14.7 to engage in activity that would otherwise breach any of clauses 14.3, 14.4(a), 14.4(b) and 14.5(b)(i) Affinity must enter into a confidentiality agreement with the person who has made the applicable Competing Proposal (**Rival Acquirer**) on customary terms.
- (b) If Affinity receives a Competing Proposal and as a result, any Independent Director proposes to either:
 - (i) change, withdraw or modify his or her recommendation of the Proposed Transaction; or
 - (ii) approve or recommend entry into any agreement, commitment, arrangement or understanding relating to the Competing Proposal (other than a confidentiality agreement contemplated by clause 14.6(a)),

Affinity must not make an announcement regarding the matters in clause 14.6(b)(i) or enter into any agreement, commitment, arrangement or understanding set out in clause 14.6(b)(ii):

- (iii) unless the Competing Proposal is bona fide; and
- (iv) until each of the following has occurred:
 - A. the Independent Directors have made the determination contemplated by clause 14.7(b) in respect of that Competing Proposal;
 - B. Affinity has given the Bidder written notice (**Relevant Notice**) of the Independent Directors' proposal to take the action referred to in clauses 14.6(b)(i) or 14.6(b)(ii) (subject to the Bidder's rights under clause 14.6(c));
 - C. subject to 14.6(c), Affinity has given the Bidder all information that would be required by clause 14.5(b) as if it was not subject in any way to clause 14.7;
 - D. the Bidder's rights under clause 14.6(c) have been exhausted; and
 - E. the Independent Directors have made the determination contemplated by clause 14.7(b) in respect of that Competing Proposal after the Bidder's rights under clause 14.6(c) have been exhausted and after evaluation of any Counter Proposal.
- (c) Prior to giving the Bidder the Identifying Details, Affinity must advise the Rival Acquirer that the Rival Acquirer's name and other details which may identify the Rival Acquirer will be provided by Affinity to the Bidder

ANNEXURE A

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on a confidential basis. If consent is refused, Affinity may only withhold the Identifying Details from the Bidder if the Independent Directors, acting in good faith and after having taken advice from its external Australian legal adviser practising in the area of corporate law, that failing to do so would be likely to involve a breach of the fiduciary or statutory duties owed by the Independent Directors.

- (d) If Affinity gives a Relevant Notice to the Bidder under clause 14.6(b)(iv)B, the Bidder will have the right, but not the obligation, at any time during the period of 2 Business Days following the receipt of the Relevant Notice, to amend the terms of the Proposed Transaction including increasing the amount of consideration offered under the Proposed Transaction or proposing any other form of transaction (each a **Counter Proposal**), and if it does so then the Independent Directors must review the Counter Proposal in good faith. If the Independent Directors determine that the Counter Proposal would be more favourable, or at least no less favourable, to Affinity and the Affinity Shareholders than the Competing Proposal (having regard to the matters noted in clause 14.7(b)), then Affinity and the Bidder must use their best endeavours to agree the amendments to this deed that are reasonably necessary to reflect the Counter Proposal and to enter into an amended agreement to give effect to those amendments and to implement the Counter Proposal, and Affinity must recommend the Counter Proposal to the Shareholders and not recommend the applicable Competing Proposal.

14.7 Fiduciary out

The restrictions in clauses 14.3, 14.4(a) and 14.4(b) and the obligations in clauses 14.5(a) and 14.5(b)(i) do not apply to the extent they restrict Affinity or any Independent Director from taking or refusing to take any action with respect to a Competing Proposal (in relation to which there has been no contravention of clauses 14.1 or 14.2) provided that:

- (a) the Competing Proposal is bona fide and is made by or on behalf of a person that the Independent Directors reasonably consider is of sufficient commercial standing to implement the Competing Proposal; and
- (b) the Independent Directors have determined in good faith after:
- (i) consultation with Affinity's financial advisers; and
 - (ii) receiving written advice from Affinity's external Australian legal adviser practising in the area of corporate law,

that: (A) the Competing Proposal is or may reasonably be expected to lead to a Superior Proposal and (B) failing to take the action or refusing to take the action (as the case may be) with respect to the Competing Proposal would be likely to constitute a breach of the fiduciary or statutory obligations of the Independent Directors.

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SCHEME IMPLEMENTATION DEED (CONT)

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15 Notices

Any communication under or in connection with this deed:

- (a) must be in writing;
- (b) must be addressed as shown below:

Affinity

Address: Level 14, 100 Creek Street, Brisbane QLD 4000
Facsimile: (07) 3236 3994
Email: Paul.Cochrane@affinityeducation.com.au
For the attention of: Company Secretary / Directors
with a copy to: Braddon Jolley (braddon.jolley@corrs.com.au)
Sandy Mak (sandy.mak@corrs.com.au)

Bidder

Address: c/- Level 39, 259 George Street, Sydney NSW 2000
Facsimile: 02 8259 7778
Email: simon.woodhouse@anchoragecapital.com.au
For the attention of: Directors
with a copy to: callen.obrien@anchoragecapital.com.au

(or as otherwise notified by that party to the other party from time to time);

- (c) must be signed or sent by the party making the communication or by a person duly authorised by that party;
- (d) must be delivered to the address, or sent by fax or email to the number or email address, of the addressee, in accordance with clause 15(b); and
- (e) will be deemed to be received by the addressee:
 - (i) **(in the case of email)** four hours after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that the email has not been delivered;
 - (ii) **(in the case of fax)** at the local time (in the place of receipt of that fax) which then equates to the time at which that fax is sent as shown on the transmission report which is produced by the machine from which that fax is sent and which confirms transmission of that fax in its entirety, unless that local time is not a Business Day, or is after 5.00pm on a Business Day, when that communication will be deemed to be received at 9.00am on the next Business Day; and

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

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- (iii) **(in the case of delivery by hand)** on delivery at the address of the addressee as provided in clause 15(b), unless that delivery is not made on a Business Day, or after 5.00pm on a Business Day, when that communication will be deemed to be received at 9.00am on the next Business Day.

16 Releases

16.1 Affinity Parties

- (a) Without limiting Bidder's rights under clause 12, Bidder (for itself and as agent of every member of the Bidder Group) releases all rights against and agrees with Affinity that it will not make a Claim against, any Affinity Party (other than Affinity) in connection with:
 - (i) Affinity's execution or delivery of this deed;
 - (ii) any breach of any representation, covenant and warranty of Affinity in this deed;
 - (iii) the implementation of the Scheme; or
 - (iv) any disclosure made by any Affinity Party including in the Due Diligence Material or the Disclosure Letter that contains any statement which is false or misleading whether in content or by omission,except to the extent the relevant Affinity Party has not acted in good faith or has engaged in wilful misconduct or to the extent the Claim is actually covered under an insurance policy that is paid for by the Affinity Group where the relevant insurer accepts liability for the Claim.
- (b) This clause is subject to any Corporations Act restriction and will (if and to the extent required) be read down accordingly. Affinity receives and holds the benefit of this clause as trustee for each other Affinity Party.

16.2 Bidder Parties

- (a) Without limiting Affinity's rights under clause 12, Affinity releases its rights against, and agrees with Bidder that it will not make a Claim against, any Bidder Party (other than Bidder) in connection with:
 - (i) Bidder's execution or delivery of this deed;
 - (ii) any breach of any representation, covenant and warranty of Bidder in this deed;
 - (iii) the implementation of the Scheme; or
 - (iv) any disclosure made by any Bidder Party that contains any statement which is false or misleading whether in content or by omission,except to the extent that the relevant Bidder Party has not acted in good faith or has engaged in wilful misconduct.

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- (b) This clause is subject to any Corporations Act restriction and will (if and to the extent required) be read down accordingly. Bidder receives and holds the benefit of this clause as trustee for each other Bidder Party.

16.3 Directors' and officers' insurance

Bidder acknowledges that Affinity will:

- (a) prior to the Effective Date, arrange for the cover currently provided under its directors' and officers' insurance policy (**Policy**) to be extended for a further period of 12 months; and
- (b) by no later than the Implementation Date, to the extent practicable at normal commercial rates, arrange for the cover provided under the Policy to be amended so as to provide run off cover in accordance with the terms of the Policy for a 7 year period from the end of the term of the Policy, and pay all premiums required so as to ensure that insurance cover is provided under the Policy on those terms until that date.

16.4 Obligations in relation to directors' and officers' insurance

From the Implementation Date, Affinity must not:

- (a) vary or cancel the Policy; or
- (b) unless required under the Policy, commit any act or omission that may prejudice any claim by a director or officer of Affinity under the Policy as extended under clause 16.3(b) above.

Nothing in clauses 16.3 or 16.4 shall require Bidder or Affinity to incur any additional premium after the Implementation Date or require Affinity to not fulfil its contractual obligations under the Policy.

17 General

17.1 Further acts

Each party will promptly do and perform all further acts and execute and deliver all further documents (in form and content reasonably satisfactory to that party) required by law or reasonably requested by any other party to give effect to this deed.

17.2 Timetable

The parties agree that the Timetable is indicative only and is not binding on the parties.

17.3 Payments

Unless otherwise expressly provided in this deed, where an amount is required to be paid to a party (the Receiving Party) by another party under this deed, that amount shall be paid:

- (a) in immediately available and irrevocable funds by electronic transfer to a bank account or accounts notified by the Receiving Party in writing on or

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before the due date for payment, or in other such immediately payable funds as the parties may agree; and

- (b) without deduction, withholding or set-off.

17.4 GST

- (a) Any reference in this clause 17.4 to a term defined or used in the *A New Tax System (Goods and Services Tax) Act 1999* is, unless the context indicates otherwise, a reference to that term as defined or used in that Act.
- (b) Unless expressly included, the consideration for any supply under or in connection with this deed does not include GST.
- (c) To the extent that any supply made by a party (**Supplier**) to another party (**Recipient**) under or in connection with this deed is a taxable supply, the Recipient must pay to the Supplier, in addition to the consideration to be provided under this deed but for the application of this clause 17.4(c) for that supply (**GST Exclusive Consideration**), an amount equal to the amount of the GST Exclusive Consideration (or its GST exclusive market value) multiplied by the rate at which GST is imposed in respect of the supply.
- (d) This clause 17.4(d) does not apply to any taxable supply under or in connection with this deed that is expressly stated to include GST.
- (e) The amount on account of GST payable in accordance with this clause 17.4 will be paid at the same time and in the same manner as the consideration otherwise payable for the supply is provided subject to the Recipient receiving a tax invoice.
- (f) Any reference in the calculation of any consideration or of any indemnity, reimbursement or similar amount to a cost, expense or liability incurred by a person (**Relevant Expense**) is a reference to the relevant expense reduced by an amount equal to any input tax credit entitlement of that person (or of the representative member of any GST group to which the person belongs) in relation to the Relevant Expense. A party will be assumed to have an entitlement to a full input tax credit unless it demonstrates otherwise prior to the date on which the relevant payment or consideration must be provided.

17.5 Stamp duty

Bidder must pay all stamp duties (if any) and any fines and penalties with respect to stamp duty in respect of this deed or the Scheme or the steps to be taken under this deed or the Scheme (including without limitation the acquisition or transfer of Scheme Shares pursuant to the Scheme).

17.6 Expenses

Except as otherwise provided in this deed, each party will pay its own costs and expenses in connection with the negotiation, preparation, execution, and

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SCHEME IMPLEMENTATION DEED (CONT)

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performance of this deed and the Explanatory Booklet and the proposed, attempted or actual implementation of this deed and the Scheme.

17.7 Amendments

This deed may only be varied by a document signed by or on behalf of each of the parties.

17.8 Assignment

A party cannot assign, novate or otherwise transfer any of its rights or obligations under this deed without the prior written consent of each other party, which consent that other party may give or withhold in its absolute discretion.

17.9 Waiver

- (a) Failure to exercise or enforce or a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this deed by any party will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement of that or any other right, power or remedy provided by law or under this deed.
- (b) Any waiver or consent given by any party under this deed will only be effective and binding on that party if it is given or confirmed in writing by that party.
- (c) No waiver of a breach of any term of this deed will operate as a waiver of another breach of that term or of a breach of any other term of this deed.
- (d) Nothing in this deed obliges a party to exercise a right to waive any conditional term of this deed that may be in its power.

17.10 Counterparts

- (a) This deed may be executed in any number of counterparts and by the parties on separate counterparts. Each counterpart constitutes the agreement of each party who has executed and delivered that counterpart. Each counterpart is an original but the counterparts together are one and the same agreement.
- (b) This deed is binding on the parties on the exchange of duly executed counterparts.
- (c) The parties agree that a copy of an original executed counterpart sent by facsimile machine to the facsimile number of the other party specified in clause 13.6, instead of the original, is sufficient evidence of the execution of the original and may be produced in evidence for all purposes in place of the original.

17.11 Entire agreement

- (a) This deed:
 - (i) embodies the entire understanding of the parties and constitutes the entire terms agreed on between the parties; and

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

Corrs Chambers Westgarth

(ii) supersedes any prior agreement (whether or not in writing) between the parties.

(b) Despite clause 17.11(a), the Confidentiality Deed continues to apply to the parties in accordance with its terms, except to the extent of any express inconsistency, in which case this deed prevails.

17.12 No representation or reliance

(a) Each party acknowledges that no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this deed, except for representations or inducements expressly set out in this deed.

(b) Each party acknowledges and confirms that it does not enter into this deed in reliance on any representation or other inducement by or on behalf of any other party, except for any representation or inducement expressly set out in this deed.

17.13 No merger

The rights and obligations of the parties will not merge on completion of any transaction under this deed. They will survive the execution and delivery of any assignment or other document entered into for the purpose of implementing any transaction.

17.14 Governing law

(a) This deed is governed by and will be construed according to the laws of New South Wales.

(b) Each party irrevocably submits to the non-exclusive jurisdiction of the courts of New South Wales and of the courts competent to determine appeals from those courts.

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

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Schedule 1

Indicative Timetable

Indicative timetable	
Event	Date
Enter into Scheme Implementation Deed	Tuesday, 15 September 2015
Anchorage to notify Affinity if Financing Condition has been satisfied	No later than 10.00 am Monday, 21 September 2015
Lodge Scheme Booklet with ASIC for review and comment	Monday, 28 September 2015
First Court Date	Wednesday, 14 October 2015*
Explanatory Booklet registered with ASIC	Thursday, 15 October 2015
Dispatch Explanatory Booklet to Affinity Shareholders	Wednesday, 21 October 2015
Scheme Meeting	Friday, 20 November 2015
Second Court Date	Monday, 30 November 2015*
Effective Date – lodge office copy of Court order approving the Scheme with ASIC	Tuesday, 1 December 2015
Record Date	7:00 pm on Tuesday, 8 December 2015 (5th Business Day after Effective Date)
Implementation Date – pay Scheme Consideration	Tuesday, 15 December 2015 (5th Business Day after Record Date)

* Subject to court availability.

Note: This is an indicative timetable only and is subject to change, including following any regulatory consultation and as may be required by the court.

14300578/11
Scheme Implementation Deed

ME_124665390_3 (W2003x)

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Schedule 2

Deed Poll

14300578/11
Scheme Implementation Deed
ME_124665390_3 (W2003x)

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SCHEME IMPLEMENTATION DEED (CONT)

Anchorage Childcare Pty Limited

Deed Poll

Ref: SM/FBJ AFFI19527-9113191 14321059/5
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ME_124669131_1 (W2003x)

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Date

Parties

Anchorage Childcare Pty Limited ACN 607 819 081 of c/- Level 39, 259 George Street Sydney NSW 2000 (**Anchorage**)

Background

- A On 15 September 2015 Affinity and Anchorage entered into a Scheme Implementation Deed to provide for (among other matters) the implementation of the Scheme.
- B The effect of the Scheme will be to transfer all Scheme Shares to Anchorage in return for the Scheme Consideration.
- C Anchorage enters this deed poll to covenant in favour of Scheme Shareholders to:
- (i) perform the actions attributed to it under the Scheme; and
 - (ii) provide the Scheme Consideration in accordance with the Scheme.
-

Agreed terms

1 Definitions and interpretation

1.1 Definitions

In this document:

Affinity Affinity Education Group Limited ACN 163 864 195 Level 14, 100 Creek Street, Brisbane QLD 4000 as trustee for the Scheme Shareholders

Scheme Implementation Deed means the Scheme Implementation Deed dated 15 September 2015 between Affinity and Anchorage.

1.2 Terms defined in Scheme Implementation Deed

Words and phrases defined in the Scheme Implementation Deed have the same meaning in this deed poll unless the context requires otherwise.

1.3 Incorporation by reference

The provisions of clauses 1.2, 1.3 and 1.4 of the Scheme Implementation Deed form part of this deed poll as if set out at length in this deed poll but with 'deed

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

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poll' substituted for 'deed' and with any reference to 'party' being taken to include the Scheme Shareholders.

2 Nature of this deed poll

Anchorage agrees that this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not a party to it.

3 Conditions

3.1 Conditions

The obligations of Anchorage under clause 4 are subject to the Scheme becoming Effective.

3.2 Termination

Subject to clause 6, this deed poll and the obligations of Anchorage will automatically terminate and this deed poll will be of no further force or effect if:

- (a) the Scheme implementation Deed is terminated in accordance with its terms before the Scheme becomes Effective, or
- (b) the Scheme is not Effective on or before the End Date or any later date as the Court, with the consent of Affinity and Anchorage, may order.

3.3 Consequences of termination

If this deed poll terminates under clause 3.2, in addition and without prejudice to any other rights, powers or remedies available to them:

- (a) Anchorage is released from its obligation to further perform this deed poll; and
- (b) each Scheme Shareholder retains the rights they have against Anchorage in respect of any breach of this deed poll which occurred before it terminated.

4 Performance of obligations

4.1 Generally

Subject to clause 3, Anchorage undertakes in favour of Scheme Shareholders to:

- (a) perform the actions attributed to it under the Scheme and otherwise comply with the Scheme as if Anchorage was a party to the Scheme; and
- (b) comply with its obligations under the Scheme Implementation Deed, in so far as that agreement relates to the Scheme, and do all things necessary or expedient on its part to implement the Scheme.

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

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4.2 Provision of Scheme Consideration

Subject to clause 3, Anchorage undertakes in favour of each Scheme Shareholder to provide or procure the provision of the Scheme Consideration to each Scheme Shareholder in accordance with the terms of the Scheme.

5 Warranties

Anchorage represents and warrants to each Scheme Shareholder that:

- (a) **(status)** it is a corporation duly incorporated and validly existing under the laws of the place of its incorporation;
- (b) **(power)** it has the power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) **(corporate authorisations)** it has taken all necessary corporate action to authorise the entry into and performance of this deed poll and to carry out the transactions contemplated by this deed poll;
- (d) **(documents binding)** this deed poll is valid and binding on it and enforceable against it in accordance with its terms;
- (e) **(transactions permitted)** the execution and performance by it of this deed poll and each transaction contemplated by this deed poll did not and will not violate in any respect a provision of:
 - (i) its constitution or other constituent documents; or
 - (ii) any other document which is binding on it or its assets; and
- (f) **(solvency)** it is solvent and no resolutions have been passed nor has any other step been taken or legal action or proceedings commenced or threatened against it for its winding up, deregistration or dissolution or for the appointment of a liquidator, receiver, administrator or similar officer over any or all of its assets.

6 Continuing Obligations

6.1 Deed poll irrevocable

This deed poll is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of:

- (a) Anchorage having fully performed its obligation under this deed poll; and
- (b) termination of this deed poll under clause 3.2.

6.2 Variation

A provision of this deed poll may not be varied unless:

- (a) before the Second Court Date, the variation is agreed to in writing by Affinity; or

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

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- (b) on or after the Second Court Dale, the variation is agreed to in writing by Affinity and is approved by the Court,

in which event Anchorage will enter into a further deed poll in favour of each Scheme Shareholder giving effect to the amendment.

7 Notices

Any notice, demand or other communication (a **Notice**) to Anchorage in respect of this deed poll:

- (a) must be in writing and signed by the sender or a person duly authorised by it;
- (b) must be delivered to the intended recipient by prepaid post (if posted to an address in another country, by registered airmail) or by hand or fax to the address or fax number specified in the Details; and
- (c) will be conclusively taken to be duly given or made:
 - (i) in the case of delivery in person, when delivered at the address of the addressee as provided in clause 7(b), unless that delivery is not made on a Business Day, or is made after 5.00pm on a Business Day, in which case that Notice will be deemed to be received at 9.00am on the next Business Day;
 - (ii) in the case of delivery by post, two Business Days after the date of posting (if posted to an address in the same country) or seven Business Days after the date of posting (if posted to an address in another country); and
 - (iii) in the case of fax, at the local time (in the place of receipt of that fax) which then equates to the time at which that fax is sent as shown on the transmission report which is produced by the machine from which that fax is sent and which confirms transmission of that fax in its entirety, unless that local time is not a Business Day, or is after 5.00pm on a Business Day, when that communication will be deemed to be received at 9.00am on the next Business Day.

8 General Provisions

8.1 Assignment

- (a) The rights and obligations of Anchorage and each Scheme Shareholder under this deed poll are personal. They cannot be assigned, charged, encumbered or otherwise dealt with at law or in equity without the prior written consent of Affinity and Anchorage.
- (b) Any purported dealing in contravention of clause 8.1(a) is invalid.

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SCHEME IMPLEMENTATION DEED (CONT)

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8.2 Cumulative rights

The rights, powers and remedies of Anchorage and each Scheme Shareholder under this deed poll are cumulative with and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

8.3 No waiver

A provision of, or a right under, this deed poll may not be waived except in writing signed by the person granting the waiver.

8.4 Stamp duty

Anchorage:

- (a) must pay or procure the payment of all stamp duty (if any) and any related fines, penalties and interest in respect of the Scheme and this deed poll (including the acquisition or transfer of Scheme Shares pursuant to the Scheme), the performance of this deed poll and each transaction effected by or made under or pursuant to the Scheme and this deed poll; and
- (b) indemnifies and undertakes to keep indemnified each Scheme Shareholder against any liability arising from failure to comply with clause 8.4(a).

8.5 Further assurances

Anchorage will, at its own expense, do all things reasonably required of it to give full effect to this deed poll.

8.6 Governing law and jurisdiction

This deed poll is governed by the laws of New South Wales. In relation to it and related non-contractual matters Anchorage irrevocably submits to the non-exclusive jurisdiction of courts with jurisdiction there, and waives any right to object to the venue on any ground.

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

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Executed as a deed poll

Executed by **Anchorage Childcare**)
Pty Limited in accordance with section)
127 of the *Corporations Act 2001* (Cth):

.....
Company Secretary/Director

.....
Director

.....
Name of Company Secretary/Director
(print)

.....
Name of Director (print)

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SCHEME IMPLEMENTATION DEED (CONT)

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Schedule 3

Scheme

14300578/11
Scheme Implementation Deed
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SCHEME IMPLEMENTATION DEED (CONT)

Affinity Education Group Limited

Scheme Shareholders

Scheme of Arrangement

Ref: SM/FBJ AFFI19527-9113191 14321166/7
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Parties

Affinity Education Group Limited ACN 163 864 195 Level 14, 100 Creek Street, Brisbane QLD 4000 (**Affinity**)

Each Scheme Shareholder

Background

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth) between the parties.

Agreed terms

1 Definitions and interpretation

1.1 Definitions

In this Scheme, unless the context requires otherwise:

Affinity Registry means Link Market Services Limited or any replacement provider of share registry services to Affinity.

Affinity Shareholder means a person who is registered in the register maintained by Affinity under section 168(1) of the Corporations Act as a holder of one or more Shares

Anchorage means Anchorage Childcare Pty Limited ACN 607 819 081 c/- Level 39, 259 George Street, Sydney NSW 2000

Anchorage Group means Anchorage and each of its Subsidiaries (excluding, at any time, Affinity and its Subsidiaries to the extent that Affinity and its Subsidiaries are Subsidiaries of Anchorage at that time). A reference to a **member of the Anchorage Group** or a **Anchorage Group Member** is a reference to Anchorage or any such Subsidiary.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691, or as the context requires or permits, the financial market known as the Australian Securities Exchange operated by it.

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

Corrs Chambers Westgarth

Business Day	means a business day as defined in the Listing Rules
CHESS	means the clearing house electronic subregister system of share transfers operated by ASX Settlement Pty Limited ABN 49 008 504 532.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Court	means the Federal Court of Australia or such other court of competent jurisdiction determined by Affinity (after consultation, in good faith, with Anchorage).
Deed Poll	means the deed poll dated [insert] executed by Anchorage under which Anchorage covenants in favour of the Scheme Shareholders to perform the actions attributed to it under this Scheme.
Delivery Time	means, in relation to the Second Court Date, 2 hours before the commencement of the hearing or, if the commencement of the hearing is adjourned, the commencement of the adjourned hearing, of the Court to approve this Scheme in accordance with section 411(4)(b) of the Corporations Act.
Effective	means the coming into effect under section 411(10) of the Corporations Act of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme.
Effective Date	means the date on which this Scheme becomes Effective.
End Date	means the 'End Date' determined in accordance with the Scheme Implementation Deed.
Implementation Date	means the fifth Business Day after the Record Date or such other date after the Record Date agreed to in writing between Affinity and Anchorage.
Listing Rules	means the official listing rules of ASX as amended from time to time.
Performance Right	means a performance right in respect of a Share, granted under Affinity's 2015 Equity Incentive Plan.
Record Date	means 7.00pm on the fifth Business Day after the Effective Date or such other time and date agreed to in writing between Affinity and Anchorage.
Registered Address	means, in relation to an Affinity Shareholder, the address shown in the Share Register as at the Record Date.
Scheme	means this scheme of arrangement under Part 5.1 of the Corporations Act between Affinity and the Scheme Shareholders, subject to any alterations or conditions agreed between Affinity and Anchorage and approved by

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

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	the Court or any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed to by Affinity and Anchorage.
Scheme Consideration	means, in respect of each Scheme Share held by a Scheme Shareholder, \$0.92 per Share.
Scheme Implementation Deed	means the scheme implementation deed dated 15 September 2015 between Affinity and Anchorage.
Scheme Meeting	means the meeting of Affinity Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on this Scheme and includes any meeting convened following any adjournment or postponement of that meeting.
Scheme Share	means a Share on issue as at the Record Date.
Scheme Shareholder	means a person who holds one or more Scheme Shares.
Second Court Date	means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving this Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.
Settlement Rules	means the ASX Settlement Operating Rules.
Share	means an issued fully paid ordinary share in the capital of Affinity.
Share Register	means the register of members of Affinity maintained in accordance with the Corporations Act.
Subsidiary	has the meaning given to that term in section 46 of the Corporations Act.
Trust Account	means an Australian dollar denominated trust account operated by Affinity as trustee for the benefit of Scheme Shareholders.

1.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) A gender includes all genders.
- (c) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

Corrs Chambers Westgarth

- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (e) A reference to a clause or schedule is a reference to a clause of or schedule to this Scheme.
- (f) A reference to an agreement or document (including a reference to this Scheme) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this Scheme or that other agreement or document, and includes the recitals, schedules and annexures to that agreement or document.
- (g) A reference to a party to this Scheme or an agreement or document includes the party's successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives).
- (h) A reference to legislation or to a provision of legislation includes a modification or reenactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (i) A reference to conduct includes an omission, statement or undertaking, whether or not in writing.
- (j) A reference to an agreement includes any undertaking, deed, agreement and legally enforceable arrangement, whether or not in writing, and a reference to a document includes an agreement (as so defined) in writing and any certificate, notice, instrument and document of any kind.
- (k) A reference to **dollars** and **\$** is to Australian currency.
- (l) All references to time are to Sydney, Australia time.
- (m) Mentioning anything after *includes, including, for example,* or similar expressions, does not limit what else might be included.
- (n) A reference to, an **officer** or subsidiary is to that term as it is defined in the Corporations Act.

1.3 Business Day

Where the day on or by which any act, matter or thing under this Scheme is to be done is not a Business Day, that act, matter or thing must be done on or by the next Business Day.

1.4 Listing requirements included in law

A listing rule or business rule of a financial market will be regarded as a law, and a reference to such a rule is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

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2 Preliminary

2.1 Affinity

- (a) Affinity is a public company limited by shares, registered in Queensland and admitted to the official list of ASX.
- (b) The Shares are officially quoted on ASX as at [insert]:
 - (i) 231,451,639 Shares were on issue which are officially quoted on ASX; and
 - (ii) 1,327,141 Performance Rights were on issue which are not quoted on any financial market.

2.2 Anchorage

Anchorage is a proprietary company limited by shares registered in New South Wales, Australia.

2.3 General

- (a) Affinity and Anchorage have agreed by executing the Scheme Implementation Deed to implement this Scheme.
- (b) This Scheme attributes actions to Anchorage but does not itself impose an obligation on it to perform those actions, as Anchorage is not a party to this Scheme. Anchorage has agreed, by executing the Deed Poll, to perform the actions attributed to it under this Scheme, including the provision of the Scheme Consideration to the Scheme Shareholders.

2.4 Consequences of this Scheme becoming Effective

If this Scheme becomes Effective:

- (a) Anchorage will provide or procure the provision of the Scheme Consideration to Scheme Shareholders in accordance with this Scheme; and
- (b) all the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares, will be transferred to Anchorage, and Affinity will enter Anchorage in the Share Register as the holder of the Scheme Shares with the result that Affinity will become a wholly-owned subsidiary of Anchorage.

3 Conditions

3.1 Scheme conditions

- (a) This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:
 - (i) all the conditions precedent in clauses 3 and 4.1 of the Scheme Implementation Deed (other than the condition in clause 4.1 (f) of the Scheme Implementation Deed (Court approval)) having been satisfied or waived in accordance with the terms of the Scheme

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

Corrs Chambers Westgarth

Implementation Deed by no later than the Delivery Time on the Second Court Date;

- (ii) neither the Scheme Implementation Deed nor the Deed Poll having been terminated in accordance with their terms by no later than the Delivery Time on the Second Court Date;
 - (iii) approval of this Scheme by the Court under section 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act;
 - (iv) such other conditions imposed by the Court under section 411(6) of the Corporations Act, as are acceptable to the parties, having been satisfied; and
 - (v) the orders of the Court made under section 411(4)(b) (and if applicable section 411(6)) of the Corporations Act approving the Scheme coming into effect, pursuant to section 411(10) of the Corporations Act, on or before the End Date (or any later date Affinity and Anchorage agree in writing).
- (b) The satisfaction of the conditions referred to in clause 3.1 of this document is a condition precedent to the operation of clauses 3.3 and 5.

3.2 Termination of Scheme Implementation Deed

Without limiting rights under the Scheme Implementation Deed, in the event that the Scheme Implementation Deed is terminated in accordance with its terms before the Delivery Time on the Second Court Date, Affinity and Anchorage are both released from:

- (a) any further obligation to take steps to implement the Scheme; and
- (b) any liability with respect to the Scheme.

3.3 End dates

The Scheme will lapse and be of no further force or effect if the Scheme has not become Effective on or before 1 March 2016, or such other date as Affinity and Anchorage agree in writing.

4 Implementation

4.1 Lodgement of Court orders

Affinity must lodge with ASIC office copies of any Court orders under section 411(4)(b) (and if applicable section 411(6)) of the Corporations Act approving this Scheme as soon as possible and in any event no later than by 5.00pm on the first Business Day after the Court approves this Scheme.

4.2 Transfer of Scheme Shares

On the Implementation Date:

- (a) subject to the payment by Affinity of the Scheme Consideration in the manner contemplated by clause 5.2(b), the Scheme Shares, together

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

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with all rights and entitlements attaching to the Scheme Shares at the Implementation Date, will be transferred to Anchorage, without the need for any further act by any Scheme Shareholder (other than acts performed by Affinity or its officers as agent and attorney of the Scheme Shareholders under clause 8.6 or otherwise), by:

- (i) Affinity delivering to Anchorage a duly completed and executed share transfer form to transfer all the Scheme Shares to Anchorage, executed on behalf of the Scheme Shareholders by Affinity; and
 - (ii) Anchorage duly executing such transfer form and delivering it to Affinity for registration; and
- (b) immediately after receipt of the transfer form in accordance with clause 4.2(a)(ii) Affinity must enter, or procure the entry of, the name of Anchorage in the Share Register in respect of the Scheme Shares transferred to Anchorage in accordance with this Scheme.

5 Scheme Consideration

5.1 Amount of Scheme Consideration

Each Scheme Shareholder is entitled to receive the Scheme Consideration.

5.2 Payment of Scheme Consideration

- (a) Anchorage must, by no later than the Business Day before the Implementation Date, deposit in cleared funds into the Trust Account an amount equal to the aggregate amount of the total Scheme Consideration payable to all Scheme Shareholders, such amount to be held by Affinity on trust for the Scheme Shareholders and for the purpose of sending the aggregate Scheme Consideration to the Scheme Shareholders (except that any interest on the amount will be for the account of Anchorage).
- (b) On the Implementation Date and subject to funds having been deposited in accordance with clause 5.2(a), Affinity must pay or procure the payment of the Scheme Consideration to each Scheme Shareholder from the Trust Account by doing any of the following at its election:
 - (i) sending (or procuring the Affinity Registry to send) it to the Scheme Shareholder's Registered Address by cheque in Australian currency drawn out of the Trust Account; or
 - (ii) depositing (or procuring the Affinity Registry to deposit) it into an account with any Australian ADI (as defined in the Corporations Act) notified to Affinity (or the Affinity Registry) by an appropriate authority from the Scheme Shareholders.
- (c) To the extent that, following satisfaction of Affinity's obligations under clause 5.2(b), there is a surplus in the amount held in the Trust Account, that surplus may be paid by Affinity to Anchorage.

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SCHEME IMPLEMENTATION DEED (CONT)

Corrs Chambers Westgarth

5.3 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any cheque required to be sent under this Scheme will be made payable to the joint holders and sent at the sole discretion of Affinity, either to the holder whose name appears first in the Share Register as at the Record Date or to the joint holders; and
- (b) any other document required to be sent under this Scheme, will be forwarded, at the sole discretion of Affinity, either to the holder whose name appears first in the Share Register as at the Record Date or to the joint holders.

5.4 Fractional entitlements

Where the calculation of the Scheme Consideration to be paid to a Scheme Shareholder would result in the Scheme Shareholder becoming entitled to a fraction of a cent, that fractional entitlement will be rounded down to the nearest whole cent.

5.5 Unclaimed monies

To the extent that a cheque properly dispatched by or on behalf of Anchorage pursuant to this clause 5.5 is returned to Affinity as undelivered, or the cheque is not presented by a Scheme Shareholder earlier than six months after the Implementation Date (**Unclaimed Consideration**):

- (a) Affinity must deal with the Unclaimed Consideration in accordance with any applicable unclaimed moneys legislation; and
- (b) subject to Affinity complying with its obligations under clause 5.5(a), Affinity is discharged from liability to any Scheme Shareholder in respect of the Unclaimed Consideration.

5.6 Order of a court

If:

- (a) written notice is given to Affinity (or the Share Registry) of an order or direction made by a court of competent jurisdiction that requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Shareholder, which would otherwise be payable to that Scheme Shareholder by Affinity in accordance with this clause 5, then Affinity may procure that payment is made in accordance with that order or direction; or
- (b) written notice is given to Affinity (or the Share Registry) of an order or direction made by a court of competent jurisdiction that prevents Affinity from making a payment to any particular Scheme Shareholder in accordance with clause 5.2(b), or such payment is otherwise prohibited by applicable law, Affinity may retain an amount equal to the number of Scheme Shares held by that Scheme Shareholder multiplied by the Scheme Consideration until such time as payment in accordance with this clause 5 is permitted by that order or direction or otherwise by law,

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

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and the payment or retention by Affinity (or the Share Registry) will constitute the full discharge of Affinity's obligations under clause 5.2(b) with respect of the amount so paid or retained until, in the case of clause 5.6(b), it is no longer required to be retained.

5.7 Definition of 'sending'

For the purposes of clause 5, the expression **sending** means, in relation to each Scheme Shareholder:

- (a) sending by ordinary pre-paid post or courier to the Registered Address of that Scheme Shareholder as at the Record Date; or
- (b) delivery to the Registered Address of that Scheme Shareholder as at the Record Date by any other means at no cost to the recipient.

6 Dealings in Shares

6.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in Shares or other alterations to the Share Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Share Register as the holder of the relevant Shares on or before the Record Date; and
- (b) in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before the Record Date occurs at the place where the Share Register is kept,

and Affinity will not accept for registration, nor recognise for any purpose (except a transfer to Anchorage under this Scheme and any subsequent transfer by Anchorage or its successors in title), any transfer or transmission application or other request received after such times, or received prior to such times but not in registrable or actionable form, as appropriate.

6.2 Register

- (a) **(Registration of transfers)** Affinity must register registrable transmission applications or transfers of the kind referred to in clause 6.1(b) by or as soon as reasonably practicable after the Record Date (provided that for the avoidance of doubt nothing in this clause 6.2 requires Affinity to register a transfer that would result in an Affinity Shareholder holding a parcel of Shares that is less than a 'marketable parcel' (as defined in the Settlement Rules).
- (b) **(No registration after Record Date)** Affinity will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Shares received after the Record Date, other than to Anchorage in accordance with this Scheme and any subsequent transfer by Anchorage or its successors in title.

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

Corrs Chambers Westgarth

- (c) **(Maintenance of Share Register)** For the purpose of determining entitlements to the Scheme Consideration, Affinity must maintain the Share Register in accordance with the provisions of this clause until the Scheme Consideration has been delivered to the Scheme Shareholders. The Share Register in this form will solely determine entitlements to the Scheme Consideration.
- (d) **(No disposal after Record Date)** From the Record Date until registration of Anchorage in respect of all Scheme Shares under clause 3.3, no Affinity Shareholder may dispose or otherwise deal with Shares in any way except as set out in this Scheme and any attempt to do so will have no effect and Affinity shall be entitled to disregard any such disposal or dealing.
- (e) **(Statements of holding from Record Date)** All statements of holding for Shares will cease to have effect from the Record Date as documents of title in respect of those shares. As from the Record Date, each entry current at that date on the Share Register will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Shares relating to that entry.
- (f) **(Provision of Scheme Shareholder details)** As soon as practicable after the Record Date and in any event within one Business Day after the Record Date, Affinity will ensure that details of the names, Registered Addresses and holdings of Shares for each Scheme Shareholder are available to Anchorage in the form Anchorage reasonably requires.

7 Quotation of Shares

- (a) Affinity will apply to ASX to suspend trading on the ASX in Shares with effect from the close of trading on the Effective Date.
- (b) On a date after the Implementation Date to be determined by Anchorage, and only after the transfer of the Scheme Shares has been registered in accordance with clause 4.2(b), Affinity will apply:
 - (i) for termination of the official quotation of Shares on ASX; and
 - (ii) to have itself removed from the official list of ASX.

8 General Scheme Provisions

8.1 Consent to amendments to this Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions:

- (a) Affinity may, by its counsel or solicitors, consent on behalf of all persons concerned to those alterations or conditions to which Anchorage has consented in writing; and

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

Corrs Chambers Westgarth

- (b) each Scheme Shareholder agrees to any such alterations or conditions to which counsel for Affinity has consented.

8.2 Binding effect of Scheme

This Scheme binds Affinity and all Scheme Shareholders (including those who did not attend the Scheme Meeting, those who did not vote at that meeting, or voted against this Scheme at that meeting) and, to the extent of any inconsistency, overrides the constitution of Affinity.

8.3 Scheme Shareholders' agreements and acknowledgment

Each Scheme Shareholder:

- (a) agrees to the transfer of their Shares together with all rights and entitlements attaching to those Shares in accordance with this Scheme;
- (b) agrees to any variation, cancellation or modification of the rights attached to their Shares constituted by or resulting from this Scheme;
- (c) agrees to, on the direction of Anchorage, destroy any share certificates relating to their Shares; and
- (d) acknowledges and agrees that this Scheme binds Affinity and all Scheme Shareholders (including those who did not attend the Scheme Meeting or did not vote at that meeting or voted against this Scheme at that Scheme Meeting).

8.4 Warranties by Scheme Shareholders

- (a) Each Scheme Shareholder is deemed to have warranted to Affinity, in its own right and for the benefit of Anchorage, that as at the Implementation Date:
 - (i) all of its Shares which are transferred to Anchorage under this Scheme, including any rights and entitlements attaching to those Shares, will, at the time of transfer, be free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any "security interests" within the meaning of section 12 of the Personal Property Securities Act 2009 (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind;
 - (ii) all of its Shares which are transferred to Anchorage under this Scheme will, on the date on which they are transferred to Anchorage, be fully paid;
 - (iii) it has full power and capacity to transfer its Shares to Anchorage together with any rights attaching to those shares; and
 - (iv) it has no existing right to be issued any Shares, Performance Rights, Affinity convertible notes or any other Affinity securities, other than, in the case of any Scheme Shareholder who is also the holder of Performance Rights, the right to be issued Shares on the

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

Corrs Chambers Westgarth

exercise of those Performance Rights before the Record Date in accordance with their terms.

- (b) Affinity undertakes that it will provide the warranties in clause 8.4(a) to Anchorage as agent and attorney of each Scheme Shareholder.

8.5 Title to and rights in Scheme Shares

- (a) To the extent permitted by law, the Scheme Shares transferred under this Scheme will be transferred free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any "security interests" within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind.
- (b) On and from the Implementation Date, immediately after the payment by Affinity of the Scheme Consideration in the manner contemplated in clause 5.2(b), Anchorage will be beneficially entitled to the Scheme Shares transferred to it under this Scheme pending registration by Affinity of Anchorage in the Share Register as the holder of the Scheme Shares.

8.6 Authority given to Affinity

- (a) Scheme Shareholders will be deemed to have authorised Affinity to do and execute all acts, matters, things and documents on the part of each Scheme Shareholder necessary for or incidental to the implementation of this Scheme, including executing, as agent and attorney of each Scheme Shareholder, a share transfer or transfers in relation to Scheme Shares as contemplated by clause 4.2.
- (b) Each Scheme Shareholder, without the need for any further act, irrevocably appoints Affinity and all of its directors, secretaries and officers (jointly and severally) as its attorney and agent for the purpose of executing any document necessary to give effect to this Scheme including, a proper instrument of transfer of its Scheme Shares for the purposes of section 1071B of the Corporations Act which may be a master transfer of all the Scheme Shares.

8.7 Appointment of sole proxy

Immediately after the payment by Affinity of the Scheme Consideration in the manner contemplated in clause 5.2(b) until Affinity registers Anchorage as the holder of all Shares in the Share Register, each Scheme Shareholder:

- (a) is deemed to have irrevocably appointed Anchorage as its attorney and agent (and directed Anchorage in such capacity) to appoint an officer or agent nominated by Anchorage as its sole proxy and, where applicable, corporate representative to attend shareholders' meetings of Affinity, exercise the votes attaching to the Scheme Shares registered in its name and sign any Shareholders' resolution;
- (b) undertakes not to otherwise attend shareholders' meetings, exercise the votes attaching to Scheme Shares registered in their names or sign or

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

Corrs Chambers Westgarth

vote on any resolutions (whether in person, by proxy or by corporate representative) other than as under clause 8.7(a);

- (c) must take all other actions in the capacity of a registered holder of Scheme Shares as Anchorage reasonably directs; and
- (d) acknowledges and agrees that in exercising the powers referred to in clause 8.7(a), Anchorage and any officer or agent nominated by Anchorage under clause 8.7(a) may act in the best interests of Anchorage as the intended registered holder of the Scheme Shares.

8.8 Instructions and elections

If not prohibited by law, all instructions, notifications or elections by a Scheme Shareholder to Affinity binding or deemed binding between the Scheme Shareholder and Affinity relating to Affinity or Shares (including any email addresses, instructions relating to communications from Affinity, whether dividends are to be paid by cheque or into a specific bank account, notices of meetings or other communications from Affinity) will be deemed from the Implementation Date (except to the extent determined otherwise by Anchorage in its sole discretion), by reason of this Scheme, to be made by the Scheme Shareholder to Anchorage until that instruction, notification or election is revoked or amended in writing addressed to Anchorage at its registry.

9 General

9.1 Stamp duty

Anchorage must pay all stamp duty payable in connection with the transfer of the Scheme Shares to Anchorage.

9.2 Notices

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this document is sent by post to Affinity, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Affinity's registered office or at the office of the Affinity Registry.
- (b) The accidental omission to give notice of the Scheme Meeting or the non- receipt of such a notice by any Shareholder may not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

9.3 Further assurances

- (a) Affinity must do anything necessary (including executing agreements and documents) or incidental to give full effect to this Scheme and the transactions contemplated by it.
- (b) Each Scheme Shareholder consents to Affinity doing all things necessary or incidental to give full effect to this Scheme and the transactions contemplated by it.

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

Corrs Chambers Westgarth

9.4 Governing law and jurisdiction

- (a) This Scheme is governed by the laws of New South Wales.
- (b) The parties irrevocably submit to the non-exclusive jurisdiction of courts exercising jurisdiction in New South Wales and courts of appeal from them in respect of any proceedings arising out of or in connection with this Scheme.

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

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Execution

Executed as a deed.

Executed by Affinity)

)

.....
Company Secretary/Director

.....
Director

.....
Name of Company Secretary/Director
(print)

.....
Name of Director (print)

Executed by Anchorage Childcare)
Pty Limited in accordance with Section)
127 of the Corporations Act 2001

Callen O'Brien

.....
Company Secretary/Director

CALLEN O'BRIEN

.....
Name of Company Secretary/Director
(print)

Simon Woodhouse

.....
Director

SIMON WOODHOUSE

.....
Name of Director (print)

ANNEXURE A

SCHEME IMPLEMENTATION DEED (CONT)

Corrs Chambers Westgarth

Execution

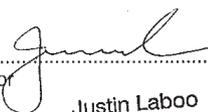
Executed as a deed

Executed by Affinity Education Group Limited in accordance with Section 127 of the *Corporations Act 2001*)


.....
Company Secretary/Director

Paul Cochrane

.....
Name of Company Secretary/Director (print)


.....
Director

Justin Laboo

.....
Name of Director (print)

Executed by Anchorage Childcare Pty Limited in accordance with Section 127 of the *Corporations Act 2001*)

.....
Company Secretary/Director

.....
Director

.....
Name of Company Secretary/Director (print)

.....
Name of Director (print)

ANNEXURE B
DEED POLL

Anchorage Childcare Pty Limited

Deed Poll

Ref: SM/FBJ AFFI19527-9113191 14321059/5
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ME_124669131_1 (W2003x)

ANNEXURE B DEED POLL (CONT)

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ANNEXURE B DEED POLL (CONT)

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Date 9 October 2015

Parties

Anchorage Childcare Pty Limited ACN 607 819 081 of c/- Level 39, 259 George Street Sydney NSW 2000 (**Anchorage**)

Background

- A On 15 September 2015 Affinity and Anchorage entered into a Scheme Implementation Deed to provide for (among other matters) the implementation of the Scheme.
- B The effect of the Scheme will be to transfer all Scheme Shares to Anchorage in return for the Scheme Consideration.
- C Anchorage enters this deed poll to covenant in favour of Scheme Shareholders to:
- (i) perform the actions attributed to it under the Scheme; and
 - (ii) provide the Scheme Consideration in accordance with the Scheme.
-

Agreed terms

1 Definitions and interpretation

1.1 Definitions

In this document:

Affinity Affinity Education Group Limited ACN 163 864 195 Level 14, 100 Creek Street, Brisbane QLD 4000 as trustee for the Scheme Shareholders

Scheme Implementation Deed means the Scheme Implementation Deed dated 15 September 2015 between Affinity and Anchorage.

1.2 Terms defined in Scheme Implementation Deed

Words and phrases defined in the Scheme Implementation Deed have the same meaning in this deed poll unless the context requires otherwise.

1.3 Incorporation by reference

The provisions of clauses 1.2, 1.3 and 1.4 of the Scheme Implementation Deed form part of this deed poll as if set out at length in this deed poll but with 'deed

ANNEXURE B DEED POLL (CONT)

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poll' substituted for 'deed' and with any reference to 'party' being taken to include the Scheme Shareholders.

2 Nature of this deed poll

Anchorage agrees that this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not a party to it.

3 Conditions

3.1 Conditions

The obligations of Anchorage under clause 4 are subject to the Scheme becoming Effective.

3.2 Termination

Subject to clause 6, this deed poll and the obligations of Anchorage will automatically terminate and this deed poll will be of no further force or effect if:

- (a) the Scheme implementation Deed is terminated in accordance with its terms before the Scheme becomes Effective, or
- (b) the Scheme is not Effective on or before the End Date or any later date as the Court, with the consent of Affinity and Anchorage, may order.

3.3 Consequences of termination

If this deed poll terminates under clause 3.2, in addition and without prejudice to any other rights, powers or remedies available to them:

- (a) Anchorage is released from its obligation to further perform this deed poll; and
- (b) each Scheme Shareholder retains the rights they have against Anchorage in respect of any breach of this deed poll which occurred before it terminated.

4 Performance of obligations

4.1 Generally

Subject to clause 3, Anchorage undertakes in favour of Scheme Shareholders to:

- (a) perform the actions attributed to it under the Scheme and otherwise comply with the Scheme as if Anchorage was a party to the Scheme; and
- (b) comply with its obligations under the Scheme Implementation Deed, in so far as that agreement relates to the Scheme, and do all things necessary or expedient on its part to implement the Scheme.

ANNEXURE B DEED POLL (CONT)

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4.2 Provision of Scheme Consideration

Subject to clause 3, Anchorage undertakes in favour of each Scheme Shareholder to provide or procure the provision of the Scheme Consideration to each Scheme Shareholder in accordance with the terms of the Scheme.

5 Warranties

Anchorage represents and warrants to each Scheme Shareholder that:

- (a) **(status)** it is a corporation duly incorporated and validly existing under the laws of the place of its incorporation;
- (b) **(power)** it has the power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) **(corporate authorisations)** it has taken all necessary corporate action to authorise the entry into and performance of this deed poll and to carry out the transactions contemplated by this deed poll;
- (d) **(documents binding)** this deed poll is valid and binding on it and enforceable against it in accordance with its terms;
- (e) **(transactions permitted)** the execution and performance by it of this deed poll and each transaction contemplated by this deed poll did not and will not violate in any respect a provision of:
 - (i) its constitution or other constituent documents; or
 - (ii) any other document which is binding on it or its assets; and
- (f) **(solvency)** it is solvent and no resolutions have been passed nor has any other step been taken or legal action or proceedings commenced or threatened against it for its winding up, deregistration or dissolution or for the appointment of a liquidator, receiver, administrator or similar officer over any or all of its assets.

6 Continuing Obligations

6.1 Deed poll irrevocable

This deed poll is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of:

- (a) Anchorage having fully performed its obligation under this deed poll; and
- (b) termination of this deed poll under clause 3.2.

6.2 Variation

A provision of this deed poll may not be varied unless:

- (a) before the Second Court Date, the variation is agreed to in writing by Affinity; or

ANNEXURE B DEED POLL (CONT)

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- (b) on or after the Second Court Dale, the variation is agreed to in writing by Affinity and is approved by the Court,

in which event Anchorage will enter into a further deed poll in favour of each Scheme Shareholder giving effect to the amendment.

7 Notices

Any notice, demand or other communication (a **Notice**) to Anchorage in respect of this deed poll:

- (a) must be in writing and signed by the sender or a person duly authorised by it;
- (b) must be delivered to the intended recipient by prepaid post (if posted to an address in another country, by registered airmail) or by hand or fax to the address or fax number specified in the Details; and
- (c) will be conclusively taken to be duly given or made:
- (i) in the case of delivery in person, when delivered at the address of the addressee as provided in clause 7(b), unless that delivery is not made on a Business Day, or is made after 5.00pm on a Business Day, in which case that Notice will be deemed to be received at 9.00am on the next Business Day;
 - (ii) in the case of delivery by post, two Business Days after the date of posting (if posted to an address in the same country) or seven Business Days after the date of posting (if posted to an address in another country); and
 - (iii) in the case of fax, at the local time (in the place of receipt of that fax) which then equates to the time at which that fax is sent as shown on the transmission report which is produced by the machine from which that fax is sent and which confirms transmission of that fax in its entirety, unless that local time is not a Business Day, or is after 5.00pm on a Business Day, when that communication will be deemed to be received at 9.00am on the next Business Day.

8 General Provisions

8.1 Assignment

- (a) The rights and obligations of Anchorage and each Scheme Shareholder under this deed poll are personal. They cannot be assigned, charged, encumbered or otherwise dealt with at law or in equity without the prior written consent of Affinity and Anchorage.
- (b) Any purported dealing in contravention of clause 8.1(a) is invalid.

ANNEXURE B DEED POLL (CONT)

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8.2 Cumulative rights

The rights, powers and remedies of Anchorage and each Scheme Shareholder under this deed poll are cumulative with and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

8.3 No waiver

A provision of, or a right under, this deed poll may not be waived except in writing signed by the person granting the waiver.

8.4 Stamp duty

Anchorage:

- (a) must pay or procure the payment of all stamp duty (if any) and any related fines, penalties and interest in respect of the Scheme and this deed poll (including the acquisition or transfer of Scheme Shares pursuant to the Scheme), the performance of this deed poll and each transaction effected by or made under or pursuant to the Scheme and this deed poll; and
- (b) indemnifies and undertakes to keep indemnified each Scheme Shareholder against any liability arising from failure to comply with clause 8.4(a).

8.5 Further assurances

Anchorage will, at its own expense, do all things reasonably required of it to give full effect to this deed poll.

8.6 Governing law and jurisdiction

This deed poll is governed by the laws of New South Wales. In relation to it and related non-contractual matters Anchorage irrevocably submits to the non-exclusive jurisdiction of courts with jurisdiction there, and waives any right to object to the venue on any ground.

ANNEXURE B DEED POLL (CONT)

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Executed as a deed poll

Executed by **Anchorage Childcare**)
Pty Limited in accordance with section)
127 of the *Corporations Act 2001* (Cth):


.....
Company Secretary/Director

Simon Woodhouse

.....
Name of Company Secretary/Director
(print)


.....
Director

Callen O'Brien

.....
Name of Director (print)

ANNEXURE C
SCHEME OF ARRANGEMENT

Affinity Education Group Limited

Scheme Shareholders

Scheme of Arrangement

Ref: SM/FBJ AFFI19527-9113191 14321166/7
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SCHEME OF ARRANGEMENT (CONT)

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Parties

Affinity Education Group Limited ACN 163 864 195 Level 14, 100 Creek Street, Brisbane QLD 4000 (**Affinity**)

Each Scheme Shareholder

Background

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth) between the parties.

Agreed terms

1 Definitions and interpretation

1.1 Definitions

In this Scheme, unless the context requires otherwise:

Affinity Registry means Link Market Services Limited or any replacement provider of share registry services to Affinity.

Affinity Shareholder means a person who is registered in the register maintained by Affinity under section 168(1) of the Corporations Act as a holder of one or more Shares

Anchorage means Anchorage Childcare Pty Limited ACN 607 819 081 c/- Level 39, 259 George Street, Sydney NSW 2000

Anchorage Group means Anchorage and each of its Subsidiaries (excluding, at any time, Affinity and its Subsidiaries to the extent that Affinity and its Subsidiaries are Subsidiaries of Anchorage at that time). A reference to a **member of the Anchorage Group** or a **Anchorage Group Member** is a reference to Anchorage or any such Subsidiary.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691, or as the context requires or permits, the financial market known as the Australian Securities Exchange operated by it.

ANNEXURE C

SCHEME OF ARRANGEMENT (CONT)

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Business Day	means a business day as defined in the Listing Rules
CHESS	means the clearing house electronic subregister system of share transfers operated by ASX Settlement Pty Limited ABN 49 008 504 532.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Court	means the Federal Court of Australia or such other court of competent jurisdiction determined by Affinity (after consultation, in good faith, with Anchorage).
Deed Poll	means the deed poll dated [insert] executed by Anchorage under which Anchorage covenants in favour of the Scheme Shareholders to perform the actions attributed to it under this Scheme.
Delivery Time	means, in relation to the Second Court Date, 2 hours before the commencement of the hearing or, if the commencement of the hearing is adjourned, the commencement of the adjourned hearing, of the Court to approve this Scheme in accordance with section 411(4)(b) of the Corporations Act.
Effective	means the coming into effect under section 411(10) of the Corporations Act of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme.
Effective Date	means the date on which this Scheme becomes Effective.
End Date	means the 'End Date' determined in accordance with the Scheme Implementation Deed.
Implementation Date	means the fifth Business Day after the Record Date or such other date after the Record Date agreed to in writing between Affinity and Anchorage.
Listing Rules	means the official listing rules of ASX as amended from time to time.
Performance Right	means a performance right in respect of a Share, granted under Affinity's 2015 Equity Incentive Plan.
Record Date	means 7.00pm on the fifth Business Day after the Effective Date or such other time and date agreed to in writing between Affinity and Anchorage.
Registered Address	means, in relation to an Affinity Shareholder, the address shown in the Share Register as at the Record Date.
Scheme	means this scheme of arrangement under Part 5.1 of the Corporations Act between Affinity and the Scheme Shareholders, subject to any alterations or conditions agreed between Affinity and Anchorage and approved by

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	the Court or any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed to by Affinity and Anchorage.
Scheme Consideration	means, in respect of each Scheme Share held by a Scheme Shareholder, \$0.92 per Share.
Scheme Implementation Deed	means the scheme implementation deed dated 15 September 2015 between Affinity and Anchorage.
Scheme Meeting	means the meeting of Affinity Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on this Scheme and includes any meeting convened following any adjournment or postponement of that meeting.
Scheme Share	means a Share on issue as at the Record Date.
Scheme Shareholder	means a person who holds one or more Scheme Shares.
Second Court Date	means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving this Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.
Settlement Rules	means the ASX Settlement Operating Rules.
Share	means an issued fully paid ordinary share in the capital of Affinity.
Share Register	means the register of members of Affinity maintained in accordance with the Corporations Act.
Subsidiary	has the meaning given to that term in section 46 of the Corporations Act.
Trust Account	means an Australian dollar denominated trust account operated by Affinity as trustee for the benefit of Scheme Shareholders.

1.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) A gender includes all genders.
- (c) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.

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SCHEME OF ARRANGEMENT (CONT)

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- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (e) A reference to a clause or schedule is a reference to a clause of or schedule to this Scheme.
- (f) A reference to an agreement or document (including a reference to this Scheme) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this Scheme or that other agreement or document, and includes the recitals, schedules and annexures to that agreement or document.
- (g) A reference to a party to this Scheme or an agreement or document includes the party's successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives).
- (h) A reference to legislation or to a provision of legislation includes a modification or reenactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (i) A reference to conduct includes an omission, statement or undertaking, whether or not in writing.
- (j) A reference to an agreement includes any undertaking, deed, agreement and legally enforceable arrangement, whether or not in writing, and a reference to a document includes an agreement (as so defined) in writing and any certificate, notice, instrument and document of any kind.
- (k) A reference to **dollars** and **\$** is to Australian currency.
- (l) All references to time are to Sydney, Australia time.
- (m) Mentioning anything after *includes, including, for example,* or similar expressions, does not limit what else might be included.
- (n) A reference to, an **officer** or subsidiary is to that term as it is defined in the Corporations Act.

1.3 Business Day

Where the day on or by which any act, matter or thing under this Scheme is to be done is not a Business Day, that act, matter or thing must be done on or by the next Business Day.

1.4 Listing requirements included in law

A listing rule or business rule of a financial market will be regarded as a law, and a reference to such a rule is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

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SCHEME OF ARRANGEMENT (CONT)

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2 Preliminary

2.1 Affinity

- (a) Affinity is a public company limited by shares, registered in Queensland and admitted to the official list of ASX.
- (b) The Shares are officially quoted on ASX as at [insert]:
 - (i) 231,451,639 Shares were on issue which are officially quoted on ASX; and
 - (ii) 1,327,141 Performance Rights were on issue which are not quoted on any financial market.

2.2 Anchorage

Anchorage is a proprietary company limited by shares registered in New South Wales, Australia.

2.3 General

- (a) Affinity and Anchorage have agreed by executing the Scheme Implementation Deed to implement this Scheme.
- (b) This Scheme attributes actions to Anchorage but does not itself impose an obligation on it to perform those actions, as Anchorage is not a party to this Scheme. Anchorage has agreed, by executing the Deed Poll, to perform the actions attributed to it under this Scheme, including the provision of the Scheme Consideration to the Scheme Shareholders.

2.4 Consequences of this Scheme becoming Effective

If this Scheme becomes Effective:

- (a) Anchorage will provide or procure the provision of the Scheme Consideration to Scheme Shareholders in accordance with this Scheme; and
- (b) all the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares, will be transferred to Anchorage, and Affinity will enter Anchorage in the Share Register as the holder of the Scheme Shares with the result that Affinity will become a wholly-owned subsidiary of Anchorage.

3 Conditions

3.1 Scheme conditions

- (a) This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:
 - (i) all the conditions precedent in clauses 3 and 4.1 of the Scheme Implementation Deed (other than the condition in clause 4.1 (f) of the Scheme Implementation Deed (Court approval)) having been satisfied or waived in accordance with the terms of the Scheme

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Implementation Deed by no later than the Delivery Time on the Second Court Date;

- (ii) neither the Scheme Implementation Deed nor the Deed Poll having been terminated in accordance with their terms by no later than the Delivery Time on the Second Court Date;
 - (iii) approval of this Scheme by the Court under section 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act;
 - (iv) such other conditions imposed by the Court under section 411(6) of the Corporations Act, as are acceptable to the parties, having been satisfied; and
 - (v) the orders of the Court made under section 411(4)(b) (and if applicable section 411(6)) of the Corporations Act approving the Scheme coming into effect, pursuant to section 411(10) of the Corporations Act, on or before the End Date (or any later date Affinity and Anchorage agree in writing).
- (b) The satisfaction of the conditions referred to in clause 3.1 of this document is a condition precedent to the operation of clauses 3.3 and 5.

3.2 Termination of Scheme Implementation Deed

Without limiting rights under the Scheme Implementation Deed, in the event that the Scheme Implementation Deed is terminated in accordance with its terms before the Delivery Time on the Second Court Date, Affinity and Anchorage are both released from:

- (a) any further obligation to take steps to implement the Scheme; and
- (b) any liability with respect to the Scheme.

3.3 End dates

The Scheme will lapse and be of no further force or effect if the Scheme has not become Effective on or before 1 March 2016, or such other date as Affinity and Anchorage agree in writing.

4 Implementation

4.1 Lodgement of Court orders

Affinity must lodge with ASIC office copies of any Court orders under section 411(4)(b) (and if applicable section 411(6)) of the Corporations Act approving this Scheme as soon as possible and in any event no later than by 5.00pm on the first Business Day after the Court approves this Scheme.

4.2 Transfer of Scheme Shares

On the Implementation Date:

- (a) subject to the payment by Affinity of the Scheme Consideration in the manner contemplated by clause 5.2(b), the Scheme Shares, together

ANNEXURE C

SCHEME OF ARRANGEMENT (CONT)

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with all rights and entitlements attaching to the Scheme Shares at the Implementation Date, will be transferred to Anchorage, without the need for any further act by any Scheme Shareholder (other than acts performed by Affinity or its officers as agent and attorney of the Scheme Shareholders under clause 8.6 or otherwise), by:

- (i) Affinity delivering to Anchorage a duly completed and executed share transfer form to transfer all the Scheme Shares to Anchorage, executed on behalf of the Scheme Shareholders by Affinity; and
 - (ii) Anchorage duly executing such transfer form and delivering it to Affinity for registration; and
- (b) immediately after receipt of the transfer form in accordance with clause 4.2(a)(ii) Affinity must enter, or procure the entry of, the name of Anchorage in the Share Register in respect of the Scheme Shares transferred to Anchorage in accordance with this Scheme.

5 Scheme Consideration

5.1 Amount of Scheme Consideration

Each Scheme Shareholder is entitled to receive the Scheme Consideration.

5.2 Payment of Scheme Consideration

- (a) Anchorage must, by no later than the Business Day before the Implementation Date, deposit in cleared funds into the Trust Account an amount equal to the aggregate amount of the total Scheme Consideration payable to all Scheme Shareholders, such amount to be held by Affinity on trust for the Scheme Shareholders and for the purpose of sending the aggregate Scheme Consideration to the Scheme Shareholders (except that any interest on the amount will be for the account of Anchorage).
- (b) On the Implementation Date and subject to funds having been deposited in accordance with clause 5.2(a), Affinity must pay or procure the payment of the Scheme Consideration to each Scheme Shareholder from the Trust Account by doing any of the following at its election:
 - (i) sending (or procuring the Affinity Registry to send) it to the Scheme Shareholder's Registered Address by cheque in Australian currency drawn out of the Trust Account; or
 - (ii) depositing (or procuring the Affinity Registry to deposit) it into an account with any Australian ADI (as defined in the Corporations Act) notified to Affinity (or the Affinity Registry) by an appropriate authority from the Scheme Shareholders.
- (c) To the extent that, following satisfaction of Affinity's obligations under clause 5.2(b), there is a surplus in the amount held in the Trust Account, that surplus may be paid by Affinity to Anchorage.

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SCHEME OF ARRANGEMENT (CONT)

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5.3 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any cheque required to be sent under this Scheme will be made payable to the joint holders and sent at the sole discretion of Affinity, either to the holder whose name appears first in the Share Register as at the Record Date or to the joint holders; and
- (b) any other document required to be sent under this Scheme, will be forwarded, at the sole discretion of Affinity, either to the holder whose name appears first in the Share Register as at the Record Date or to the joint holders.

5.4 Fractional entitlements

Where the calculation of the Scheme Consideration to be paid to a Scheme Shareholder would result in the Scheme Shareholder becoming entitled to a fraction of a cent, that fractional entitlement will be rounded down to the nearest whole cent.

5.5 Unclaimed monies

To the extent that a cheque properly dispatched by or on behalf of Anchorage pursuant to this clause 5.5 is returned to Affinity as undelivered, or the cheque is not presented by a Scheme Shareholder earlier than six months after the Implementation Date (**Unclaimed Consideration**):

- (a) Affinity must deal with the Unclaimed Consideration in accordance with any applicable unclaimed moneys legislation; and
- (b) subject to Affinity complying with its obligations under clause 5.5(a), Affinity is discharged from liability to any Scheme Shareholder in respect of the Unclaimed Consideration.

5.6 Order of a court

If:

- (a) written notice is given to Affinity (or the Share Registry) of an order or direction made by a court of competent jurisdiction that requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Shareholder, which would otherwise be payable to that Scheme Shareholder by Affinity in accordance with this clause 5, then Affinity may procure that payment is made in accordance with that order or direction; or
- (b) written notice is given to Affinity (or the Share Registry) of an order or direction made by a court of competent jurisdiction that prevents Affinity from making a payment to any particular Scheme Shareholder in accordance with clause 5.2(b), or such payment is otherwise prohibited by applicable law, Affinity may retain an amount equal to the number of Scheme Shares held by that Scheme Shareholder multiplied by the Scheme Consideration until such time as payment in accordance with this clause 5 is permitted by that order or direction or otherwise by law,

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SCHEME OF ARRANGEMENT (CONT)

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and the payment or retention by Affinity (or the Share Registry) will constitute the full discharge of Affinity's obligations under clause 5.2(b) with respect of the amount so paid or retained until, in the case of clause 5.6(b), it is no longer required to be retained.

5.7 Definition of 'sending'

For the purposes of clause 5, the expression **sending** means, in relation to each Scheme Shareholder:

- (a) sending by ordinary pre-paid post or courier to the Registered Address of that Scheme Shareholder as at the Record Date; or
- (b) delivery to the Registered Address of that Scheme Shareholder as at the Record Date by any other means at no cost to the recipient.

6 Dealings in Shares

6.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in Shares or other alterations to the Share Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Share Register as the holder of the relevant Shares on or before the Record Date; and
- (b) in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before the Record Date occurs at the place where the Share Register is kept,

and Affinity will not accept for registration, nor recognise for any purpose (except a transfer to Anchorage under this Scheme and any subsequent transfer by Anchorage or its successors in title), any transfer or transmission application or other request received after such times, or received prior to such times but not in registrable or actionable form, as appropriate.

6.2 Register

- (a) **(Registration of transfers)** Affinity must register registrable transmission applications or transfers of the kind referred to in clause 6.1(b) by or as soon as reasonably practicable after the Record Date (provided that for the avoidance of doubt nothing in this clause 6.2 requires Affinity to register a transfer that would result in an Affinity Shareholder holding a parcel of Shares that is less than a 'marketable parcel' (as defined in the Settlement Rules).
- (b) **(No registration after Record Date)** Affinity will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Shares received after the Record Date, other than to Anchorage in accordance with this Scheme and any subsequent transfer by Anchorage or its successors in title.

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SCHEME OF ARRANGEMENT (CONT)

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- (c) **(Maintenance of Share Register)** For the purpose of determining entitlements to the Scheme Consideration, Affinity must maintain the Share Register in accordance with the provisions of this clause until the Scheme Consideration has been delivered to the Scheme Shareholders. The Share Register in this form will solely determine entitlements to the Scheme Consideration.
- (d) **(No disposal after Record Date)** From the Record Date until registration of Anchorage in respect of all Scheme Shares under clause 3.3, no Affinity Shareholder may dispose or otherwise deal with Shares in any way except as set out in this Scheme and any attempt to do so will have no effect and Affinity shall be entitled to disregard any such disposal or dealing.
- (e) **(Statements of holding from Record Date)** All statements of holding for Shares will cease to have effect from the Record Date as documents of title in respect of those shares. As from the Record Date, each entry current at that date on the Share Register will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Shares relating to that entry.
- (f) **(Provision of Scheme Shareholder details)** As soon as practicable after the Record Date and in any event within one Business Day after the Record Date, Affinity will ensure that details of the names, Registered Addresses and holdings of Shares for each Scheme Shareholder are available to Anchorage in the form Anchorage reasonably requires.

7 Quotation of Shares

- (a) Affinity will apply to ASX to suspend trading on the ASX in Shares with effect from the close of trading on the Effective Date.
- (b) On a date after the Implementation Date to be determined by Anchorage, and only after the transfer of the Scheme Shares has been registered in accordance with clause 4.2(b), Affinity will apply:
 - (i) for termination of the official quotation of Shares on ASX; and
 - (ii) to have itself removed from the official list of ASX.

8 General Scheme Provisions

8.1 Consent to amendments to this Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions:

- (a) Affinity may, by its counsel or solicitors, consent on behalf of all persons concerned to those alterations or conditions to which Anchorage has consented in writing; and

ANNEXURE C

SCHEME OF ARRANGEMENT (CONT)

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- (b) each Scheme Shareholder agrees to any such alterations or conditions to which counsel for Affinity has consented.

8.2 Binding effect of Scheme

This Scheme binds Affinity and all Scheme Shareholders (including those who did not attend the Scheme Meeting, those who did not vote at that meeting, or voted against this Scheme at that meeting) and, to the extent of any inconsistency, overrides the constitution of Affinity.

8.3 Scheme Shareholders' agreements and acknowledgment

Each Scheme Shareholder:

- (a) agrees to the transfer of their Shares together with all rights and entitlements attaching to those Shares in accordance with this Scheme;
- (b) agrees to any variation, cancellation or modification of the rights attached to their Shares constituted by or resulting from this Scheme;
- (c) agrees to, on the direction of Anchorage, destroy any share certificates relating to their Shares; and
- (d) acknowledges and agrees that this Scheme binds Affinity and all Scheme Shareholders (including those who did not attend the Scheme Meeting or did not vote at that meeting or voted against this Scheme at that Scheme Meeting).

8.4 Warranties by Scheme Shareholders

- (a) Each Scheme Shareholder is deemed to have warranted to Affinity, in its own right and for the benefit of Anchorage, that as at the Implementation Date:
 - (i) all of its Shares which are transferred to Anchorage under this Scheme, including any rights and entitlements attaching to those Shares, will, at the time of transfer, be free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any "security interests" within the meaning of section 12 of the Personal Property Securities Act 2009 (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind;
 - (ii) all of its Shares which are transferred to Anchorage under this Scheme will, on the date on which they are transferred to Anchorage, be fully paid;
 - (iii) it has full power and capacity to transfer its Shares to Anchorage together with any rights attaching to those shares; and
 - (iv) it has no existing right to be issued any Shares, Performance Rights, Affinity convertible notes or any other Affinity securities, other than, in the case of any Scheme Shareholder who is also the holder of Performance Rights, the right to be issued Shares on the

ANNEXURE C

SCHEME OF ARRANGEMENT (CONT)

Corrs Chambers Westgarth

exercise of those Performance Rights before the Record Date in accordance with their terms.

- (b) Affinity undertakes that it will provide the warranties in clause 8.4(a) to Anchorage as agent and attorney of each Scheme Shareholder.

8.5 Title to and rights in Scheme Shares

- (a) To the extent permitted by law, the Scheme Shares transferred under this Scheme will be transferred free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any “security interests” within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind.
- (b) On and from the Implementation Date, immediately after the payment by Affinity of the Scheme Consideration in the manner contemplated in clause 5.2(b), Anchorage will be beneficially entitled to the Scheme Shares transferred to it under this Scheme pending registration by Affinity of Anchorage in the Share Register as the holder of the Scheme Shares.

8.6 Authority given to Affinity

- (a) Scheme Shareholders will be deemed to have authorised Affinity to do and execute all acts, matters, things and documents on the part of each Scheme Shareholder necessary for or incidental to the implementation of this Scheme, including executing, as agent and attorney of each Scheme Shareholder, a share transfer or transfers in relation to Scheme Shares as contemplated by clause 4.2.
- (b) Each Scheme Shareholder, without the need for any further act, irrevocably appoints Affinity and all of its directors, secretaries and officers (jointly and severally) as its attorney and agent for the purpose of executing any document necessary to give effect to this Scheme including, a proper instrument of transfer of its Scheme Shares for the purposes of section 1071B of the Corporations Act which may be a master transfer of all the Scheme Shares.

8.7 Appointment of sole proxy

Immediately after the payment by Affinity of the Scheme Consideration in the manner contemplated in clause 5.2(b) until Affinity registers Anchorage as the holder of all Shares in the Share Register, each Scheme Shareholder:

- (a) is deemed to have irrevocably appointed Anchorage as its attorney and agent (and directed Anchorage in such capacity) to appoint an officer or agent nominated by Anchorage as its sole proxy and, where applicable, corporate representative to attend shareholders’ meetings of Affinity, exercise the votes attaching to the Scheme Shares registered in its name and sign any Shareholders’ resolution;
- (b) undertakes not to otherwise attend shareholders’ meetings, exercise the votes attaching to Scheme Shares registered in their names or sign or

ANNEXURE C

SCHEME OF ARRANGEMENT (CONT)

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vote on any resolutions (whether in person, by proxy or by corporate representative) other than as under clause 8.7(a);

- (c) must take all other actions in the capacity of a registered holder of Scheme Shares as Anchorage reasonably directs; and
- (d) acknowledges and agrees that in exercising the powers referred to in clause 8.7(a), Anchorage and any officer or agent nominated by Anchorage under clause 8.7(a) may act in the best interests of Anchorage as the intended registered holder of the Scheme Shares.

8.8 Instructions and elections

If not prohibited by law, all instructions, notifications or elections by a Scheme Shareholder to Affinity binding or deemed binding between the Scheme Shareholder and Affinity relating to Affinity or Shares (including any email addresses, instructions relating to communications from Affinity, whether dividends are to be paid by cheque or into a specific bank account, notices of meetings or other communications from Affinity) will be deemed from the Implementation Date (except to the extent determined otherwise by Anchorage in its sole discretion), by reason of this Scheme, to be made by the Scheme Shareholder to Anchorage until that instruction, notification or election is revoked or amended in writing addressed to Anchorage at its registry.

9 General

9.1 Stamp duty

Anchorage must pay all stamp duty payable in connection with the transfer of the Scheme Shares to Anchorage.

9.2 Notices

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this document is sent by post to Affinity, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Affinity's registered office or at the office of the Affinity Registry.
- (b) The accidental omission to give notice of the Scheme Meeting or the non- receipt of such a notice by any Shareholder may not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

9.3 Further assurances

- (a) Affinity must do anything necessary (including executing agreements and documents) or incidental to give full effect to this Scheme and the transactions contemplated by it.
- (b) Each Scheme Shareholder consents to Affinity doing all things necessary or incidental to give full effect to this Scheme and the transactions contemplated by it.

ANNEXURE C

SCHEME OF ARRANGEMENT (CONT)

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9.4 Governing law and jurisdiction

- (a) This Scheme is governed by the laws of New South Wales.
- (b) The parties irrevocably submit to the non-exclusive jurisdiction of courts exercising jurisdiction in New South Wales and courts of appeal from them in respect of any proceedings arising out of or in connection with this Scheme.

ANNEXURE D NOTICE OF SCHEME MEETING

Affinity Education Group Limited

ABN 37 163 864 195

Notice is given that, by an order of the Federal Court of Australia made on Wednesday, 14 October, 2015, pursuant to section 411(1) of the Corporations Act 2001 (Cth), a meeting of the holders of Affinity Shareholders will be held at 11:00 am (Melbourne time) on Friday, 20 November 2015 at Intercontinental Melbourne The Rialto, 495 Collins Street, Melbourne, VIC 3000, Australia.

Purpose of the Scheme Meeting

The purpose of this Scheme Meeting is to consider and, if thought fit, to agree to a scheme of arrangement (with or without amendment or any alterations or conditions required by the Court to which Affinity and Anchorage Childcare agree) proposed to be made between Affinity and Affinity Shareholders and to consider and, if thought fit, pass the Scheme Resolution.

The Scheme Booklet accompanying this Notice of Scheme Meeting constitutes an explanatory statement for the Scheme as required by section 412(1) of the Corporations Act.

Capitalised terms used in this notice have the meaning given to those terms in Section 11 of the Scheme Booklet.

Scheme Resolution

"That pursuant to and in accordance with section 411 of the Corporations Act 2001 (Cth):

- (a) the scheme of arrangement proposed between Affinity and Affinity Shareholders, as contained and described in the Scheme Booklet accompanying this Notice of Scheme Meeting, is agreed to; and*
- (b) your Independent Directors are authorised:*
 - (i) to agree to such alterations or conditions as are directed by the Court; and*
 - (ii) subject to approval of the Scheme by the Court, to implement the Scheme with any such alterations or conditions.*

Chairman

The Court has directed that Stuart James is to act as Chairman of the Scheme Meeting (and that, if Stuart James is unable or unwilling to attend, Stephanie Daveson is to act as Chairman of the Scheme Meeting) and has directed the Chairman to report the result of the Scheme Resolution to the Court.

14 October 2015

BY ORDER OF THE COURT



Paul Cochrane

Company Secretary

ANNEXURE D

EXPLANATORY NOTES FOR THE SCHEME MEETING

General

This Notice of Scheme Meeting relates to the Scheme and should be read in conjunction with the accompanying Scheme Booklet. The Scheme Booklet contains important information to assist you in determining how to vote on the Scheme Resolution, including the information prescribed by the Corporations Act and the Corporations Regulations.

A copy of the Scheme is contained in Annexure C of the Scheme Booklet.

Required Voting Majority

For the proposed Scheme to be approved by Affinity Shareholders in accordance with section 411 of the Corporations Act, the Scheme Resolution must be approved by the Requisite Majorities, being:

- unless the Court orders otherwise, a majority in number (ie more than 50%) of the Affinity Shareholders present and voting (either in person or by proxy); and
- at least 75% of the votes cast on the resolution.

The vote on the Scheme Resolution will be conducted by a poll.

Court Approval

Under section 411(4)(b) of the Corporations Act, the Scheme (with or without amendment or any alteration or condition required by the Court) is subject to the approval of the Court. If the Scheme Resolution is duly passed by the Requisite Majorities and the other conditions to the Scheme (other than approval by the Court) are satisfied or (where permitted) waived by the time required under the Scheme, Affinity must take all steps reasonably necessary to apply to the Court for the necessary orders to give effect to the Scheme.

In order for the Scheme to become Effective, it must be approved by the Court and an office copy of the orders of the Court approving the Scheme must be lodged with ASIC.

Voting Entitlements

Each person who is an Affinity Shareholder as at 7:00 pm (Melbourne time) on Wednesday, 18 November 2015 is entitled to attend and vote at the Scheme Meeting.

How To Vote

If you are an Affinity Shareholder entitled to vote at the Scheme Meeting, you may vote by:

- attending and voting in person;
- appointing an attorney to attend and vote on your

behalf, using a power of attorney;

- in the case of a body corporate, appointing a corporate representative to attend the meeting and vote on your behalf, using a certificate of appointment of body corporate representative; or
- appointing a proxy to attend and vote on your behalf, using the proxy form accompanying this Scheme Booklet.

Voting in person

To vote in person, you must attend the Scheme Meeting. Affinity Shareholders who wish to attend and vote at the meeting in person will be admitted and given a voting card at the point of entry to the meeting, once they have disclosed their name and address.

Voting by proxy

Affinity Shareholders are advised that:

- each Affinity Shareholder who is entitled to attend and cast a vote at the Scheme Meeting has a right to appoint a proxy to attend and vote for them;
- the proxy need not be an Affinity Shareholder; and
- an Affinity Shareholder who is entitled to cast two or more votes may appoint either one or two proxies, and may specify the proportion or number of votes each proxy is appointed to exercise. If the appointment is for two proxies and does not specify the proportion or number of votes each proxy may exercise, then, in accordance with section 249X(3) of the Corporations Act, each proxy may exercise half of the votes.

To vote by proxy, the proxy form accompanying this Scheme Booklet must be completed and lodged in accordance with this Notice of Scheme Meeting and the instructions on the form.

The proxy form must be signed by the Affinity Shareholder or his or her attorney duly authorised in writing. If the Affinity Shareholder is a company that has a sole director who is also the sole company secretary, this form must be signed by that person. If the company does not have a company secretary, the sole director must sign the form. Otherwise, the proxy form must be signed by a director jointly with either another director or a company secretary. In the case of shares jointly held by two or more persons, all joint holders must sign the proxy form.

Voting by attorney

An Affinity Shareholder entitled to attend and vote at the Scheme Meeting is also entitled to appoint an attorney to attend and vote on his or her behalf. An attorney need not be an Affinity Shareholder.

ANNEXURE D

EXPLANATORY NOTES FOR THE SCHEME MEETING (CONT)

The power of attorney appointing the attorney must be duly executed and specify the name of the Affinity Shareholder, Affinity and the attorney, and also specify the meeting at which the appointment may be used. The appointment may be a standing one.

Attorneys of eligible Affinity Shareholders will be admitted to the meeting and given a voting card on providing at the point of entry to the meeting, written evidence of their appointment, their name and address, and the name of their appointers.

Your appointment of an attorney does not preclude you from attending in person and voting at the meeting.

Lodgement of proxies and powers of attorney

To be effective, the relevant documents to vote by proxy or attorney must be received by the Share Registry in any of the following ways at least 48 hours before the time for commencement of the Scheme Meeting (that is, by 11:00 am (Melbourne time) on Wednesday, 18 November 2015), or if the Scheme Meeting is adjourned, at least 48 hours before the resumption of the Scheme Meeting:

- By post to:
Affinity Education Group Limited
C/- Link Market Services Limited
Locked Bag A14
SYDNEY SOUTH NSW 1235
- By the internet at the Share Registry's website (www.linkmarketservices.com.au)
- By facsimile to +61 2 9287 0309

Voting by corporate representative

A body corporate that is an Affinity Shareholder, or that has been appointed as a proxy, may appoint an individual to act as its representative at the meeting. The appointment must comply with the requirements of section 250D of the Corporations Act, meaning that Affinity will require a certificate of appointment of body corporate representative to be executed by the body corporate in accordance with the Corporations Act. The certificate of appointment may set out restrictions on the representative's powers.

An "Appointment of Corporate Representative" certificate may be obtained for this purpose from the Share Registry's website at www.linkmarketservices.com.au.

The certificate should be lodged at the registration desk on the day of the meeting or sent to the Share Registry in advance of the Scheme Meeting, in any of the ways set out above in relation to the lodgement of proxies and powers of attorney.

Jointly Held Securities

If Affinity Shares are jointly held and, more than one member votes in respect of those jointly held shares, only the vote of the Affinity Shareholder whose name appears first in the Register will be accepted.

Attendance

If you or your proxies, attorneys or representative(s) plan to attend the Scheme Meeting, please arrive at the venue at least 15 minutes before the scheduled time for commencement of the meeting, so that your shareholding can be checked against the Register, any power of attorney or certificate of appointment of body corporate representative verified, and your attendance noted.

Advertisement

Where this Notice of Scheme Meeting is advertised unaccompanied by the Scheme Booklet, a copy of the Scheme Booklet can be obtained by anyone entitled to attend the meeting from ASX's website (www.asx.com.au) or by contacting the Share Registry.

ANNEXURE E INDEPENDENT EXPERT'S REPORT

LONERGAN EDWARDS & ASSOCIATES LIMITED

The Independent Board Committee
Affinity Education Group Limited
Level 14, 100 Creek Street
Brisbane QLD 4000

ABN 53 095 445 560
AFS Licence No 246532
Level 7, 64 Castlereagh Street
Sydney NSW 2000 Australia
GPO Box 1640, Sydney NSW 2001

Telephone: [61 2] 8235 7500
www.lonerganedwards.com.au

24 September 2015

Subject: Proposed acquisition by Anchorage by way of Scheme

Dear Directors

Introduction

G8 Education Offers

- 1 On 3 July 2015, G8 Education Limited (G8 Education) announced its intention to make an off-market takeover offer for all the ordinary shares that it did not already own in Affinity Education Group Limited (Affinity or the Company)¹ at an offer price of one fully paid ordinary share in G8 Education for every 4.61 fully paid ordinary shares in Affinity (Scrip Offer).
- 2 On 3 August 2015, G8 Education increased its off-market takeover offer to one fully paid ordinary share in G8 Education for every 4.25 fully paid ordinary shares in Affinity (Revised Scrip Offer) and declared the offer unconditional and final. Separately on 3 August 2015, G8 Education also announced an unconditional and final on-market takeover offer for all the Affinity shares that it did not already own for consideration of \$0.80 per share (Cash Offer).
- 3 The Revised Scrip Offer and the Cash Offer (the G8 Education Offers) will not be increased and will not be extended beyond 28 September 2015 (i.e. will close on this date). As at the date of this report, G8 Education's relevant interest in Affinity was 24.6%.
- 4 Lonergan Edwards & Associates Limited (LEA) prepared an independent expert's report (IER) on the G8 Education Offers dated 20 August 2015. In our opinion, the G8 Education Offers were neither fair nor reasonable. Our IER was annexed to Affinity's 24 August 2015 Target's Statement in response to the G8 Education Offers.

Anchorage Proposals

- 5 On 24 August 2015, Affinity announced that it had entered into a Heads of Agreement with Anchorage Capital Partners Pty Ltd (Anchorage). Under the terms of the Heads of Agreement, Anchorage would acquire all the assets and business of Affinity for \$208.3 million and Affinity would return \$0.90 cash per share to Affinity shareholders.

¹ On 2 and 3 July 2015, G8 Education acquired some 46.1 million fully paid shares in Affinity, representing approximately 19.89% of Affinity's ordinary shares on issue.

Liability limited by a scheme approved under Professional Standards legislation

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

LONERGAN EDWARDS
& ASSOCIATES LIMITED

- 6 Subsequently on 15 September 2015, Affinity announced that it and Anchorage² had signed a Scheme Implementation Deed (the Agreement) under which Anchorage would acquire 100% of the issued shares in Affinity by way of a scheme of arrangement (the Scheme). The Scheme replaces the earlier announced Anchorage proposal on 24 August 2015.
- 7 If the Scheme, which is subject to a number of conditions precedent (as summarised in Section I of our report), is approved and implemented, Affinity shareholders will receive \$0.92 cash for each Affinity share they hold on the Scheme Record Date³ (the Scheme Consideration).
- 8 G8 Education has announced its intention to support the Scheme and has entered into an agreement (Voting Deed) with Affinity pursuant to which it will appoint the Chairperson of Affinity as its proxy for the Scheme meeting in respect of a limited number of Affinity shares (representing approximately 14.5% of Affinity's issued ordinary share capital as at the date of the Voting Deed). The proxy may only be revoked if (Prescribed Events):
 - (a) the Scheme meeting fails to occur prior to 14 January 2016
 - (b) the Independent Board Committee withdraws its recommendation that Affinity shareholders vote in favour of the Scheme in the absence of a superior proposal
 - (c) a superior proposal emerges from a party other than Anchorage and that proposal receives the recommendation of the Independent Board Committee.
- 9 G8 Education also announced that it will vote all other Affinity shares it holds at the time of the Scheme meeting in favour of the Scheme, provided none of the Prescribed Events occur before the Scheme meeting⁴.

Affinity

- 10 Affinity is a provider of education and child care services in Australia to children aged six weeks to 12 years old. The Company provides long day care, before and after school care and occasional care. Affinity is the second largest Australian Securities Exchange (ASX) listed child care operator with some 161 centres and a daily licensed capacity of 12,682 children as at 30 June 2015. Its portfolio of child care centres is spread across Queensland (QLD), New South Wales (NSW), Victoria (VIC), Western Australia (WA), the Northern Territory (NT) and the Australian Capital Territory (ACT).

Purpose of report

- 11 While there is no statutory or Australian Securities Exchange (ASX) Listing Rule requirement for Affinity to obtain an IER, the Independent Board Committee of Affinity has requested LEA to prepare an IER stating whether, in our opinion, the Scheme is fair and reasonable and in the best interests of Affinity shareholders and the reasons for that opinion.

² Via Anchorage Childcare Pty Ltd, a newly incorporated company established by funds managed by Anchorage.

³ The Scheme Record Date is presently expected to be 7:00pm on the fifth business day after the Scheme becomes effective (i.e. 7:00pm on 8 December 2015).

⁴ At the date of this report, G8 Education had a relevant interest in a total of 24.63% of Affinity's issued ordinary share capital; G8 Education was the registered holder of 19.89% of Affinity's issued ordinary share capital; and G8 Education had a further relevant interest in 4.74% of Affinity's issued ordinary share capital pursuant to acceptances of the Revised Scrip Offer.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



- 12 LEA is independent of Affinity and Anchorage and has no other involvement or interest in the proposed Scheme.

Summary of opinion

- 13 In our opinion, the Scheme is fair and reasonable and in the best interests of Affinity shareholders in the absence of a superior proposal. We have formed this opinion for the reasons set out below.

Value of Affinity

- 14 In our IER dated 20 August 2015, we assessed the market value of Affinity shares (on a 100% controlling interest basis) at between \$0.92 and \$1.00 per share. A copy of our 20 August 2015 valuation⁵ is set out in Section VI of this report and is summarised below:

Affinity – valuation summary from our IER dated 20 August 2015			
	Paragraph	Low \$m	High \$m
EBITA for valuation purposes	161	37.1	37.1
EBITA multiple (times)	184	6.5	7.0
Enterprise value		241.2	259.7
Other assets / (liabilities)	194	(0.3)	-
Net debt	196	(27.5)	(27.5)
Equity value – controlling interest basis		213.4	232.2
Number of shares on issue (million) ⁽¹⁾	199	232.8	232.8
Affinity value per share – controlling interest basis (\$)		0.92	1.00

Note:

- 1 Assuming the exercise of 1.3 million executive performance rights.

- 15 We have considered the financial performance and financial position of Affinity subsequent to the date of our IER. Based on this review we are not aware of any developments which would cause us to materially change our valuation range. Consequently, we remain of the view that the value of Affinity shares (on a 100% controlling interest basis) ranges between \$0.92 and \$1.00 per share.

Fair and reasonable opinion

- 16 Pursuant to the Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) a scheme is “fair” if the value of the Scheme Consideration is equal to or greater than the value of the securities the subject of the Scheme. This comparison for Affinity shares is shown below:

Comparison of Scheme Consideration to value of Affinity			
	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of Scheme Consideration	0.92	0.92	0.92
Value of 100% of Affinity	0.92	1.00	0.96
Extent to which the Scheme Consideration exceeds (or is less than) the value of Affinity	-	(0.08)	(0.04)

⁵ As updated for Section and paragraph number references only.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

LONERGAN EDWARDS
& ASSOCIATES LIMITED

- 17 As the Scheme Consideration lies within our assessed valuation range for Affinity shares on a 100% controlling interest basis, in our opinion, the Scheme Consideration is fair to Affinity shareholders when assessed based on the Guidelines set out in RG 111.
- 18 Pursuant to RG 111, a transaction is reasonable if it is fair. Further, in our opinion, if the Scheme is "fair and reasonable" it must also be "in the best interests" of shareholders.
- 19 Consequently, in our opinion, the Scheme is also "reasonable" and "in the best interests" of Affinity shareholders in the absence of a superior proposal.

Assessment of the Scheme

- 20 We summarise below the likely advantages and disadvantages of the Scheme for Affinity shareholders.

Advantages

- 21 In our opinion, the Scheme has the following benefits for Affinity shareholders:
 - (a) the Scheme Consideration of \$0.92 cash per share is consistent with the low end of our assessed value range for Affinity shares on a 100% controlling interest basis
 - (b) as the Scheme Consideration is consistent with the low end of our valuation range, in our opinion, Affinity shareholders are being compensated for the fact that 100% control of Affinity will pass to Anchorage if the Scheme is approved
 - (c) the Scheme Consideration significantly exceeds G8 Education's Cash Offer of \$0.80 per Affinity share, and our assessed value of G8 Education's Scrip Offer (which we assessed at \$0.73 to \$0.80 per Affinity share, based on a G8 Education share price range of \$3.10 to \$3.40)⁶
 - (d) the G8 Education Offers will not be increased and will not be extended beyond 28 September 2015 (i.e. will close on this date). G8 Education has also announced its intention to vote the Affinity shares it holds at the time of the Scheme meeting in favour of the Scheme⁷
 - (e) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of Affinity shares is likely to trade, at least in the short-term, at a discount to our valuation and the Scheme Consideration due to the portfolio nature of individual shareholdings and declines in equity values since the announcement of G8 Education's intention to make a takeover offer for the Company (on 3 July 2015).

Disadvantages

- 22 Affinity shareholders should note that if the Scheme is implemented they will no longer hold an interest in Affinity. Affinity shareholders will therefore not participate in any future value created by the company over and above that reflected in the Scheme Consideration. Such future value could arise from, for example, further childcare centre acquisitions (which are generally significantly earnings per share and value accretive).

⁶ As at 24 September 2015 the last trade in G8 Education shares was \$2.99.

⁷ Provided none of the Prescribed Events occur before the Scheme meeting.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Conclusion

- 23 Given the above analysis, we consider the acquisition of Affinity shares under the Scheme is fair and reasonable and in the best interests of Affinity shareholders in the absence of a superior proposal.

General

- 24 In preparing this report we have considered the interests of Affinity shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 25 The impact of approving the Scheme on the tax position of Affinity shareholders depends on the individual circumstances of each investor. Affinity shareholders should read Section Eight of the Scheme Booklet and consult their own professional advisers if in doubt as to the taxation consequences of the Scheme.
- 26 The ultimate decision whether to approve the Scheme should be based on each Affinity shareholder's assessment of their own circumstances. If Affinity shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.
- 27 For our full opinion on the Scheme and the reasoning behind our opinion, we recommend that Affinity shareholders read the remainder of our report.

Yours faithfully



Craig Edwards
Authorised Representative



Nathan Toscan
Authorised Representative

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

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LONERGAN EDWARDS
& ASSOCIATES LIMITED

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ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

LONERGAN EDWARDS
& ASSOCIATES LIMITED

I Key terms of the Scheme

Terms

- 28 On 15 September 2015, Affinity announced that it and Anchorage⁸ had signed a Scheme Implementation Deed (the Agreement) under which Anchorage would acquire 100% of the issued shares in Affinity by way of a scheme of arrangement (the Scheme).
- 29 If the Scheme, which is subject to a number of conditions precedent, is approved and implemented, Affinity shareholders will receive \$0.92 cash for each Affinity share they hold on the Scheme Record Date⁹ (the Scheme Consideration).
- 30 G8 Education has announced its intention to support the Scheme and has entered into an agreement (Voting Deed) with Affinity pursuant to which it will appoint the Chairperson of Affinity as its proxy for the Scheme meeting in respect of a limited number of Affinity shares (representing approximately 14.5% of Affinity's issued ordinary share capital as at the date of the Voting Deed). The proxy may only be revoked if (Prescribed Events):
- (a) the Scheme meeting fails to occur prior to 14 January 2016
 - (b) the Independent Board Committee withdraws its recommendation that Affinity shareholders vote in favour of the Scheme in the absence of a superior proposal
 - (c) a superior proposal emerges from a party other than Anchorage and that proposal receives the recommendation of the Independent Board Committee.
- 31 G8 Education also announced that it will vote all other Affinity shares it holds at the time of the Scheme meeting in favour of the Scheme, provided none of the Prescribed Events occur before the Scheme meeting¹⁰.

Conditions

- 32 The Scheme is subject to the satisfaction of a number of conditions precedent, including the following which are outlined in the Agreement between Affinity and Anchorage dated 15 September 2015:
- (a) approval of the Scheme by the Court in accordance with s411(4)(b) of the *Corporations Act 2001* (Cth) (Corporations Act)
 - (b) Affinity shareholder approval by the requisite majorities at the Scheme meetings under the Corporations Act
 - (c) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or Government Agency, or other material legal restraint or prohibition, preventing or delaying the transaction is in effect at the delivery time on the Second Court Date

⁸ Via Anchorage Childcare Pty Ltd, a newly incorporated company established by funds managed by Anchorage.

⁹ The Scheme Record Date is presently expected to be 7:00pm on the fifth business day after the Scheme becomes effective (i.e. 7:00pm on 8 December 2015).

¹⁰ At the date of this report, G8 Education had a relevant interest in a total of 24.63% of Affinity's issued ordinary share capital: G8 Education was the registered holder of 19.89% of Affinity's issued ordinary share capital; and G8 Education had a further relevant interest in 4.74% of Affinity's issued ordinary share capital pursuant to acceptances of the Revised Scrip Offer.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

- (d) no “Affinity Prescribed Occurrence” (as defined in clause 1.1 of the Agreement) occurs in respect of Affinity between the date of the Agreement and the delivery time on the Second Court Date
- (e) the “Affinity Warranties” and “Bidder Warranties” (as defined in clause 1.1 of the Agreement) being true and correct in all material respects on the date of the Agreement and at the delivery time on the Second Court Date
- (f) before the delivery time on the Second Court Date, all actions have been taken and/or arrangements have been put in place so that all Performance Rights will either vest, have lapsed or have been cancelled before the Record Date.

33 In addition Affinity has agreed that it will:

- (a) **no shop** – not solicit, invite, initiate or encourage any competing proposal or any enquiries, proposals, discussions or negotiations with any third party in relation to (or that could reasonably be expected to lead to) a competing proposal or to Affinity abandoning the transaction (or communicate any intention to do any of these things)
- (b) **no talk** – not negotiate or enter into or participate in discussions or negotiations with any person (or communicate any intention to do any of these things), in relation to (or which may reasonably be expected to lead to) a competing proposal
- (c) **no due diligence** – not solicit, invite, initiate or encourage or facilitate or permit any person (other than Anchorage) to undertake due diligence investigations in respect of Affinity, or make available to any person (other than Anchorage) or permit any such person to receive any non-public information relating to Affinity, in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a competing proposal
- (d) **notification** – notify Anchorage in writing of the fact of any approach, inquiry or proposal made by any person to Affinity or any of its representatives, to initiate any discussions or negotiations that concern or that could reasonably be expected to lead to a competing proposal, and any request made by any person to Affinity or any of its Representatives, for any information relating to Affinity, its related bodies corporate, or any of their businesses and operations, in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a competing proposal
- (e) **matching right** – Affinity must promptly provide Anchorage with any material non-public information relating to Affinity, its related bodies corporate, or any of their businesses and operations made available or received by any person in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a competing proposal and which has not previously been provided to Anchorage. If Affinity receives a competing proposal and as a result any member of the Independent Board Committee proposes to change, withdraw or modify his or her recommendation of the transaction, or approve or recommend entry into an agreement, commitment, arrangement or understanding relating to the competing proposal, Affinity must not make an announcement or enter into an agreement, commitment or understanding unless (among other things) Affinity gives Anchorage written notice of the Independent Board Committee’s proposal. Anchorage will then have the right during the period of two business days following receipt of the notice, to make a counter proposal, which the Independent Board Committee must review in good

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

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faith. If the Independent Board Committee determines that the counter proposal would be more favourable, or no less favourable, than the competing proposal, then Affinity and Anchorage must use their best endeavours to enter into an amended agreement to implement the counter proposal and Affinity must recommend the counter proposal to Affinity shareholders and not recommend the competing proposal.

- 34 Some of these exclusivity obligations do not apply to the extent that they restrict Affinity or any member of the Independent Board Committee from taking or refusing to take any action with respect to a competing proposal (in relation to which there has been no contravention of certain provisions of the Agreement) provided that:
- (a) the competing proposal is bona fide and is made by or on behalf of a person that the Independent Board Committee reasonably considers is of sufficient commercial standing to implement the competing proposal
 - (b) the Independent Board Committee has determined in good faith, after consultation with Affinity's financial advisers and receiving written advice from Affinity's external Australian legal adviser practising in the area of corporate law, that the competing proposal is or may reasonably be expected to lead to a superior proposal and failing to take the action or refusing to take the action (as the case may be) with respect to the competing proposal would be likely to constitute a breach of the fiduciary or statutory obligations of the Independent Board Committee.
- 35 A cost reimbursement fee of up to \$2.1 million is payable by Affinity to Anchorage.

Resolution

- 36 Affinity shareholders will be asked to vote on the Scheme in accordance with the resolution contained in the notice of meeting accompanying the Scheme Booklet.
- 37 If the resolution is passed by the requisite majorities (and Affinity and Anchorage agree that it can be reasonably expected that all of the remaining conditions to the Scheme will be satisfied or waived prior to the Second Court Date), Affinity must apply to the Court for orders approving the Scheme, and if that approval is given, lodge the orders with ASIC and do all things necessary to give effect to the Scheme. Once the Court orders are lodged with ASIC, the Scheme will become effective. The Scheme will bind all Affinity shareholders who hold Affinity shares as at the Scheme Record Date, whether or not they voted for the Scheme (and even if they voted against the Scheme).

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

II Scope of our report

Purpose

- 38 The Scheme is to be effected pursuant to Part 5.1 of the Corporations Act, which governs schemes of arrangement. Part 3 of Schedule 8 of the Corporations Regulations prescribes information to be sent to shareholders in relation to a member's scheme of arrangement pursuant to s411 of the Corporations Act.
- 39 Paragraph 8303 of Schedule 8 of the Corporations Regulations provides that, where the other party to the transaction holds not less than 30% of the voting shares in the company the subject of the scheme, or where a director of the other party to the transaction is also a director of the company the subject of the scheme, the explanatory statement must be accompanied by an IER assessing whether the proposed scheme is in the best interests of shareholders and state reasons for that opinion.
- 40 When an IER is prepared for a scheme that involves a change of control of an entity, ASIC also requires the expert to provide an opinion as to whether the proposal is fair and reasonable.
- 41 Anchorage has no current shareholding in Affinity and has no representation on the Affinity Board. Accordingly, there is no statutory requirement for Affinity to obtain an IER. Notwithstanding this, the Independent Board Committee of Affinity has requested LEA to prepare an IER stating whether, in our opinion, the Scheme is fair and reasonable and in the best interests of Affinity shareholders and the reasons for that opinion.
- 42 This report has been prepared by LEA for the benefit of Affinity shareholders to assist them in considering the resolution to approve the Scheme. Our report will accompany the Notice of Meeting and Scheme Booklet to be sent to Affinity shareholders. The sole purpose of our report is to determine whether, in our opinion, the Scheme is fair and reasonable and in the best interests of Affinity shareholders.
- 43 The ultimate decision whether to approve the Scheme should be based on each Affinity shareholder's assessment of their own circumstances. If in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

- 44 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC including, in particular, RG 111.
- 45 RG 111 distinguishes "fair" from "reasonable" and considers:
- (a) the Scheme to be "fair" if the value of the Scheme Consideration is equal to or greater than the value of the securities that are the subject of the Scheme. A comparison must be made assuming 100% ownership of the target company
 - (b) the Scheme to be "reasonable" if it is fair. The Scheme may also be "reasonable" if, despite not being "fair" but after considering other significant factors, there are sufficient reasons for shareholders to approve the Scheme in the absence of a superior proposal.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

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- 46 There is no legal definition of the expression “in the best interests”. However, RG 111 states that a Scheme may be “*in the best interests of the members of the company*” if there are sufficient reasons for securityholders to vote in favour of the Scheme in the absence of a higher offer.
- 47 In our opinion, if the Scheme is “fair” and “reasonable” under RG 111 it must also be “in the best interests” of Affinity shareholders.
- 48 Our report has therefore considered:
- (a) the market value of 100% of the shares in Affinity
 - (b) the value of the Scheme Consideration
 - (c) the extent to which (a) and (b) differ (in order to assess whether the Scheme is fair under RG 111)
 - (d) the extent to which a control premium is being paid to Affinity shareholders
 - (e) the extent to which a share of the synergies likely to arise upon an acquisition of Affinity are being shared with Affinity shareholders
 - (f) the listed market price of Affinity shares subsequent to the announcement of the Scheme
 - (g) the likely market price of Affinity securities if the Scheme is not approved
 - (h) the value of Affinity to an alternative acquirer and the likelihood of an alternative offer emerging prior to the date of the Scheme meeting
 - (i) the advantages and disadvantages of the Scheme from the perspective of Affinity shareholders
 - (j) other qualitative and strategic issues associated with the Scheme.

Limitations and reliance on information

- 49 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 50 Our report is also based upon financial and other information provided by Affinity and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 51 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Scheme from the perspective of Affinity shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.

- 52 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.
- 53 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 54 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.
- 55 In forming our opinion, we have also assumed that:
 - (a) the information set out in the Scheme Booklet is complete, accurate and fairly presented in all material respects
 - (b) if the Scheme becomes legally effective, it will be implemented in accordance with the terms set out in the Agreement and the terms of the Scheme itself.

ANNEXURE E

INDEPENDENT EXPERT'S REPORT (CONT)

III Profile of Affinity

Overview

56 Affinity is a provider of education and child care services in Australia to children aged six weeks to 12 years old. The Company provides long day care, before and after school care and occasional care. Affinity is the second largest ASX listed child care operator with some 161 centres and a daily licensed capacity of 12,682 children as at 30 June 2015. Its portfolio of child care centres is spread across QLD, NSW, VIC, WA, the NT and the ACT.

History and strategy

57 Affinity was incorporated on 21 May 2013 as Eternal Echoes Education Limited, with its name changed to Affinity Education Group Limited on 19 September 2013. The Company listed on the ASX on 5 December 2013, raising funds to acquire 57 established child care centres (located in QLD, NSW, VIC and the NT) and the management rights for a further 11 centres (located in QLD and NSW)¹¹.

58 Affinity's business model is to identify, acquire, integrate and then manage child care centres within a large corporatised portfolio. The Directors of the Company believe the acquisition and subsequent corporatisation of child care centres within a single portfolio has a number of benefits:

- (a) economies of scale achieved via the operation of centralised management support functions (e.g. finance, payroll, human resources)
- (b) improved wage control by grouping centres into geographic clusters which can benefit from efficiencies and greater staff flexibility
- (c) enhanced ability to respond to ongoing regulatory and compliance changes
- (d) increased staff retention as a result of improved career path training and progression
- (e) targeted group wide capital expenditure programmes to improve operating efficiencies
- (f) procurement synergies as a result of economies of scale.

59 Growth in the business is expected to be achieved through:

- (a) improvements in occupancy levels and general efficiencies gained from managing a large portfolio of centres
- (b) the acquisition of further centres that meet the Company's acquisition parameters. Affinity's current aim is to increase the size of its portfolio by 20% to 25% per annum.

60 The following table summarises the centres acquired by Affinity since listing (not all centre acquisitions had settled as at 30 June 2015):

¹¹ Two freehold properties were also acquired. Affinity does not generally intend to acquire freehold property nor intend to undertake the development of greenfield sites. Accordingly, at the time of the acquisition it was and remains management's intention to dispose of these two sites.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

Affinity – acquisition history	
Date	Acquisition
Mar 14	<ul style="list-style-type: none"> Entered into agreements to acquire 7 child care centres for \$8 million
Apr 14	<ul style="list-style-type: none"> Announced a 3 for 4 entitlement offer to raise \$75 million and fund the acquisition of 51 child care and education centres (which cost \$80 million)
Sep 14	<ul style="list-style-type: none"> Entered into agreements to acquire 20 child care centres for \$19 million
Dec 14	<ul style="list-style-type: none"> Entered into agreements to acquire a further 16 child care centres for \$45 million
Feb 15	<ul style="list-style-type: none"> Entered into an agreement to acquire 8 of the Affinity managed centres for \$18 million
Mar 15	<ul style="list-style-type: none"> Undertook an 8 for 21 entitlement offer to raise \$75 million and fund the acquisition of 9 premium child care centres for \$24 million

Source: Affinity ASX announcements.

Current operations

- 61 Affinity currently owns and operates 161 child care centres across Australia (and manages a further six individual centres). The Company provides a range of education and child care services including long day care, before and after school care and occasional care. Affinity operates a tiered management structure as follows:
- centre level** – child care centre directors are responsible for the day-to-day management of an individual child care centre
 - regional** – regional area managers oversee a geographic cluster of centres. Area managers provide support to centre directors, manage the allocation of staff across the cluster and report to the corporate level
 - corporate** – corporate level includes executives, operations, marketing, human resources, finance and business development functions. A centralised corporate model is able to achieve economies of scale through the grouping of shared services and administration functions. This enables individual centres to focus upon providing high quality child care services.
- 62 The current portfolio of 161 owned centres and six managed centres, which are operated under a number of different brands¹², are located across Australia as follows:

¹² Affinity generally retains the brand names of child care centres to maintain their existing presence and goodwill.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

Affinity – portfolio of owned centres As at 30 June 2015



Source: Affinity.

- 63 The child care portfolio is balanced between metropolitan and non-metropolitan locations with a higher weighting towards areas where households have incomes of less than \$160,000. It is estimated that Affinity's portfolio is some 50% regional, 40% suburban and 10% inner metro located¹³.
- 64 A breakdown of the child care portfolio by licensed and configured places is set out below:

Affinity – licensed and configured places ⁽¹⁾			
	Centres	Licensed places	Configured places
QLD	78	6,707	6,308
NSW	34	2,217	2,209
VIC	23	1,943	1,908
WA	19	1,263	1,071
NT	4	306	306
ACT	3	246	246
Total	161	12,682	12,048

Note:

1 As at 30 June 2015. Excludes the six managed centres.

Source: Affinity.

¹³ Moelis & Company, *Affinity Education Group Ltd: Scenario Analysis – Trading Below Scorched Earth Assumptions – BUY*, 2 July 2015.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

- 65 Each child care centre has a maximum number of places limited by regulatory requirements, which are referred to as licensed places. However, a centre's actual capacity is based on its number of configured places, which refers to the configuration of its floor space or room (a change to the configuration of a centre may have consequential capital expenditure impacts).
- 66 Since listing, Affinity has acquired over 100 child care centres and accordingly integration of acquisitions is an ongoing priority for Affinity. A key component is the implementation of financial reporting software to ensure that Affinity has the ability to produce accurate seven day reports for each centre, rolling up to consolidated reports for each cluster and ultimately to the corporate level.

Financial performance

- 67 The financial performance of Affinity for the year ended 31 December 2014 (FY14) (separated into half years) and 6 months to 30 June 2015 (1H15) is set out below:

Affinity – statement of financial performance ⁽¹⁾				
	1H14 Reviewed \$m	2H14 Reviewed \$m	FY14 Audited \$m	1H15 Reviewed \$m
Revenue from child care centres	37.4	72.9	110.4	86.9
Management fees	0.8	0.3	1.1	0.2
Total revenue⁽²⁾	38.2	73.3	111.5	87.0
Employee benefits	(24.2)	(44.8)	(69.0)	(55.4)
Occupancy costs	(5.4)	(9.4)	(14.8)	(12.8)
Direct costs of providing services	(2.8)	(4.0)	(6.8)	(9.0)
Administration expenses	(0.8)	(2.1)	(2.9)	(1.2)
Underlying EBITDA⁽³⁾	4.9	13.0	17.8	8.6
Depreciation and software amortisation	(0.5)	(0.8)	(1.2)	(1.0)
Underlying EBITA⁽⁴⁾	4.4	12.2	16.6	7.6
Amortisation of acquisition intangibles	-	-	-	-
Significant items ⁽⁵⁾	(8.3)	(8.1)	(16.3)	(6.6)
Net finance costs	-	(0.4)	(0.4)	(1.1) ⁽⁶⁾
Profit before tax (PBT)	(3.8)	3.7	(0.1)	(0.1)
Income tax expense	(1.2)	(2.8)	(4.0)	(1.9)
Net profit after tax (NPAT) as reported	(5.0)	0.9	(4.1)	(2.1)
<i>Employee benefits / revenue from child care (%)</i>	<i>64.7</i>	<i>61.4</i>	<i>62.6</i>	<i>63.8</i>
<i>EBITDA margin (%)</i>	<i>12.8</i>	<i>17.7</i>	<i>16.0</i>	<i>9.9</i>
<i>EBITA margin (%)</i>	<i>11.6</i>	<i>16.6</i>	<i>14.9</i>	<i>8.7</i>

Note:

- 1 Rounding differences may exist.
- 2 Excluding interest income.
- 3 Earnings before interest, tax, depreciation and amortisation (EBITDA).
- 4 Earnings before interest, tax and amortisation of acquired intangibles (EBITA).
- 5 Significant items comprise acquisition and integration expenses.
- 6 Reported interest and finance charges include merchant fees of some \$0.1 million which have been reclassified as administration expenses in 1H15 only.

Source: Affinity.

- 68 Affinity's revenue is influenced by three fundamental drivers; number of configured places, occupancy and fees. Affinity continues to increase their number of configured places,

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

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primarily via acquisition. A portion of fees are paid by the government with parents paying the gap between the amount paid by the government and the fee charged by the centre (Section IV provides further information on government policy relating to child care).

- 69 The major expenses incurred are employee expenses and building occupancy expenses. The child care industry is labour intensive and typically wages for staff comprise the majority of expenses. To provide certainty over building occupancy expenses, Affinity aims to enter into long-term lease agreements with annual rent increases. Affinity's average lease tenure is some 21 years as at 30 June 2015.
- 70 More generally, Affinity's earnings are seasonal with a greater proportion of earnings being generated in the second half of the year. The seasonality is primarily a function of changing occupancy levels during the year which are influenced by the timing of the new school year. Occupancy is often at its highest around October / November before declining over summer and again rebuilding from around February.
- 71 Significant items relate to acquisition costs (including stamp duty, broker commission, due diligence costs and legal fees) which are expensed through the statement of financial performance. These expenses are largely non-deductible for tax purposes. Going forward, Affinity expects acquisition costs to represent less than 10% of acquisition value.

FY15 guidance

- 72 On 2 July 2015, Affinity announced that it expects underlying EBITDA for FY15 to be between \$27 million and \$32 million. This was revised to \$30 million to \$32 million on 18 August 2015. The forecast excludes one off acquisition and integration costs and is based on the expected results from the current portfolio only. However, the forecast only reflects the results of recently acquired centres from their date of acquisition and therefore does not reflect the full year impact of centres acquired during 1H15.
- 73 Occupancy levels are expected to be higher in the second half of the year. Average occupancy was around 72% in January 2015, increased to around 77% as at 30 June 2015 and has further improved to 81% subsequent to 30 June 2015. However, the increase in occupancy post 31 March 2015 has not been as high as that experienced in 2014. The lower end of management's underlying EBITDA forecast for FY15 assumes a continuation of this lower first half occupancy trend compared to 2014.
- 74 Affinity management have stated that an increase in average occupancy levels in the second half to levels consistent with that achieved in 2H14 would result in underlying EBITDA at the higher end of management's guidance.
- 75 Affinity management's FY15 forecast also reflects a 3% fee increase across the portfolio, which was implemented on 6 July 2015, and ongoing improvements in the wage to revenue ratio and overhead efficiencies.

Financial position

- 76 The financial position of Affinity as at 31 December 2014 and 30 June 2015 is set out below. The financial position as at 31 December 2014 is shown on a pro forma basis and has been adjusted to reflect acquisitions announced but not settled as at 31 December 2014, the acquisition of nine centres announced in March 2015 and the eight for 21 entitlement offer which raised \$75 million (before transaction costs):

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ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

Affinity – statement of financial position ⁽¹⁾		
	31 Dec 14 Pro forma ⁽²⁾	30 Jun 15 Reviewed
	\$m	\$m
Cash and cash equivalents	3.3	13.2
Trade and other receivables	4.5	3.2
Prepayments	1.8	0.9
Other deposits	1.4	-
Assets held for sale	0.3	0.3
Total current assets	11.2	17.6
Property, plant and equipment	10.4	12.0
Intellectual property and software	0.7	1.3
Goodwill	250.0	252.8
Deferred tax assets	6.6	6.5
Total non-current assets	267.7	272.5
Total assets	278.9	290.1
Trade and other payables	9.8	11.0
Borrowings	0.7	0.4
Income tax payable	2.9	4.5
Provisions	7.0	8.0
Retention payments (formerly titled deferred consideration)	0.2	0.2
Revenue received in advance	0.6	1.2
Centre enrolment bonds	2.4	2.7
Deferred government grant funding	-	3.9
Total current liabilities	23.6	31.9
Borrowings	38.5	33.9
Provisions	2.6	2.6
Lease straight line liability	1.4	2.4
Total non-current liabilities	42.5	38.9
Total liabilities	66.1	70.7
Net assets	212.8	219.3
Net tangible assets	(44.5)	(41.2)

Note:

1 Rounding differences may exist.

2 Adjusted to reflect acquisitions announced but not settled as at 31 December 2014, the acquisition of nine centres announced in March 2015 and the eight for 21 entitlement offer.

Source: Affinity.

77 In relation to the financial position, we note that:

- assets held for sale** – represent land located at Ayr and Kelso in QLD which is expected to be sold during 2015
- property, plant and equipment** – comprises furniture and fittings, motor vehicles, computer equipment and other equipment
- goodwill** – arises from the acquisition of child care centres
- trade and other payables** – comprises trade payables, accrued employee related expenses and other payables

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

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- (e) **borrowings** – mainly relate to drawn down amounts under bank facilities in place of \$117 million provided by the Commonwealth Bank of Australia (CBA). This includes an acquisition facility of some \$100 million, the maturity of which was recently extended to July 2018 (on 15 June 2015)
- (f) **provisions** – primarily relate to annual and long service leave entitlements, but also include repairs and maintenance provisions
- (g) **retention payments (formerly titled deferred consideration)** – consideration payable for the acquisition of child care centres that has been withheld until such time as settlement adjustments have been confirmed by Affinity as appropriate
- (h) **revenue received in advance** – results from Affinity requiring child care fees to be settled two weeks in advance
- (i) **centre enrolment bonds** – relate to deposits paid by parents to secure enrolment at the centre for their children and are held until the child leaves the child care centre
- (j) **deferred government grant funding** – funds received in advance from the government which is required to be spent on specific expenditure items (refer paragraphs 118 and 119)
- (k) **lease straight line liability** – represents the difference between rent paid (for premises) and the expense charged in the Profit & Loss Statement. The liability arises (for accounting purposes only) because Affinity expenses the total cost of its lease obligations evenly over their term, notwithstanding that the amount of the expense recognised currently exceeds its cash rent costs.

Share capital and performance

- 78 As at 24 September 2015, Affinity had some 231.5 million fully paid ordinary shares on issue.
- 79 Affinity has a short and long-term incentive program in the form of a performance rights plan. In May 2015, 1.3 million performance rights were issued to executive directors and senior management under the scheme. The performance rights vest on 31 December 2017 and convert, subject to the achievement of specified performance benchmarks¹⁴, on a one-for-one basis into ordinary shares for nil consideration.

Significant shareholders

- 80 As at 24 September 2015, based on substantial shareholder notices released to the ASX, the significant shareholders in Affinity (aside from itself¹⁵) were G8 Education, with a 24.63% interest¹⁶, Renaissance Smaller Companies Pty Limited with a 8.29% interest¹⁷, Argo Investments with a 6.70% interest¹⁸ and Deutsche Bank AG with a 5.19% interest¹⁹.

¹⁴ Being earnings per share and total shareholder return benchmarks.

¹⁵ Affinity is a party to voluntary initial public offering (IPO) escrow arrangements with certain Affinity shareholders and has a relevant interest in 14.5% of its shares pursuant to the Voting Deed.

¹⁶ Source: Affinity change in substantial holding dated 2 September 2015.

¹⁷ Source: Affinity change in substantial holding dated 20 August 2015.

¹⁸ Source: Affinity change in substantial holding dated 14 April 2015.

¹⁹ Source: Affinity becoming a substantial holder dated 10 September 2015.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



Share price performance

81 The price of Affinity shares since listing on 9 December 2013 to 2 July 2015²⁰ is summarised below:

Affinity – share price performance				
	High \$	Low \$	Close \$	Monthly volume 000
Quarter ended				
December 2013 (from 9 December 2013)	1.19	0.98	1.14	6,862
March 2014	1.56	1.14	1.45	8,766
June 2014	1.45	1.16	1.25	11,882
Month ended				
July 2014	1.28	1.07	1.24	11,284
August 2014	1.29	1.14	1.27	5,811
September 2014	1.43	1.27	1.31	16,025
October 2014	1.35	1.22	1.31	13,101
November 2014	1.31	1.15	1.22	9,730
December 2014	1.24	1.11	1.22	5,526
January 2015	1.33	1.20	1.31	3,455
February 2015	1.53	1.27	1.29	15,550
March 2015	1.39	1.07	1.11	31,146
April 2015	1.15	1.05	1.08	17,347
May 2015	1.15	1.01	1.02	15,253
June 2015	1.04	0.76	0.81	17,768
1 July 2015 to 2 July 2015	0.83	0.49	0.54	55,148

Source: Bloomberg.

82 The following chart illustrates the movement in the share price of Affinity since its listing on 9 December 2013 to 2 July 2015²¹:

²⁰ Being the date prior to the announcement of G8 Education's intention to make a takeover offer for Affinity.

²¹ Being the date prior to the announcement of G8 Education's intention to make a takeover offer for Affinity.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

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**Affinity – share price history⁽¹⁾
9 December 2013 to 2 July 2015**



Note:

¹ Based upon closing prices. The S&P / ASX 300 Index and the S&P / ASX Small Ordinaries Index have been rebased to Affinity's last traded price on 9 December 2013 (\$1.04).

Source: Bloomberg.

- 83 Until recently, Affinity had (since listing) outperformed the S&P / ASX 300 Index and the S&P / ASX Small Ordinaries Index. Key market sensitive announcements are as follows:
- (a) **28 February 2014** – announced results for the period from incorporation to December 2013. Revenue was \$1.6 million with an earnings before interest and tax (EBIT) loss of \$9.3 million
 - (b) **26 March 2014** – announced agreements to acquire seven child care centres
 - (c) **8 April 2014** – announced acquisition of 51 child care centres with funding through a combination of cash and a three for four accelerated renounceable entitlement offer to raise \$75 million
 - (d) **2 May 2014** – announced increase in CBA debt facilities to \$115 million, including an \$80 million increase in the acquisition debt facility
 - (e) **23 July 2014** – announced completion of 35 of the 51 child care centre acquisitions as announced in April 2014
 - (f) **29 August 2014** – announced 1H14 underlying EBIT of \$4 million representing a 30% increase over the prospectus forecast
 - (g) **11 September 2014** – announced agreements to acquire 20 child care centres
 - (h) **17 December 2014** – announced acquisition of 16 child care centres including a large group of premium centres in metropolitan areas for \$45 million

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ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



- (i) **2 February 2015** – announced agreements to acquire eight of Affinity's managed centres
- (j) **27 February 2015** – announced FY14 underlying EBIT of \$16.6 million with a portfolio growth from 57 to 152 centres during the period
- (k) **12 March 2015** – announced an eight for 21 accelerated renounceable entitlement offer to raise \$75 million to fund the acquisition of nine premium child care centres and to reduce debt
- (l) **15 June 2015** – announced improved pricing, increased size (\$2 million) and term extension (by 12 months to July 2018) of its debt facilities with CBA
- (m) **2 July 2015** – announced that the underlying EBITDA for 1H15 is likely to be between \$7.5 million and \$8.5 million and FY15 is likely to be between \$27 million and \$32 million (being less than the analyst consensus estimate at the time).

Liquidity in Affinity shares

- 84 The liquidity in Affinity shares based on trading on the ASX over the 12 month period to 1 July 2015²² is set out below:

Affinity – liquidity in shares						
Period	Start date	End date ⁽¹⁾	No of shares traded 000	WANOS ⁽²⁾ outstanding 000	Implied level of liquidity Period ⁽³⁾ %	Annual ⁽⁴⁾ %
1 month	2 Jun 15	1 Jul 15	17,705	231,452	7.6	91.8
3 months	2 Apr 15	1 Jul 15	50,090	231,452	21.6	86.6
6 months	2 Jan 15	1 Jul 15	101,114	206,934	48.9	97.7
1 year	2 Jul 15	1 Jul 15	161,789	186,958	86.5	86.5

Note:

- 1 Whilst 2 July 2015 was the last day prior to the announcement of G8 Education's intention to make a takeover offer for Affinity, an abnormally high percentage (i.e. 24%) of Affinity's shares were traded on that day in response to the Company's announcement of a lower than expected underlying FY15 EBITDA forecast.
- 2 Weighted average number of shares outstanding (WANOS) during relevant period.
- 3 Number of shares traded during the period divided by WANOS.
- 4 Implied annualised figure based upon implied level of liquidity for the period.

Source: Bloomberg and LEA analysis.

- 85 In each of the periods disclosed, total share turnover (on an annualised basis) has been close to 100% of the issued shares in Affinity, indicating a high level of market liquidity for a company of its size.

²² Whilst 2 July 2015 was the last day prior to the announcement of G8 Education's intention to make a takeover offer for Affinity, an abnormally high percentage (i.e. 24%) of Affinity's shares were traded on that day in response to the Company's announcement of a lower than expected underlying FY15 EBITDA forecast.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

IV Industry overview

Introduction

- 86 The child care industry in Australia principally provides care and early stage education to children from birth to 12 years old. The services offered by the child care industry include long day care, outside school-hours care, family day care and occasional care. In 2013, long day care services accounted for around 56% of industry revenue, outside school hours care 32%, family day care 9% and occasional care just 3%²³.
- 87 The industry is highly regulated and centres operate under the National Quality Framework (NQF), which is discussed in more detail below.
- 88 The industry has experienced strong growth in the last decade. Since 2004, the total numbers of children and families using child care have grown significantly. In 2014 there were over 1.20 million children attending child care, double the number in 2004, and the number of families with at least one child in approved care grew by 45% over the same period²⁴.
- 89 In June 2015, there were 14,910 approved child care services provided (13,944 centre-based services and 966 family day care services), an increase of 49% from 10,023 in 2004²⁵. The industry was expected to generate revenue of \$7.8 billion in FY14²⁶, and around \$9 billion in FY15, with an overall profit of \$495 million in that year²⁷.

Long day care

- 90 Long day care centres represent the largest contributor to industry revenue. These centres are set up to primarily offer care to below school age children with working parents. The care can be both full and part time. In September 2014, there were 658,400 children in long day care, compared to 441,240 in 2004, an increase of 49%²⁸.
- 91 For long day care centres, compliance with the NQF means that 50% of staff must have or be working towards a diploma qualification or higher and the remaining 50% must have or be working towards a Certificate III level education and care qualification (or higher). Depending on the size of the service, it must be attended by, or have access to an early childhood teacher who has completed 50% of the degree^{29, 30}.
- 92 ACECQA publishes a list of approved qualifications for each qualification level. Educators with a qualification that does not appear on the list can apply to ACECQA for individual recognition. Early childhood teaching students are able to be counted as diploma level educators for ratio purposes.

²³ Source: Affinity Education Group (2013) Prospectus.

²⁴ Source: Department of Education, Employment and Workplace Relations (DEEWR) (2013) *Child Care in Australia*, and Department of Social Services (DSS) (2015) *Early Childhood and Child Care in Summary: September quarter 2014*.

²⁵ Source: Australian Children's Education and Care Quality Authority (August 2015) *NQF Snapshot Q2 2015*.

²⁶ Source: Think Childcare & Education (2014) *Prospectus*.

²⁷ Source: Franchise Business website, accessed 8 July 2015.

²⁸ Source: DEEWR (2013) *Child Care in Australia* and DSS (2015) *Early Childhood and Child Care in Summary: September quarter 2014*.

²⁹ Source: Australian National Audit Office (ANAO) (2015) *Administration of the Early Years Quality Fund*.

³⁰ Certificate III courses typically require 12 months of full-time study, diplomas require 18-24 months of full-time study (or 2-3 years for an advanced diploma) and a Bachelor Degree requires 3-4 years of full time study.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

Outside school-hours care

- 93 Outside school-hours care refers to before and after school short-term care to children of primary school age. Vacation care is also considered part of this segment, providing child care services to parents during school holidays. In September 2014, there were 369,630 children in outside school-hours care, compared to 235,550 in 2004, an increase of 57%³¹.

Family day care

- 94 Family day care is the only area of child care that takes place outside of a centre, with care provided in the home of an approved educator. This type of care can be all day, part time, occasional or outside school hours. In September 2014, there were 203,790 children in family day care, compared to 117,670 in 2004, an increase of 73%³². Family day care is a capped program, with a limited number of places available in a given time period.
- 95 All family day care educators must hold or be working towards an approved Certificate III level education and care qualification (or higher).

Occasional care

- 96 Occasional care offers child care services for children on a casual basis. Centres offering occasional services are primarily set up to provide flexibility to parents with irregular working hours or short-term needs. The number of children accessing the service fell from 11,240 in 2004 to 7,750 in September 2014 (a decrease of 31%)³³, due to the Labor Government cutting all federal funding to neighbourhood-based occasional child care as a part of its FY11 budget³⁴. State governments had to pick up the federal government's share of funding. However, the Coalition Government this year allocated \$12.6 million over four years to reinstate Neighbourhood Model Occasional Care for emergency or late-notice situations³⁵.

Industry drivers

- 97 We set out below (in no particular order) the primary industry drivers being: female participation in the workforce; population trends; real household disposable income; and government financial support.

Females in the labour force

- 98 The workforce participation rate of women with dependent children drives the demand for child care services and can be affected by factors including out-of-pocket costs, accessibility of suitable child care services, the support of partners and the availability of employers offering flexible work and other family-friendly arrangements.

³¹ Source: DEEWR (2013) *Child Care in Australia* and DSS (2015) *Early Childhood and Child Care in Summary: September quarter 2014*.

³² Source: DEEWR (2013) *Child Care in Australia* and DSS (2015) *Early Childhood and Child Care in Summary: September quarter 2014*.

³³ Source: DEEWR (2013) *Child Care in Australia* and DSS (2015) *Early Childhood and Child Care in Summary: September quarter 2014*.

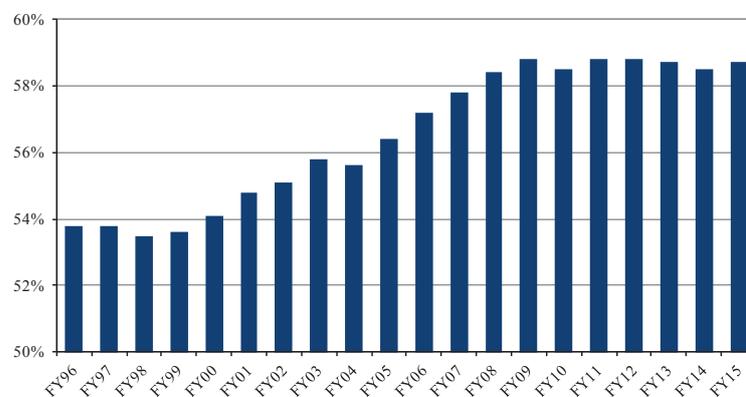
³⁴ For the reason that funding was not tied to service delivery and services were not subject to quality controls or learning outcomes.

³⁵ Source: *Budget Review 2014-15: Early Childhood* on www.aph.gov.au accessed 14 July 2015.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

- 99 Over the last few decades, there has been an increase in overall female participation in the workforce, from 54% in FY96 to 59% in FY15³⁶. Using the most recent comparable data, Australia's maternal employment rate in 2009 (62%) was below the Organisation of Economic Co-operation and Development average (66%)³⁷.

Female participation in the workforce



Source: ABS 6202.0 *Labour Force, Australia* Table 03.

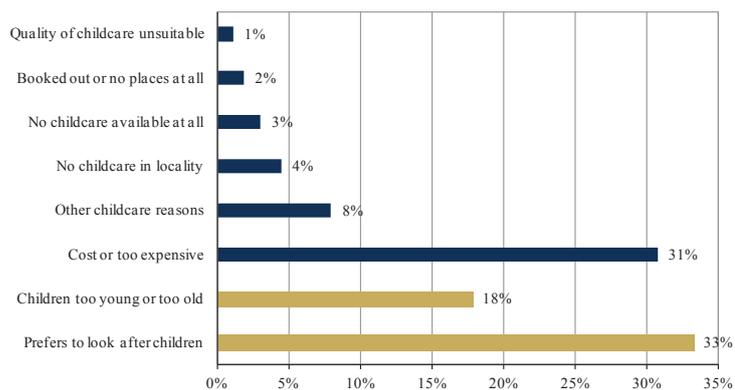
- 100 Surveys of parents not in the workforce due to caring for children have found that around half of those who stay home with their children do so because they prefer it to sending them to day care, or because they believe their child is too young for day care. The other half, however, is out of the workforce due to child care issues, indicating that increased availability of suitable child care services may improve female workforce numbers.

³⁶ Source: ABS 6202.0 *Labour Force, Australia*.

³⁷ Source: Productivity Commission (2014) *Childcare and Early Childhood Learning*.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

Main reason not working due to caring for children: February 2014

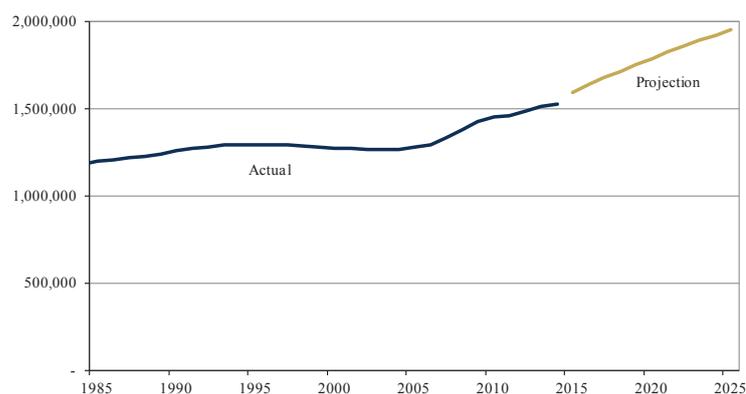


Source: ABS 6226 Persons not in the labour force

Population trends

- 101 Child care centre occupancy is driven in part by the population of eligible children. There has been an accelerated increase in the number of children aged 0-4 years in recent years. The number of children from birth to 4 years increased 20% in the 10 years to June 2014, and is forecast to increase by a further 23% between 2015 and 2025³⁸, representing annual compound growth of around 2%.

Australian population growth: Children aged 0-4 years



Source: ABS 3222.0 Population Projections, Australia and ABS 3101.0 Australian Demographic Statistics.

³⁸ Source: ABS 3222.0 Population Projections, Australia and ABS 3101.0 Australian Demographic Statistics.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

Real household disposable income

- 102 Household disposable income has an effect on the demand for child care services. In 2010 more than 50% of children whose parents had a combined weekly income in excess of \$2,000 accessed child care services, in contrast to just 25% accessing the services when combined weekly parental income was \$800³⁹.

Government financial support with child care fees

- 103 As Australia's population ages, labour force participation becomes increasingly important if Australia is to maintain its standard of living. Government assistance with child care fees plays an important role in encouraging participation in the workforce as the cost of child care can present a major disincentive for parents to return to the workforce.
- 104 The Australian Government has provided increasing levels of funding to assist families to access early childhood education and care since 1972. Government expenditure on child care services doubled for FY04 to FY07, and again from FY08 to FY11⁴⁰. While the Coalition Government's 2015 budget included a \$3.5 billion increase over the next four years, cuts in other areas, such as paid parental leave and family tax benefit payments⁴¹, will largely offset the increased benefit for some families. Consequently, the overall benefit to the industry is not yet clear.
- 105 The Coalition Government's proposed changes may not go ahead unchanged as they are tied to the Senate passing cuts to family tax benefits. The Labor Government has said it will not support the move to tie child care reforms to changes to the family tax benefit⁴².
- 106 Currently, the Australian Government provides assistance to eligible families through three schemes, the Child Care Benefit (CCB), the Child Care Rebate (CCR) and a gap fee⁴³:
- (a) the CCB is means tested and eligible families currently receive support for between 24 to 50 hours of child care per week, depending on whether the parents are working, studying, or training. The CCB is paid to the service provider
 - (b) the CCR is not means tested and is paid to either parents or the service provider. In 2008, the rate of the CCR was increased from 30% to 50% of out-of-pocket expenses, and the annual maximum rebate was increased from \$4,354 to \$7,500 per child. Although previously increased annually to match inflation the rebate cap was frozen from 2011 to 2014 at \$7,500 per child
 - (c) eligible parents also receive help to pay the gap between the CCB and hours of care needed for approved activities such as job search, work, study or training.

³⁹ Source: Affinity Education Group (2013) *Prospectus*.

⁴⁰ Source: DEEWR (2013) *Child Care in Australia*.

⁴¹ From 1 July 2015 the primary earner income limit for the Family Tax Benefit Part B has been reduced to \$100,000 instead of \$150,000. In addition, more than half a million households stand to lose the Family Tax Benefit Part B when their youngest child turns six under plans stalled in parliament. Source: www.sbs.com.au *Govt committed to family tax benefit cut* published 10 June 2015.

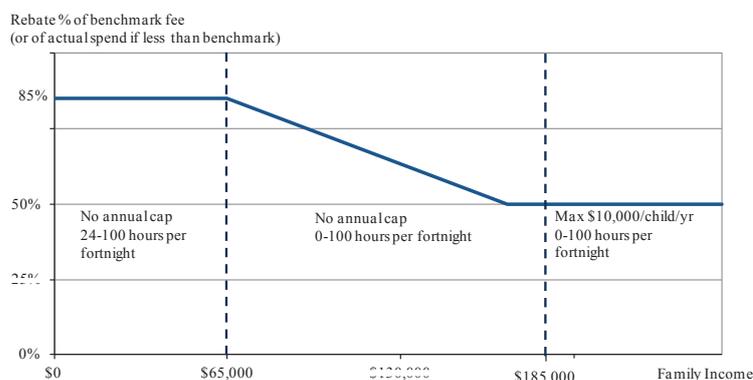
⁴² Source: www.news.com.au accessed 14 July 2015, *Federal Budget 2015: Government unveils jobs for families package* published 11 May 2015.

⁴³ Known as Jobs, Education and Training Child Care Fee Assistance (JETCCFA), it provides assistance to eligible parents who qualify for the maximum rate of CCB. It pays most of the gap in out-of-pocket expenses while a parent is working, studying or training.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

- 107 The Coalition Government is proposing to replace these schemes from 1 July 2017 with a single, means tested payment made directly to the service provider. The new single payment will not be subject to a cap for families with incomes under \$185,000, but will be capped at \$10,000 per child for families with incomes over \$185,000. Families with incomes of up to \$65,000 will be able to access subsidies of 85% of the actual fee or a benchmark price. The level of support will gradually reduce to 50% for families with incomes of \$170,000 and above.

Rebates for child care under the new system



Source: McKell Report (2015) Baby steps or giant strides?

Industry structure and competition

- 108 The child care industry is highly fragmented with the majority of providers (83%) managing only one education and care service, 16% managing services with 2–24 centres and only 1% managing operations with 25 centres or more⁴⁴.

Major operators

- 109 The main participants in child care services in Australia compete on a national level. A summary of the major operators is as follows⁴⁵:
- Goodstart Early Learning is the largest not-for-profit operator with approximately 641 centres nationally and spaces for some 73,000 children
 - G8 Education is the largest for-profit operator in the industry, with 457 centres and 33,402 licensed places as at 30 June 2015
 - Affinity has 161 centres and 12,682 licensed places as at 30 June 2015

⁴⁴ Source: ACECQA (May 2015) *NQF Snapshot Q1 2015*.

⁴⁵ Source: Think Childcare and Education (2014) Prospectus, www.goodstart.org.au accessed 16 September 2015 and KU Children's Services annual report 2014.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

- (d) other not-for-profit operators include KU Children's Services (152 centres) and the YMCA Australia (23 early learning centres, 28 family day care programs and 233 out of school hours care centres)
- (e) Guardian Early Learning is a privately held for-profit business, with around 90 centres.

110 Barriers to entry for new centre-based services are significant and include:

- (a) obtaining local government planning approval
- (b) capital costs
- (c) increasing compliance requirements and quality standards, such as caregiver qualifications and minimum staff-to-child ratios.

111 In contrast to centre-based services, home-based care arrangements face lower barriers to entry, particularly with respect to capital costs as home-based care operations are generally located within an existing residence.

Fees

112 Child care fee increases are generally annual however bi-annual increases are becoming more common practice in the industry. Increasing demand in the face of rising fees suggests that parents are willing to pay for quality, flexible care that suits their needs.

113 Average fees charged in the September quarter 2014, and 12 month increases, for the main service types are shown below:

Average hourly fee per child		
Service type	Jun 14 quarter	Increase on previous year
Long day care	\$8.05	5.2%
Family day care and in-home care	\$7.90	1.9%
Occasional care	\$9.35	3.3%
Outside school hours care	\$6.30	3.3%

Source: DSS (2015) *Early Childhood and Child Care in Summary: September quarter 2014*.

114 From the introduction of the new single payment on 1 July 2017, the hourly benchmark price for long day care will be \$11.55 per hour, per child. For children at centres that charge less than this rate, the families will receive the same percentage of support based on the rate they pay. For children at more expensive centres the families will receive support set as a percentage of the maximum rate and will pay the difference (i.e. the gap) themselves. The introduction benchmark fee for family day care will be \$10.10 per hour, per child, and for out of school hours care the benchmark will be \$7.00 per hour, per child⁴⁶.

⁴⁶ Source: Media release dated 10 May 2015 from www.pm.gov.au, accessed 9 July 2015.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

Key costs

- 115 Employee expenses are the most significant cost in the child care industry. Due to the implementation of the NQF, the industry is experiencing chronic staffing shortages⁴⁷ and wages continue to trend upwards as workers and educators become more skilled.
- 116 Implementation of the NQF has involved a transition from state and territory set educator-to-child ratios to new national ratios⁴⁸. In some cases the new ratios are much higher than in the past and will significantly increase employee costs. The final changes will be introduced on 1 January 2016.
- 117 The previous Australian Government committed to establish the Early Years Quality Fund (EYQF) in March 2013, a \$300 million fund to help early child care services to attract and retain qualified staff and in the process keep costs from being passed on to parents in the form of higher fees. The *Early Years Quality Fund Special Account Act 2013* came into effect on 1 July 2013 however, the level of funding was estimated to cover only around 30% of all long day care workers and the program was oversubscribed⁴⁹.
- 118 Following the 2013 Federal election, the Coalition Government reviewed the EYQF and decided to replace it with a new professional development program for child care educators, using uncommitted funds from the EYQF. Funding agreements already in place were renegotiated with funding levels reduced. As at 30 June 2014, \$62.5 million of the EYQF had been paid to industry service providers⁵⁰.
- 119 The new program is directed towards assisting educators in long day care services to meet the qualification requirements under the NQF and improving practice to ensure quality outcomes for children.

Government regulation and policy

Overview of the NQF

- 120 On 1 January 2012, the NQF introduced a new integrated national approach to the regulation and quality assessment processes for child care services.
- 121 The framework created a uniform national approach to the regulation and quality assessment of early childhood education and care services. It replaced existing separate state and territory licensing and quality assurance processes. The national legislative framework consists of the *Education and Care Services National Law Act 2010* (National Law) and the *Education and Care Services National Regulations 2011*, as amended (National Regulations).
- 122 The National Regulations prescribe the minimum number of educators required to educate and care for children at an education and care service, and the minimum qualifications for educators. The following table shows the educator-to-child ratios required under the National Regulations and the current ratios. No national ratio has been set for over preschool age children, however state and territory ratios may apply.

⁴⁷ Source: The Coalition's Policy for Better Child Care and Early Learning September 2013.

⁴⁸ Refer to paragraph 122 for details.

⁴⁹ Source: ANAO (2015) *Administration of the Early Years Quality Fund*.

⁵⁰ Source: ANAO (2015) *Administration of the Early Years Quality Fund*.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Educator-to-child ratios for centre based services		0-2 year old ⁽¹⁾	2-3 year old	3-5 year old
Current:	QLD	1 : 4	1 : 6	1 : 12
	NSW	1 : 4	1 : 8	1 : 10
	VIC	1 : 4	1 : 4	1 : 15
	SA ⁽²⁾	1 : 4	1 : 10	1 : 10
	WA	1 : 4	1 : 5	1 : 10
National Regulations:	from 1 Jan 2016	1 : 4	1 : 5	1 : 11

Note:

1 All states and territories were required to comply with the ratio of 1:4 for 0 – 2 year olds from 2012.

2 South Australia (SA).

Source: National Regulations, Part 4.4 and Chapter 7 and ACECQA website.

- 123 Some states have ratios that are lower than the National Regulations. These states will not be required to change their ratios on 1 January 2016.
- 124 For family day care services the National Regulations have been in force in all states and territories since 2014. The educator-to-child ratio required for family day care services is 1:7, with no more than four preschool age or younger children.
- 125 The Australian Government is in full cooperation with state and territory governments to take responsibility for both implementing these standards, and measuring child care institutions against the standards. This joint action between local and national governments aims to establish the standards to ensure quality services have a consistent approach in the industry.
- 126 Key aspects of the NQF include:
- National Quality Standard** – all services will be assessed against the National Quality Standard (NQS) which will assess services in seven quality areas as well as providing an overall service assessment
 - National Quality Rating System** – this system consists of five rating levels for seven key quality areas, detailed as follows:

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

National Quality Rating System

1	Educational program and practice	Significant Improvement Required	Working Towards National Quality Standard	Meeting National Quality Standard	Exceeding national Quality Standard	Excellent
2	Children's health and safety	Service does not meet one of the seven quality areas or a section of the legislation and there is an unacceptable risk to the safety, health and wellbeing of children.	Service may be meeting the National Quality Standard in a range of areas, but there are one or more areas identified for improvement.	Service meets the National Quality Standard.	Service goes beyond the requirements of the National Quality Standard in at least four of the seven quality areas.	Service promotes exceptional education and care, demonstrates sector leadership, and is committed to continually improving.
3	Physical environment					This rating can only be awarded by ACECQA.
4	Staffing arrangements			Service provides quality education and care in all seven quality areas.		Services rated exceeding National Quality Standard may choose to apply for this rating.
5	Relationships with children					
6	Partnerships with families and communities	Immediate action will be taken to address issues.				
7	Leadership and service management					

Source: ACECQA (August 2015) NQF Snapshot Q2 2015.

As at 30 June 2015, 9,347 or 63% of services had received a quality rating, of which 66.5% were meeting or exceeding the NQS. Only 9 of the 9,347 services were rated as Significant Improvement Required and the remaining 33.4% were classified as Working Towards NQS⁵¹

- (c) **Early Years Learning Framework** – this national framework for early childhood educators aims to ensure delivery of nationally consistent and quality education from birth to five years and through the transition to school
- (d) **new national body** – ACECQA now monitors national consistency and assures quality implementation of the NQF
- (e) **each state and territory as a regulatory authority** – regulatory authorities in each state and territory manage the NQF locally. These authorities have a quality assessment role under the NQF and responsibility for granting approvals, assessing and rating services and monitoring compliance with the legislation.

Outlook

Females in the labour force

- 127 The workforce participation rate of women has plateaued, with no growth in the last five years; however, Australia still has one of the lowest rates of female workforce participation of any industrialised nation suggesting that higher participation rates can be achieved.
- 128 The Productivity Commission's finding that roughly 165,000 parents (on a full-time equivalent basis) with children aged under 13 years would like to work, or work more hours (most of them part time), but are not able to do so because they are experiencing difficulties

⁵¹ Source: ACECQA (August 2015) NQF Snapshot Q2 2015.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

with the affordability and accessibility of suitable child care services⁵², also suggests that Australia's maternal workforce participation rate will increase if child care affordability and availability improve.

- 129 The government's introduction of a stricter activity test related to child care benefits is aimed at ensuring that government funding of child care results in an increased female workforce participation rate. Under the current structure there are no minimum hours of work / training / study for the CCR as long as both parents, or the sole parent, work at some point during the week while the child is in care. The CCB provides for up to 24 hours care per week for those not working, and up to 50 hours for those with 15 hours of work / study / training per week (or 30 hours per fortnight). The new activity test will apply to families with incomes over \$65,000 as follows:

Activity test for families with income over \$65,000		
Hours of work / study / training per fortnight	Maximum hours of child care subsidy per fortnight	
	Current system	New system
0 – 8	48	0
8 – 16	100	36
17 – 48	100	72
49	100	100

Source: McKell Institute (June 2015) *Baby steps or giant strides?*

Other government funding changes

Nanny Pilot Program

- 130 In April 2015, the government announced \$246 million in funding over two years for the Interim Home Based Carer Subsidy Program.
- 131 From early 2016 the interim program will subsidise the cost of child care for about 10,000 children delivered in the family home by approximately 4,000 nannies. To be eligible for the subsidy, nannies will be required to be attached to an approved service.
- 132 The interim program will extend fee assistance to participating families who are having difficulty obtaining child care, particularly those with irregular working hours, families in rural or remote locations or families with other accessibility issues. Care will be provided for up to 50 hours per week, with families meeting the program guideline requirements and earning less than \$250,000 per year, are eligible to apply.
- 133 As the program targets families who are generally not using child care services at present this is likely to be a positive outcome for service providers. The pilot program will run until 31 December 2017⁵³.

Child Care Safety Net

- 134 The government will provide additional funding of \$327.7 million over four years from 2015-16 to provide targeted support to disadvantaged or vulnerable families through a new Child Care Safety Net. The funding will target disadvantaged or vulnerable children, whether

⁵² Source: Productivity Commission (2014) *Childcare and Early Childhood Learning* Inquiry report No. 73.

⁵³ Source: DSS website, accessed 16 September 2015.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



they are children with disabilities, children at risk of abuse, children from families on incomes under \$60,000 or families facing financial risk. Existing programs that support disadvantaged and vulnerable families will be wound down along with the current Budget Based Funding programs so the impact on service providers is not clear⁵⁴.

Inclusion Support Program

- 135 The new \$409 million Inclusion Support Program, beginning in July 2016, will provide more funding for services to get the necessary skilled staff and equipment to support children with special needs. This will include a significant increase in the inclusion support subsidy, meaning centre-based services will no longer have to pay a “gap fee” to engage a Certificate III qualified staff member to assist with children with additional needs. Family day care providers will also be assisted to include children with additional needs.
- 136 The program will ensure that families with children who have special needs will have more access to child care services in mainstream facilities. The program will provide support to an estimated 11,300 services and is a positive initiative for the industry.

⁵⁴ Source: DSS website, accessed 16 September 2015.

ANNEXURE E

INDEPENDENT EXPERT'S REPORT (CONT)

V Valuation methodology

Valuation approaches

- 137 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
 - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
 - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
 - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
 - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 138 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 139 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 140 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.
- 141 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company is adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodologies selected

- 142 The market value of Affinity has been assessed by aggregating the market value of the business operations, together with the realisable value of any surplus assets and deducting net borrowings.
- 143 The valuation of the business has been made on the basis of market value as a going concern. The primary valuation method used to value Affinity's business is the capitalisation of future maintainable earnings approach (using EBITA). Under this methodology the value of the business is represented by its core underlying maintainable EBITA capitalised at a rate (or EBITA multiple) reflecting the risk inherent in those earnings.
- 144 We have adopted this method when valuing Affinity for several reasons:
- the child care industry is a relatively mature industry (albeit fragmented, thus providing growth opportunities for acquirers) and Affinity's business is made up of individual centres that have long established histories of profitability
 - we do not have long-term cash flow projections which we regard as sufficiently robust to enable a DCF valuation to be undertaken⁵⁵
 - EBITA multiples for listed companies operating in the sector can be derived from publicly available information
 - transaction evidence in the sector is generally expressed in terms of EBITA multiples.
- 145 The following methods have been used to cross-check our valuation:

Methods used to cross-check valuation range	
Method	Reason
Capitalisation of earnings after tax (Price earnings (PE) multiple approach)	<ul style="list-style-type: none"> Demonstrated history of profits and expectation of on-going profitability Listed company PE multiples for 'comparable' companies are readily available IPO evidence includes, inter alia, PE multiples
Listed market price adjusted for a premium for control	<ul style="list-style-type: none"> Consideration given to whether the pre-bid share price is an appropriate reference point upon which to derive the value of Affinity shares on a 100% controlling interest basis

⁵⁵ We note that Affinity has prepared cash flow projections for financial reporting / impairment testing purposes. However, the objective of impairment tests is to opine on whether the carrying values of assets are appropriate rather than to assess market value of 100% of the equity of the entity.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

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VI Valuation of 100% of Affinity (per LEA IER of 20 August 2015)⁵⁶

Overview

- 146 As stated in Section V, the market value of Affinity has been assessed on a going concern basis by aggregating the market value of the business operations, together with the realisable value of any surplus assets and deducting net borrowings.
- 147 We have adopted the capitalisation of EBITA as our primary valuation method. Under this methodology the value of the business is represented by its core underlying EBITA capitalised at a rate (or EBITA multiple) reflecting the risk inherent in those earnings.
- 148 The resulting value has been cross-checked for reasonableness by reference to the PE multiples implied by our valuation. We have also given consideration to whether the pre-bid share price is an appropriate reference point for a further cross-check of our valuation.

Assessment of underlying EBITA

- 149 In order to assess the appropriate level of EBITA for valuation purposes we have had regard to the historic and forecast results of the business, and discussed the business' financial performance, operating environment and prospects with Affinity management.
- 150 In undertaking our analysis, we have separately considered:
- (a) the underlying profitability of individual centres – we have reviewed the profitability of the centres at the underlying EBITDA level on an individual basis (i.e. the revenue and expenses directly incurred by the individual centres on a day-to-day basis excluding shared services and centralised costs such as regional managers, insurance etc)
 - (b) costs incurred by head office – we have reviewed the costs incurred by head office (before depreciation and amortisation) as part of the centralised corporate model that it operates (i.e. all other remaining expenses not directly incurred by the individual centres and not captured within (a))
 - (c) depreciation and software amortisation charges – we have reviewed management's forecast depreciation and software amortisation charges for FY15 and adjusted them to reflect the full year impact of recently acquired centres.
- 151 We have separately valued the management service fee income received by Affinity as a part of Other assets / (liabilities) (refer to paragraph 189).

Individual centres

- 152 We set out below a summary of the historic financial performance of the individual centres. As new centres have been acquired by Affinity throughout each reporting period, we have, for comparative purposes, grouped the Company's 161 centres according to their period of acquisition (i.e. by vintage):

⁵⁶ Updated for Section and paragraph number references only.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

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Affinity – underlying EBITDA by centre ⁽¹⁾⁽²⁾						
Centre groups by acquisition date	No of centres	Configured places ⁽³⁾	1H14A \$m	2H14A \$m	1H15A \$m	LTM ⁽⁴⁾ \$m
Group 1 – Pre 1 Jan 14	58⁽⁵⁾	4,216				
Revenue			34.1	40.1	33.7	73.9
Underlying EBITDA			6.8	10.1	6.0	16.1
<i>EBITDA margin</i>			<i>19.8%</i>	<i>25.0%</i>	<i>17.9%</i>	<i>21.8%</i>
Group 2 – 1 Jan 14 to 30 Jun 14	33⁽⁵⁾	2,587				
Revenue			2.3	22.5	19.9	42.4
Underlying EBITDA			0.3	4.8	3.1	7.9
<i>EBITDA margin</i>			<i>15.0%</i>	<i>21.2%</i>	<i>15.3%</i>	<i>18.5%</i>
Group 3 – 1 Jul 14 to 31 Dec 14	34⁽⁵⁾	2,383				
Revenue				11.1	21.5	32.6
Underlying EBITDA				2.7	4.2	6.9
<i>EBITDA margin</i>				<i>24.0%</i>	<i>19.6%</i>	<i>21.2%</i>
Group 4 – 1 Jan 15 to 30 Jun 15	36	2,862				
Revenue					11.2	11.2
Underlying EBITDA					2.7	2.7
<i>EBITDA margin</i>					<i>23.7%</i>	<i>23.7%</i>
Total revenue			36.4	73.7	86.4	160.1
Total underlying EBITDA			7.1	17.5	16.0	33.5
<i>EBITDA margin</i>			<i>19.5%</i>	<i>23.7%</i>	<i>18.5%</i>	<i>20.9%</i>

Note:

- 1 Rounding differences may exist.
- 2 Underlying EBITDA excludes one-off transaction and integration expenses.
- 3 As at 30 June 2015.
- 4 Last 12 months (LTM).
- 5 As a result of centres either being split or consolidated post acquisition, the centre numbers set out above marginally differ to those previously reported by Affinity in its prospectus, 1H14 Appendix 4D and FY14 annual report.

Source: Affinity and LEA analysis.

153 In assessing the underlying aggregate EBITDA of Affinity's individual centres we note the following:

- (a) revenue and underlying EBITDA contributions for Groups 2, 3 and 4 are only part period contributions for 1H14, 2H14 and 1H15 respectively. We estimate that the Group 4 centres would have generated revenue of approximately \$27.0 million in 1H15 had they been acquired on 1 January 2015
- (b) as previously discussed, Affinity's revenue and earnings are seasonal. On a like-with-like basis revenue for the first half (i.e. 1 January to 30 June) generally represents around 46% of revenue for any given 12 month period
- (c) a 3.0% fee increase across the portfolio was implemented on 6 July 2015 (the benefits of which are therefore not reflected in the historic results)
- (d) the revenue and underlying EBITDA achieved by the Group 1 centres for 1H15 was below that achieved in 1H14 (on lower revenue and margins)

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ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

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- (e) the underlying EBITDA margin achieved by the Group 2 centres for 1H15 were relatively consistent with that achieved in 1H14 (notwithstanding 1H14 reflected a part period contribution)
- (f) Affinity has acquired one further centre subsequent to 30 June 2015 and has entered into a contract to acquire another centre which is expected to settle in 2H15. The earnings of these centres are not reflected in any of the Groups set out above.

154 On 2 July 2015, Affinity announced that it expects underlying EBITDA for FY15 to be between \$27 million and \$32 million. This was revised to \$30 million to \$32 million on 18 August 2015. After adding back the costs incurred by head office (excluding depreciation and software amortisation) and a small amount of other income, this forecast reflects underlying forecast EBITDA for the individual centres for FY15 of between \$45 million and \$47 million. In relation to management's forecast, we note that:

- (a) the lower end (i.e. \$44 million) principally reflects a continuation of the lower 1H15 occupancy trend compared to 2014 and slight improvement in the ratio of employee expenses to revenue compared to 2H14 (due primarily to the benefit of the 3.0% increase in fees)
- (b) the higher end (i.e. \$47 million) principally reflects an increase in average occupancy levels in 2H15 to levels consistent with that achieved in 2H14 and a related improvement in the ratio of employee expenses to revenue compared to 2H14 (due to the 3.0% fee increase and assumed efficiency savings)
- (c) neither the low nor high end of the range reflects the full year EBITDA contribution from centres acquired in 1H15 or post 30 June 2015.

155 Having regard to the above and the estimated full year impact of recently acquired centres, we have adopted aggregate underlying EBITDA for Affinity's individual centres of \$48.0 million.

Costs incurred by head office

156 The categories of expense incurred by Affinity's head office are as follows:

- (a) Corporate Charges – corporate head office expenses including costs associated with being a publicly listed company (e.g. listing and registry fees, shareholder communication costs etc), CEO and CFO (and other head office staff member) salaries, head office lease charges and general consultancy fees
- (b) Straight line lease expenses – a non-cash accounting entry to spread the cost of lease obligations evenly over the lease term
- (c) a number of costs which are paid by Affinity's head office but relate to the operation of the individual centres:
 - (i) Shared Services – costs associated with the direct oversight of the individual centres (operational managers, regional managers and facilities management) as well as shared services being human resources, payroll, accounts processing and finance

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

- (ii) Centralised Costs – costs directly attributable to the individual centres but centrally controlled as part of Affinity's centralised corporate model. Costs include marketing, IT, insurance and procurement.

- 157 The FY14 and forecast FY15 costs incurred by Affinity's head office (excluding depreciation and amortisation) are set out below. We note that Affinity has implemented various cost saving initiatives in 1H15 and early 2H15⁵⁷. The estimated full year benefit of these initiatives is reflected in the FY15 pro forma forecast:

Affinity – costs incurred by head office ⁽¹⁾			
	FY14 Actual \$m	FY15 Forecast \$m	FY15 Pro forma ⁽²⁾ \$m
Public company costs ⁽³⁾		(0.9)	(0.9)
Head office employees ⁽⁴⁾		(2.6)	(2.6)
Ad-hoc consultancy costs		(0.1)	(0.1)
Accounting, tax and external audit costs		(0.3)	(0.3)
Other ⁽⁵⁾		(0.5)	(0.2)
Corporate Charges		(4.4)	(4.1)
Straight line lease expenses (non-cash)		(2.2)	-
Shared Services and Centralised Costs		(9.3)	(8.1)
Total excluding depreciation and amortisation	(11.9)	(15.9)	(12.2)

Note:

- 1 Rounding differences may exist.
- 2 Ongoing estimated full run-rate cash costs.
- 3 Listing fees, shareholder communication costs, Board of director costs etc.
- 4 Chief Executive Officer, Chief Financial Officer, Chief Operations Officer, Financial Controller and associated support staff.
- 5 An allocation based on head count of (inter alia) rent, insurance, travel, IT, recruitment, training.

Source: Affinity and LEA analysis.

- 158 A proportion of the Corporate Charges would be saved in the event that Affinity was acquired and delisted from the ASX. Based upon discussions with management and our analysis of the individual cost items incurred, savings are estimated to be approximately \$2.9 million per annum. In addition, there are likely to be further Shared Services and Centralised Cost savings available to a purchaser with a large existing portfolio of child care centres.
- 159 Having regard to the above, we have adopted head office costs of \$8.6 million per annum (net of a share of synergy benefits).

Depreciation and software amortisation

- 160 Management have provided us their forecast depreciation and software amortisation charges for FY15. We have reviewed the forecast and adjusted it to reflect the full year impact of the centres acquired in 1H15 (as well as the two centres acquired post 30 June 2015⁵⁸). For the purposes of this report we have adopted depreciation and software amortisation charges of \$2.3 million.

⁵⁷ For example, employee headcount reductions.

⁵⁸ We note that one of these centres is yet to settle.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

Conclusion on EBITA for valuation purposes

161 Based on the above, we have adopted EBITA for valuation purposes as follows:

Affinity – EBITA for valuation purposes		
	Paragraph	\$m
EBITDA of individual centres	155	48.0
Costs incurred by head office	159	(8.6)
EBITDA for valuation purposes		39.4
Depreciation and software amortisation	160	(2.3)
EBITA for valuation purposes		37.1

EBITA multiple

162 The selection of the appropriate EBITA multiple to apply is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

<ul style="list-style-type: none"> • The stability and quality of earnings • The quality of the management and the likely continuity of management • The nature and size of the business • The spread and financial standing of customers • The financial structure of the company and gearing level • The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors • The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors 	<ul style="list-style-type: none"> • The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc • The cyclical nature of the industry • Expected changes in interest rates • The asset backing of the underlying business of the company and the quality of the assets • The extent to which a premium for control is appropriate • Whether the assessment is consistent with historical and prospective earnings
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163 We discuss below specific factors taken into consideration when assessing the appropriate EBITA multiple range for Affinity.

164 We note that EBITA adopted for valuation purposes reflects the full year earnings contribution from recently acquired centres. We have taken this into consideration in our assessment of the appropriate EBITA multiple range.

Listed company multiples

165 The EBITA multiples of Australian listed companies operating in the child care sector are set out below:

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

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Listed company multiples ⁽¹⁾⁽²⁾	Enterprise Value \$m	EV / EBITA multiples	
		FY15 Forecast x	FY16 Forecast x
G8 Education	1,461	9.3	7.8
Affinity:			
Based on 2 July 2015 close	161	6.2	5.2
Based on 2 July 2015 VWAP ⁽³⁾	187	7.3	6.1
Evolve Education Group Limited (Evolve Education)	156	6.0	5.9
Think Childcare Limited (Think Childcare)	38	5.7	4.8

Note:

- 1 A brief description of each company's operations are summarised at Appendix C.
- 2 G8 Education and Affinity as at 2 July 2015 (i.e. the date prior to the announcement of G8 Education's intention to make a takeover offer for Affinity). Evolve Education and Think Childcare as at 20 August 2015. Multiples based upon latest publicly available information at the date of calculation.
- 3 Volume weighted average price (VWAP).

166 In relation to the above we note that:

- (a) the EBITA multiples for G8 Education and Affinity have been calculated based on their closing share prices on 2 July 2015 (i.e. prior to the announcement of G8 Education's intention to make a takeover offer for Affinity).

On 2 July 2015 the price of Affinity shares fell sharply in response to the updated earnings guidance provided by the Company prior to the commencement of trading on that day. At the end of trading on 2 July 2015 Affinity shares closed down 34%⁵⁹, having traded in a wide range between 49.0 cents and 74.5 cents per share. On the day G8 Education acquired approximately 38 million shares (16.4%) at a price of 70 cents per share (this was not announced until the following day). Including G8 Education's purchase, the VWAP on 2 July 2015 was 65.5 cents per share. Given the volatility in the Affinity share price in response to the updated earnings guidance, we have also set out above the EBITA multiples for Affinity using the VWAP on 2 July 2015
- (b) Evolve Education, although listed in Australia, operates in the New Zealand (not Australian) child care sector
- (c) all four companies (particularly G8 Education and Affinity) have made acquisitions in calendar 2015. Thus, only the FY16 EBITA multiples above reflect the full year impact of these acquisitions and therefore provide a better indicator of their respective EBITA multiples
- (d) with the exception of the Affinity multiples based on the VWAP on 2 July 2015 (which reflect, in part, the acquisition of a pre-bid stake by G8 Education and are therefore impacted by corporate activity), the above multiples do not reflect a takeover (i.e. control) premium
- (e) the multiples are based upon closing share prices (and VWAP) on specific days and are not necessarily representative of the range of multiples that the companies trade on over time (which are shown further below).

⁵⁹ Compared to the last traded price on 1 July 2015.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

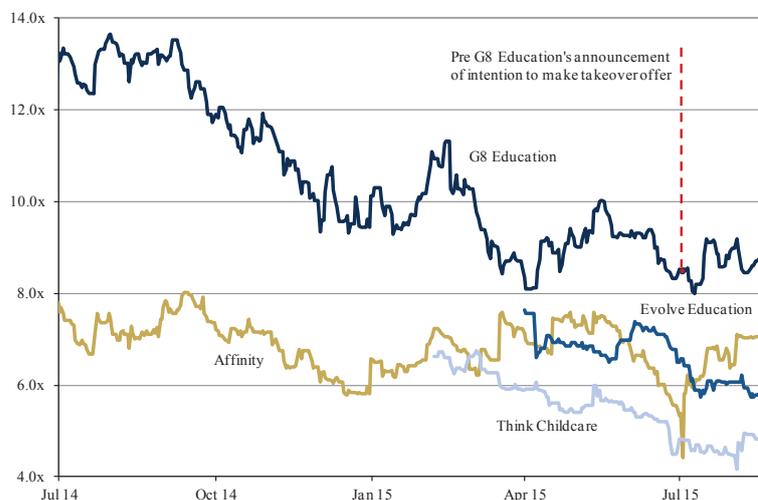
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- 167 Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBITA multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company.
- 168 However, we note that the above listed companies have generally traded above the multiples implied by recent transaction evidence in the child care sector, which indicates that higher values (and EBITA multiples) can generally be achieved by aggregating large child care centre portfolios and listing them on the ASX. Accordingly, in our opinion, it is not appropriate to apply a significant control premium. Furthermore, we note that observed control premiums incorporate an element which is attributable to synergy value and that our assessment of Affinity's EBITA (for valuation purposes) already incorporates an allowance for synergy benefits arising (predominately) from public company cost savings.

Listed company multiples over time

- 169 We set out below the one year forward EBITA multiples (based on average analyst forecasts) for the above listed child care companies from 1 July 2014 to 20 August 2015:

**One year forward EBITA multiples
1 July 2014 to 20 August 2015⁽¹⁾**



Note:

- 1 Think Childcare and Evolve Education multiples from 2 February 2015 and 30 March 2015 respectively, being the respective dates the companies were covered by more than one analyst. Affinity's enterprise value is based upon pro forma net debt from 17 April 2015 to 30 June 2015. The multiples for G8 Education and Affinity post 2 July 2015 are affected by the announcement of G8 Education's intention to make a takeover offer for Affinity.

Source: Bloomberg and LEA analysis.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

170 As evidenced from the above:

- (a) G8 Education has consistently traded on higher EBITA multiples than Affinity. In our view this reflects, inter-alia, the significant size differences between the companies (as evidenced by their respective market capitalisations⁶⁰) and the fact that G8 Education's child care centre portfolio is more heavily weighted toward metropolitan regions which tend to exhibit higher and less volatile child care centre occupancy ratios
- (b) both G8 Education and Affinity have generally traded on higher EBITA multiples to Think Childcare due to, inter alia, their greater size and the acquisitive growth strategies pursued since listing by both companies⁶¹
- (c) the EBITA multiples for each company have declined over the period (as have their share prices) due to, inter alia, increasing concerns about the ability of the companies to achieve organic growth as a result of softer industry conditions⁶² and regulatory changes⁶³. Further, we note that it has become more difficult for the companies to maintain their high rates of acquisitive growth due to:
 - (i) the much larger and ever increasing size of the businesses, and in turn the decreasing relative marginal contribution to earnings achieved from acquisitions⁶⁴
 - (ii) the diminishing number of opportunities to acquire a large number of centres in a single transaction, and
 - (iii) increased competition for the acquisition of centres which, all else being equal, is likely to lead to higher prices being paid (on an earnings multiple basis).

Transaction evidence

171 There have been a number of recent transactions in the child care industry.

IPO evidence

172 A summary of the EBITA multiples implied by recent IPO transactions is shown below:

⁶⁰ The respective market capitalisations on 2 July 2015 were \$1.2 billion (G8 Education) and \$125 million (Affinity based on closing price of 54 cents per share).

⁶¹ In contrast the level of acquisitive growth achieved by Think Childcare has been more modest in the short period since its listing.

⁶² For example, as noted in Section III, Affinity has indicated that increases in occupancy levels post 31 March 2015 have not been as high as experienced in 2014.

⁶³ For example, the NQF introduced changes to the educator-child ratios which will increase in many states from 1 January 2016 and potentially increase the wage costs of the centre operators in those states.

⁶⁴ This is particularly relevant for G8 Education which enjoyed first-mover advantage and was able to significantly increase the size of its centre portfolio in a very short period of time.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

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Transaction evidence – IPOs					
Date ⁽¹⁾	IPO	No. of centres	No. of managed centres	Enterprise value \$m	EV / EBITA Forecast ⁽²⁾
5 Dec 14	Evolve Education	85 ⁽³⁾	-	173.1 ⁽⁴⁾	7.8
24 Oct 14	Think Childcare	30	17	46.1	6.9
9 Dec 13	Affinity	57	11	88.4	7.3

Note:

- 1 Date of listing. Brief descriptions of each IPO are set out at Appendix D.
- 2 Based upon one year forward earnings.
- 3 Evolve Education also held 91 home based education licences at the time of listing.
- 4 Converted to AUD at the AUD:NZD exchange rate prevailing on date of listing.

Source: Company announcements, press commentary and LEA analysis.

- 173 The multiples implied by recent IPOs do not reflect a control premium and are based on the full year earnings from the portfolio of centres owned by the companies at their date of listing. In our opinion, the higher multiples attributable to them (compared to the multiples implied by the centre transactions below) principally relate to the economies of scale that can be achieved from owning a large portfolio of centres and the ability to utilise those economies of scale (and superior access to debt and equity markets) to drive future earnings growth from acquisitions.
- 174 Notwithstanding the above, we note that as at 20 August 2015 Evolve Education and Think Childcare were trading below their respective IPO issue prices and IPO multiples. Affinity was also trading below its IPO issue price and IPO multiples prior to the announcement of G8 Education's intention to make a takeover offer for the Company.

Centre transaction evidence

- 175 The EBITA multiples implied by recent centre acquisitions (as reported by the acquirers at the time of announcement of the acquisition) have ranged between 3.9 times and 7.0 times, with most transactions occurring in the range of 4.0 to 5.0 times EBITA⁶⁵.
- 176 In respect of the transaction evidence, we note:
- (a) the centre transaction announcements generally relate to the aggregate purchase price and average multiple paid for a group of centres that have been acquired via separately negotiated transactions with different vendors (as opposed to the purchase of a group of centres from a single vendor or multiple vendors in a single negotiated transaction). The multiples paid for the individual centres (or portfolios of centres) may be higher or lower than the average reported multiple
 - (b) the largest of the transactions, being G8 Education's acquisition of Sterling Early Education's 91 centres on 24 March 2014, was reported as occurring at 5.8 times annualised centre based EBIT for the year ending 31 December 2015
 - (c) G8 Education and Affinity are generally trading on higher EBITA multiples than the transaction evidence. We have attributed this listed company premium to:
 - (i) the larger size of G8 Education and Affinity

⁶⁵ Brief descriptions of each transaction are set out at Appendix D.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

- (ii) the economies of scale that can be achieved from owning large portfolios of centres
- (iii) G8 Education's and Affinity's superior access to debt and equity capital (as a result of their listed public company status), which has enabled both companies to pursue value accretive acquisitions⁶⁶.

Other transaction evidence

- 177 In addition to the above, we note that in January 2010 the independent expert appointed to opine on the merger of Early Learning Services Limited (ELS) and Payce Child Care Pty Limited (which was renamed G8 Education) valued ELS and the merged entity on a one year forward EBITA multiple of 7 to 8 times.
- 178 We also note that Affinity received a number of unsolicited approaches from G8 Education prior to the announcement of G8 Education's intention to make a takeover offer for the Company. The EBITA multiples implied by those approaches (which were rejected by Affinity) are as follows:

	Previous G8 Education approaches for Affinity – implied EBITA multiples ⁽¹⁾			
	Enterprise Value	FY15 Forecast	FY16 Forecast	EV / EBITA multiples 1 year forward
	\$m	x	x	x
24 April 2015 approach	256	8.2	6.2	7.4
24 June 2015 approach	191	6.7	5.1	5.8

Note:

1 Based upon listed market price on the date, pro forma 31 December 2014 balance sheet and analyst consensus forecasts.

Source: Affinity ASX announcement dated 6 April 2015, Bloomberg and LEA analysis.

- 179 However, it should be noted that both approaches occurred prior to Affinity providing the market with its underlying FY15 EBITDA earnings guidance on 2 July 2015. This guidance was less than the then current consensus EBITDA estimate. Had G8 Education had the benefit of this information prior to the approaches, then the proposed terms (under both approaches) may have been less favourable to Affinity shareholders.

Potential synergies

- 180 In its Replacement Bidder's Statement dated 20 August 2015, G8 Education has indicated that it expects to generate significant synergies of around \$6.5 million per annum from the acquisition of Affinity, as follows:

"G8 Education anticipates that, following integration and assuming G8 Education is entitled to proceed to compulsory acquisition and does so, it will be able to operate the 12,000 Affinity Education licensed childcare places, at a cost of \$455 per licensed place. This would see a reduction in costs for the Affinity Education licensed places from \$1,000 per place to \$455 per place, a saving of \$545 per licensed place or \$6.5 million per annum. G8 Education expects that the duplication in administrative and corporate functions, including head office

⁶⁶ For example, Affinity has a \$100 million acquisition facility from the CBA which can be used for acquisitions.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

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positions at Affinity Education and related head office costs, will be a primary source of those cost savings. By way of example, G8 Education expects that certain head office positions associated with Affinity Education's company secretarial, financial management and board will no longer be required. Similarly, costs associated with Affinity Education's ASX listing will no longer be incurred in the event that Affinity Education is delisted from ASX (refer to sections 8.2 and 8.3 for more information of G8 Education's intentions in respect of the Affinity Education's ASX listing).

Given the presentation of expenses in Affinity Education's income statement does not separately identify the head office and related functions, including those identified above, G8 Education is unable to identify from a review of public information that exact amount of likely cost synergies. However, the Board considers a marginal cost of \$455 per place an achievable target, consistent with G8 Education's previous experience with the integration of child care centres that it has acquired.”⁶⁷

- 181 As set out in RG 111, synergies that are not available to other potential bidders should not be taken into account in the valuation of the target company when assessing whether an offer is fair. While some of the synergies identified by G8 Education will be unique to them, in our opinion, a proportion of these annual synergies could be generated by other acquirers and have been reflected in our assessment of Affinity's EBITA (for valuation purposes).
- 182 Accordingly, in our opinion, it is inappropriate (in the circumstances of Affinity) to incorporate a separate value for synergies arising from public company cost savings in our multiple.

Other factors

- 183 In order to assess the appropriate EBITA multiple for Affinity we have also had regard to:
- (a) macro-economic environment – Australia is presently experiencing relatively soft economic conditions with unemployment at levels not seen since the early 2000s⁶⁸
 - (b) industry drivers – demand for child care centre places is expected to continue to increase over time due to factors such as increasing female participation in the workforce and general population trends. The industry is also expected to continue to benefit from favourable government policy (e.g. child care rebates / subsidies)
 - (c) consolidation opportunities – the child care industry is highly fragmented and there remains significant opportunity for future acquisition growth. However, the ability to acquire a large number of centres in a single transaction is diminishing (and competition for assets appears to be intensifying)
 - (d) competitive landscape – in recent history, G8 Education and Affinity have been the principal drivers of consolidation in the industry⁶⁹. Should G8 Education be successful in acquiring Affinity it will remove one of its key consolidation competitors.

⁶⁷ Replacement Bidder's Statement dated 20 August 2015, pages 15 and 16.

⁶⁸ Australian Financial Review, *Jobless rate matches 13-year high of 6.3pc*, 7 August 2015.

⁶⁹ To date, Think Childcare has been much less active in this regard.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

Conclusion on appropriate EBITA multiple

184 Based on the above, in our opinion, an EBITA multiple range of 6.5 times to 7.0 times is appropriate when applied to the level of underlying EBITA adopted for valuation purposes.

Valuation of Affinity's business

185 Given the above, we have assessed the value of Affinity's business as follows:

Affinity – value of business			
	Paragraph	Low \$m	High \$m
EBITA for valuation purposes	161	37.1	37.1
EBITA multiple (times)	184	6.5	7.0
Enterprise value		241.2	259.7

Other assets / (liabilities)

186 Affinity has a number of non-core or surplus assets / (liabilities) that are not reflected in our abovementioned business valuation and for which an allowance must be made.

Assets held for sale

187 Affinity holds two freehold properties located at Ayr and Kelso in QLD. Both properties were acquired as part of the IPO acquisition of the initial portfolio of centres and management rights. At the time of acquisition it was and today, remains management's intention to dispose of these two assets.

188 Both properties are carried on balance sheet at \$250,000. We have adopted this value for the purposes of this report.

Management rights

189 Affinity currently provides management services to six child care centres in return for the payment of a monthly management fee.

190 Although we are not permitted to disclose the terms of the individual arrangements, as they are commercially sensitive, we note that total revenue (per half year) received from the contracts is expected to be marginally less than the reported amount in 1H15 and that the contracts have an average weighted expiry date of approximately two years. We have discounted the cash flows from the contracts through to their respective dates of expiry at an after tax cost of equity of between 12% and 13%. We have then added an allowance for the probability of renewal.

191 Given the above, for the purposes of this report, we have attributed a value of between \$500,000 and \$750,000 to the management rights.

Implementation costs associated with realising head office cost savings

192 Our assessment of underlying EBITA on a 100% controlling interest basis assumes that a proportion of public company related costs incurred by head office would be saved.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



- 193 Based upon discussions with management the implementation costs needed to be incurred in order to achieve the savings are estimated at approximately \$1.0 million (net of assumed corporate tax savings of 30%).

Summary of other assets / (liabilities)

- 194 Based upon the above, we have assessed the value of Affinity's other assets / (liabilities) as follows:

Affinity – other assets / (liabilities)			
	Paragraph	Low \$000	High \$000
Assets held for sale	188	250	250
Management rights	191	500	750
Implementation costs – head office cost savings	193	(1,000)	(1,000)
Total other assets / (liabilities)		(250)	-

Net cash / (debt)

- 195 As at 30 June 2015, Affinity had net debt of \$21.1 million, this has reduced to \$19.6 million as at 31 July 2015. In addition, we note that:

- Affinity has \$0.2 million in retention payment liabilities relating to centres acquired prior to 30 June 2015 (refer to paragraph 77)
- as at 31 July 2015, Affinity had received \$3.9 million in advance payments from the Federal government in connection with the Long Day Care Professional Development program (refer paragraphs 77, 118 and 119). The monies can only be used for the purposes of the program and any unused cash must be returned
- Affinity is contracted to settle upon one further centre
- the 31 July 2015 net debt position does not reflect the costs of responding to the Offers.

- 196 Based upon the above, we have concluded that net debt of \$27.5 million is appropriate for valuation purposes.

Share capital outstanding

- 197 Affinity has some 231.5 million fully paid ordinary shares on issue.

- 198 In addition there are 1.3 million performance rights that were issued to executive directors and senior management in May 2015. These performance rights vest on 31 December 2017 and convert, subject to the achievement of specified performance benchmarks, on a one-for-one basis into ordinary shares for nil consideration. However, in the event of a takeover:

- the rights automatically vest and convert to ordinary shares if the offer becomes unconditional and results in the acquirer obtaining an interest of more than 50%
- the Affinity Board has the discretion to allow the rights to vest and convert to ordinary shares if, in its opinion, (a) is likely to occur.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

199 Accordingly, when valuing 100% of the shares in Affinity, in our opinion, it is appropriate to assume that these additional shares will be issued. For valuation purposes we have therefore assumed 232.8 million fully diluted shares on issue.

Valuation summary

200 Given the above, the value of 100% of Affinity on a controlling interest basis is as follows:

Affinity – valuation summary			
	Paragraph	Low \$m	High \$m
Enterprise value	185	241.2	259.7
Other assets / (liabilities)	194	(0.3)	-
Net debt	196	(27.5)	(27.5)
Equity value – controlling interest basis		213.4	232.2
Number of shares on issue (million) ⁽¹⁾	199	232.8	232.8
Affinity value per share – controlling interest basis (\$)		0.92	1.00

Note:

1 Assuming the exercise of 1.3 million executive performance rights.

201 We have cross-checked our valuation of Affinity's business for reasonableness by reference to the capitalisation of earnings after tax (i.e. PE multiple) approach. We have also given consideration to whether the pre-bid share price is an appropriate reference point for a further cross-check of our valuation.

Implied PE multiples

202 We have calculated the PE multiples implied by our valuation range. For comparative purposes we have calculated the implied PE multiple based on stand-alone earnings of Affinity (i.e. pre-synergies):

Affinity – implied PE multiples based on stand-alone (i.e. pre-synergy) earnings ⁽¹⁾			
	Paragraph	Low \$m	High \$m
Enterprise value	185	241.2	259.7
Net debt	196	(27.5)	(27.5)
Implied equity value excluding other assets / (liabilities)		213.7	232.2
Assessed EBITA for valuation purposes	161	37.1	37.1
Deduct synergy benefits implicit within EBITA above		(3.6)	(3.6)
Stand-alone EBITA (i.e. pre synergies)		33.5	33.5
Less net interest expense at 5.0% per annum ⁽²⁾		(1.4)	(1.4)
PBT		32.1	32.1
Notional company tax at 30%		(9.6)	(9.6)
NPAT		22.5	22.5
Implied PE multiple (times)		9.5	10.3

Note:

1 Rounding differences may exist.

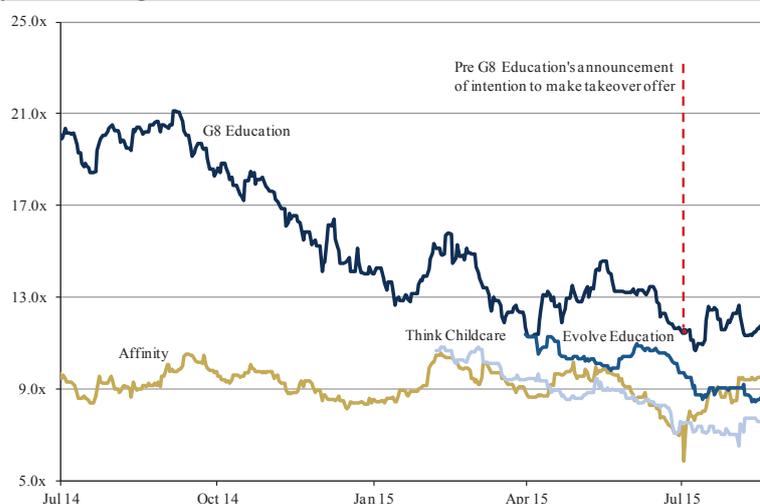
2 Broadly based upon Affinity's cost of debt.

Source: Affinity and LEA analysis.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

203 We set out below the one year forward PE multiples (based on average analyst forecasts) for the listed child care companies from 1 July 2014 to 20 August 2015:

One year forward PE multiples 1 July 2014 to 20 August 2015⁽¹⁾



Note:

1 Think Childcare and Evolve Education multiples from 2 February 2015 and 30 March 2015 respectively, being the respective dates the companies were covered by more than one analyst. The multiples for G8 Education and Affinity post 2 July 2015 are affected by the announcement of G8 Education's intention to make a takeover offer for Affinity.

Source: Bloomberg and LEA analysis.

204 We consider the (stand-alone) PE multiples implied by our valuation range to be reasonable in comparison to the listed multiples shown above, noting that:

- our assessed valuation range reflects a 100% controlling interest value. In comparison, the listed company multiples, with the exception of Affinity post 3 July 2015, reflect portfolio interest multiples
- whilst Affinity has consistently traded at around 9.0 times (on a portfolio basis), its PE multiple deteriorated significantly in the period leading up to the announcement of G8 Education's intention to make a takeover offer for the Company
- Affinity, Evolve Education and Think Childcare listed on (portfolio) PE multiples of 10.8, 10.7 and 9.0 times forecast earnings
- the listed companies already trade at multiples above that implied by recent "centre" transaction evidence.

Comparison with listed market price

205 In our view, the recent listed market prices of Affinity shares prior to the announcement of G8 Education's intention to make a takeover offer for the Company are not a reliable

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



reference point upon which to derive an indicative value of Affinity shares on a 100% controlling interest basis. This is because:

- (a) on 2 July 2015, the price of Affinity shares fell sharply (on high volumes) in response to the updated earnings guidance provided by the Company prior to the commencement of trading on that day. Observed share price trading prior to 2 July 2015 did not reflect this new market sensitive information
- (b) in our view it is inappropriate to base the pre-bid market price upon the very limited share trading that occurred between the Company's earnings announcement and the announcement of G8 Education's intention to make a takeover offer (i.e. one day of trading). This is because, in our opinion:
 - (i) it increases the risk of distortion brought about by short-term price volatility
 - (ii) the market did not have sufficient time to absorb and appropriately adjust to the new information. For example, many analyst reports containing updated earnings estimates and buy / sell / hold recommendations were not published until after the close of trading on 2 July 2015 and this information was therefore not reflected in the intra-day or closing prices
- (c) subsequent to 2 July 2015, Affinity released its results for the six months to 30 June 2015. The announcement contained revised underlying EBITDA guidance for FY15 of between \$30 million and \$32 million as well as further information on the Company's performance subsequent to 30 June 2015. This information which is reflected in our valuation was not known to the market prior to the announcement of G8 Education's intention to make a takeover offer for the Company.

206 Given the above, we do not consider the pre-bid share price to be an appropriate reference point for a further cross-check of our valuation.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

VII Evaluation of the Scheme

207 In our opinion, the Scheme is fair and reasonable and in the best interests of Affinity shareholders in the absence of a superior proposal. We have formed this opinion for the following reasons.

Assessment of the Scheme

Value of Affinity

208 In our IER dated 20 August 2015, we assessed the market value of Affinity shares (on a 100% controlling interest basis) at between \$0.92 and \$1.00 per share. A copy of our 20 August 2015 valuation⁷⁰ is set out in Section VI of this report and is summarised below:

Affinity – valuation summary from our IER dated 20 August 2015			
	Paragraph	Low \$m	High \$m
EBITA for valuation purposes	161	37.1	37.1
EBITA multiple (times)	184	6.5	7.0
Enterprise value		241.2	259.7
Other assets / (liabilities)	194	(0.3)	-
Net debt	196	(27.5)	(27.5)
Equity value – controlling interest basis		213.4	232.2
Number of shares on issue (million) ⁽¹⁾	199	232.8	232.8
Affinity value per share – controlling interest basis (\$)		0.92	1.00

Note:

1 Assuming the exercise of 1.3 million executive performance rights.

209 We have considered the financial performance and financial position of Affinity subsequent to the date of our IER. Based on this review we are not aware of any developments which would cause us to materially change our valuation range. Consequently, we remain of the view that the value of Affinity shares (on a 100% controlling interest basis) ranges between \$0.92 and \$1.00 per share.

Fairness

210 Pursuant to RG 111 the Scheme is “fair” if the value of the Scheme Consideration is equal to, or greater than the value of the securities the subject of the Scheme. This comparison for Affinity shares is shown below:

Comparison of Scheme Consideration to value of Affinity			
	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of Scheme Consideration	0.92	0.92	0.92
Value of 100% of Affinity	0.92	1.00	0.96
Extent to which the Scheme Consideration exceeds (or is less than) the value of Affinity	-	(0.08)	(0.04)

⁷⁰ As updated for Section and paragraph number references only.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



211 As the Scheme Consideration lies within our assessed valuation range for Affinity shares on a 100% controlling interest basis, in our opinion, the Scheme Consideration is fair to Affinity shareholders when assessed based on the Guidelines set out in RG 111.

Other qualitative factors

212 Pursuant to RG 111, a transaction is reasonable if it is fair. Further, in our opinion, if the Scheme is “fair and reasonable” it must also be “in the best interests” of shareholders.

213 Consequently, in our opinion, the Scheme is also “reasonable” and “in the best interests” of Affinity shareholders in the absence of a superior proposal.

214 In assessing whether the Scheme is reasonable and in the best interests of Affinity shareholders LEA has also considered, in particular:

- (a) the extent to which a control premium is being paid to Affinity shareholders
- (b) the extent to which a share of the synergies likely to arise upon an acquisition of Affinity are being shared with Affinity shareholders
- (c) the listed market price of Affinity shares subsequent to the announcement of the Scheme
- (d) the likely market price of Affinity securities if the Scheme is not approved
- (e) the value of Affinity to an alternative acquirer and the likelihood of an alternative offer emerging prior to the date of the Scheme meeting
- (f) the advantages and disadvantages of the Scheme from the perspective of Affinity shareholders
- (g) other qualitative and strategic issues associated with the Scheme.

215 These issues are discussed in detail below.

Extent to which a control premium is being paid

216 It is customary when assessing the merits of a proposed change of control transaction to assess the extent of the premium offered under the proposal by comparing the offer to the pre-bid market prices of the target company’s shares. Empirical evidence indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company’s shares three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price).

217 For the reasons set out in Section VI, in our view, the listed market prices of Affinity shares prior to the announcement of the G8 Education’s intention to make a takeover offer for the Company are not a reliable reference point upon which to assess whether an appropriate control premium is being paid.

218 However, as the Scheme Consideration is consistent with the low end of our valuation range, in our opinion, Affinity shareholders are being compensated for the fact that 100% control of Affinity will pass to Anchorage if the Scheme is approved.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

LONERGAN EDWARDS
& ASSOCIATES LIMITED

Extent to which Affinity shareholders are being paid a share of synergies

- 219 If the Scheme is approved and implemented, Affinity will be delisted from the ASX resulting in the elimination of listed public company costs (e.g. Director fees, listing fees, share registry fees, shareholder communication costs etc).
- 220 We note that our assessed valuation range incorporates an allowance for estimated public company cost synergies as well as additional savings that are likely to be available to a purchaser with a large existing portfolio of child care centres.
- 221 Given that the Scheme Consideration falls within the lower end of our valuation range, it would appear that a proportion of the synergy benefits to be realised by Anchorage are being reflected in the Scheme Consideration.

Recent share prices subsequent to the announcement of the Scheme

- 222 Shareholders should note that Affinity shares have traded on the ASX in the range of 89.5 to 91.0 cents per share in the period since the announcement of the Scheme on 15 September 2015 through to 24 September 2015. These share prices are marginally lower than the Scheme Consideration and suggest that the market consensus view is that a superior offer or proposal is unlikely to emerge.

Likely price of Affinity shares if the Scheme is not implemented

- 223 If the Scheme is not implemented we expect that, at least in the short-term, Affinity shares will trade at a discount to our valuation and the Scheme Consideration due to the difference between the value of Affinity shares on a portfolio basis and their value on a 100% takeover basis and recent falls in share markets generally. In this regard we note that:
- (a) on 2 July 2015, being the last trading day prior to the announcement of G8 Education's intention to make a takeover offer for the Company, Affinity shares traded between \$0.49 and \$0.75 per share and closed at \$0.54 per share
 - (b) the S&P / ASX 200 Index has fallen by some 9.4% from 2 July 2015 through to and including 24 September 2015.
- 224 However, if the Scheme is not implemented G8 Education will continue to hold its interest in Affinity (which at as at the date of this report was 24.6%) and is likely, in our view, to make a further takeover offer in the future due to the potential synergies available to it from acquiring Affinity. Whilst the timing and quantum of any further offer from G8 Education is inherently uncertain, such speculation is likely to result in the Affinity share price trading at higher levels than would otherwise be the case (albeit at lower levels than the Scheme Consideration).

Likelihood of an alternative offer

- 225 We have been advised by the Independent Board Committee of Affinity that aside from the proposals received from G8 Education and Anchorage, no formal alternative offers have been received subsequent to the announcement of G8 Education's intention to make a takeover offer for Affinity on 3 July 2015.
- 226 In our IER dated 20 August 2015, we assessed the value of G8 Education's Cash Offer at \$0.80 per Affinity share and G8 Education's Scrip Offer at \$0.73 to \$0.80 per Affinity share,

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



based on a G8 Education share price range of \$3.10 to \$3.40⁷¹. The Scheme Consideration significantly exceeds the G8 Education Offers. We note that the G8 Education Offers will not be increased and will not be extended beyond 28 September 2015 (i.e. will close on this date).

227 Although it remains possible that G8 Education could make another takeover offer for Affinity (subsequent to the close of their existing offers and) prior to the Scheme meeting, it should be noted that G8 Education has declared (and at the date of this report, not withdrawn) its intention to vote its 24.6% interest in Affinity shares in favour of the Scheme⁷².

228 In addition to the above, we note that:

- (a) Affinity has agreed to certain exclusivity provisions (refer to paragraphs 33 and 34)
- (b) Affinity must notify Anchorage if it receives a competing proposal and allow Anchorage two business days to match that competing proposal
- (c) Affinity must pay Anchorage a cost reimbursement fee of up to \$2.1 million.

229 In our opinion, it is therefore possible, but at this stage, highly uncertain as to whether any superior offer will be made for Affinity (by G8 Education or another party) prior to the Scheme meeting.

Summary of opinion on the Scheme

230 We summarise below the likely advantages and disadvantages for Affinity shareholders if the Scheme proceeds.

Advantages

231 The Scheme has the following benefits for Affinity shareholders:

- (a) the Scheme Consideration of \$0.92 cash per share is consistent with the low end of our assessed value range for Affinity shares on a 100% controlling interest basis
- (b) as the Scheme Consideration is consistent with the low end of our valuation range, in our opinion, Affinity shareholders are being compensated for the fact that 100% control of Affinity will pass to Anchorage if the Scheme is approved
- (c) the Scheme Consideration significantly exceeds G8 Education's Cash Offer of \$0.80 per Affinity share, and our assessed value of G8 Education's Scrip Offer (which we assessed at \$0.73 to \$0.80 per Affinity share, based on a G8 Education share price range of \$3.10 to \$3.40)⁷³
- (d) the G8 Education Offers will not be increased and will not be extended beyond 28 September 2015 (i.e. will close on this date). G8 Education has also announced its intention to vote the Affinity shares it holds at the time of the Scheme meeting in favour of the Scheme⁷⁴
- (e) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of Affinity shares is likely to trade, at least in the short-term, at a discount to

⁷¹ As at 24 September 2015 the last trade in G8 Education shares was \$2.99.

⁷² Provided none of the Prescribed Events occur before the Scheme meeting.

⁷³ As at 24 September 2015 the last trade in G8 Education shares was \$2.99.

⁷⁴ Provided none of the Prescribed Events occur before the Scheme meeting.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



our valuation and the Scheme Consideration due to the portfolio nature of individual shareholdings and declines in equity values since the announcement of G8 Education's intention to make a takeover offer for the Company (on 3 July 2015).

Disadvantages

- 232 Affinity shareholders should note that if the Scheme is implemented they will no longer hold an interest in Affinity. Affinity shareholders will therefore not participate in any future value created by the company over and above that reflected in the Scheme Consideration. Such future value could arise from, for example, further childcare centre acquisitions (which are generally significantly earnings per share and value accretive).

Conclusion

- 233 Given the above analysis, we consider the acquisition of Affinity shares under the Scheme is fair and reasonable and in the best interests of Affinity shareholders in the absence of a superior proposal.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Scheme Booklet to be sent to Affinity shareholders in connection with the Scheme.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. LEA is entitled to receive a fee estimated at some \$285,000 plus GST for the preparation of our IERs prepared in connection with the Scheme and the G8 Education Offers.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Craig Edwards and Mr Nathan Toscan, who are each authorised representatives of LEA. Mr Edwards and Mr Toscan have over 20 years and 11 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the Independent Board Committee of Affinity to accompany the Scheme Booklet to be sent to Affinity shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Scheme is fair and reasonable and in the best interests of Affinity shareholders.

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Toscan have any interest in the outcome of the Scheme. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 Aside from our 20 August 2015 IER on the G8 Education Offers, LEA has had no prior business or professional relationship with Affinity, Anchorage or G8 Education.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Affinity agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Affinity which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in the Scheme Booklet.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

Appendix C

Trading evidence

- 1 The following table summarises the key trading metrics of ASX listed companies operating in the child care sector:

Trading evidence – ASX listed child care operators ⁽¹⁾						
	Market Cap \$m	Enterprise Value ⁽³⁾ \$m	EBITA multiple ⁽²⁾ FY15 x	FY16 x	PE multiple ⁽²⁾ FY15 x	FY16 x
G8 Education	1,195	1,461	9.3	7.8	12.4	10.7
Affinity: ⁽⁴⁾						
Based on 2 July 2015 close	125	161	6.2	5.2	6.9	6.3
Based on 2 July 2015 VWAP	152	187	7.3	6.1	8.4	7.6
Evolve Education	161	156	6.0	5.9	8.2	7.5
Think Childcare	35	38	5.7	4.8	8.3	6.9

Note:

- G8 Education and Affinity as at 2 July 2015 (i.e. the date prior to the announcement of G8 Education's intention to make a takeover offer for Affinity). Evolve Education and Think Childcare as at 20 August 2015.
- Forecast earnings are based on Bloomberg broker average analyst forecasts (excluding outliers and outdated forecasts).
- Enterprise value includes net debt (interest bearing liabilities), convertible notes, net derivative liabilities, net pension liabilities, market capitalisation adjusted for material option dilution, share placements (for the purpose of reducing debt) and excludes surplus assets. Based upon latest publicly available information at the date of calculation.
- Affinity forecasts as at 7 July 2015 to allow for analyst revisions on Bloomberg. Affinity's enterprise value based on pro forma 31 December 2014 balance sheet.

Source: Company announcements, Bloomberg and LEA analysis.

- 2 Brief descriptions of each of the above companies follow.

Affinity

- 3 Refer to the profile of Affinity in Section III.

G8 Education

- 4 G8 Education is a child care centre operator providing developmental and educational child care services in Australia and Singapore. The company provides a range of child care service activities and is the largest ASX listed child care operator. In Australia, G8 Education owns some 457 centres with a daily licensed capacity of 33,402 children as at 30 June 2015. Its portfolio of child care centres is spread across NSW, VIC, QLD, WA, SA, the ACT and Tasmania (TAS). In Singapore, G8 Education owns some 18 centres and has franchised a further 37 centres.

Evolve Education

- 5 Evolve Education is a provider of early childhood education services in New Zealand offering both centre-based and home-based services. The company was established in 2014 and listed on the NZX and ASX on 5 December 2014. On listing, Evolve Education acquired 85 child

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



Appendix C

care centres and a provider of home-based care and education. Currently, Evolve Education owns a total of 95 child care centres.

Think Childcare

- 6 Think Childcare owns, manages and operates child care facilities in Australia. The company listed on 24 October 2014 acquiring a portfolio of 30 child care centres. Currently, the company owns a total of 37 child care centres.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



Appendix D

Transaction evidence

- 1 There have been a number of recent transactions involving the acquisition of child care centres in recent years. Those transactions which disclosed sufficient financial information to enable the calculation of implied transaction multiples are summarised within the transaction tables set out in Section VI.
- 2 Brief descriptions of each of the above transactions (grouped by company) follow.

G8 Education

2 June 2015

- 3 Announced the acquisition of eight child care and education centres (855 licensed places) from a number of different vendors for some \$12.1 million at a multiple of 4.0 times anticipated EBIT for the 12 months post settlement.

16 February 2015

- 4 Announced the acquisition of 12 child care and education centres (1,003 licensed places) from a number of different vendors for some \$36.0 million (\$29.9 million payable at settlement and a further \$6.1 million conditional upon EBIT targets) at a multiple of 4.0 times anticipated EBIT for the 12 months post settlement.

22 October 2014

- 5 Announced the acquisition of 20 child care and education centres from a number of different vendors. Seventeen centres (1,134 licensed places) were acquired for some \$24.4 million at a multiple of 4.0 times anticipated EBIT for the 12 months post settlement.
- 6 A further three centres (209 licensed places) were acquired for some \$12.4 million at a multiple of 6.2 times anticipated EBIT for the 12 months post settlement. Sterling Early Education (acquired by G8 Education, refer to paragraph 10 of this Appendix), held options to purchase these centres.

11 August 2014

- 7 Announced the acquisition of 25 child care and education centres from a number of different vendors for some \$82.7 million (\$72.7 million payable at settlement and a further \$10.0 million conditional upon EBIT targets) at a multiple of 4.0 times anticipated EBIT for the 12 months post settlement.

8 July 2014

- 8 Announced the acquisition of 19 child care and education centres (1,213 licensed places) from a number of different vendors for some \$25.7 million (\$24.3 million payable at settlement and a further \$1.4 million conditional upon EBIT targets) at a multiple of 3.9 times anticipated EBIT for the 12 months post settlement.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



Appendix D

29 April 2014

- 9 Announced the acquisition of seven child care centres (495 licensed places) from a number of different vendors for some \$16.3 million at a multiple of 4.0 times anticipated EBIT for the 12 months post settlement.

24 March 2014

- 10 Announced the acquisition of 91 child care and education centres (6,203 licensed places) from Sterling Early Education for some \$228.0 million (consisting of \$2.5 million payable in G8 Education shares, \$215.0 million payable in cash at settlement and \$10.5 million payable in cash conditional upon EBIT targets) at a multiple of 5.8 times annualised centre based EBIT for the year ending 31 December 2015.

10 February 2014

- 11 Announced the acquisition of 63 child care and education centres (4,254 licensed places) from a number of different vendors for some \$104.7 million (\$103.9 million payable at settlement with \$0.8 million conditional upon EBIT targets) at a multiple of 4.0 times anticipated EBIT for the 12 months post settlement.

27 September 2013

- 12 Announced the acquisition of 29 child care and education centres (2,338 licensed places) located across NSW, TAS and VIC from a number of different vendors for some \$42.6 million (\$39.8 million payable at settlement with \$2.8 million conditional upon EBIT targets) at a multiple of 4.0 times anticipated EBIT for the 12 months post settlement.

26 August 2013

- 13 Announced the acquisition of five child care and education centres (397 licensed places) located across QLD, SA and VIC from a number of different vendors for some \$4.6 million (\$4.25 million payable at settlement with \$0.35 million conditional upon EBIT targets) at a multiple of 4.0 times anticipated EBIT for the 12 months post settlement.

Affinity

12 March 2015

- 14 Announced the acquisition of nine premium child care centres for a purchase price of some \$24.0 million, funded by a fully underwritten pro-rata accelerated renounceable entitlement offer.

2 February 2015

- 15 Announced the acquisition of eight child care centres previously managed by the Company for some \$17.8 million. The acquisition will be funded from operating cash flows and the Company's \$100 million acquisition facility.

17 December 2014

- 16 Announced the acquisition of 16 child care centres, including a large group of premium centres in metropolitan areas for some \$45 million which will be funded from surplus operating cash flows and the Company's \$100 million acquisition facility.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

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& ASSOCIATES LIMITED

Appendix D

11 September 2014

- 17 Announced the acquisition of 20 child care centres for some \$19 million which will be funded from the Company's \$100 million acquisition facility.

8 April 2014

- 18 Announced the acquisition of 51 child care centres for some \$80.0 million (\$65.0 million in cash and approximately \$15 million in shares) at a multiple of 5.2 times anticipated 12 month forward centre based EBIT.

26 March 2014

- 19 Announced the acquisition of seven child care centres for some \$8.0 million at a multiple of 4.3 times anticipated 12 month forward centre based EBIT.

9 December 2013 and 1 October 2013

- 20 Affinity listed on the ASX on 9 December 2013 at an offer price of \$1.00 per share which represented a forecast EBITDA multiple of 6.9 times, forecast EBIT multiple of 7.3 times and forecast PE multiple of 10.8 times based on pro forma earnings for the company (after head office costs) for the year ended 31 December 2014.
- 21 Funds from listing were used, amongst other things, to acquire 57 child care centres (4,729 configured places) and the management rights for a further 11 centres located across QLD, NSW and VIC. These pre IPO centres were acquired by Affinity for some \$68.2 million at a multiple of 4.1 times forecast EBIT.

Evolve Education (New Zealand)

2 April 2015

- 22 Announced the acquisition of nine centres in New Zealand for some \$11.1 million with an average acquisition multiple of 4.9 times based on the child care centres current run-rate EBITDA.

5 December 2014 and 14 November 2014

- 23 Evolve Education listed on the NZX and ASX on 5 December 2014 at an offer price of \$0.93⁷⁵ which represented a forecast EBITDA multiple of 7.3 times, forecast EBIT multiple of 7.8 times and forecast PE multiple of 10.7 times based on pro forma earnings for the company (after head office costs) for the year ended 31 March 2016. On listing, the company acquired 85 child care centres in New Zealand (5,954 licensed places) and the PORSE group companies, a provider of home-based care and education (7,280 licensed places).
- 24 Thirty of the 85 child care centres were acquired from Lollipops Educare Holdings Limited for \$61.9 million⁷⁶ at a multiple of 7.0 time forecast EBITDA⁷⁷ on 14 November 2014. The

⁷⁵ NZD1.00 converted to AUD at the AUD:NZD exchange rate of 1.0782 on 5 December 2014.

⁷⁶ NZD66.7 million converted to AUD at the AUD:NZD exchange rate of 1.0782 on 5 December 2014.

⁷⁷ Indicative implied multiple based upon information disclosed in Evolved Education's prospectus and 2 April 2015 ASX announcement.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)



Appendix D

remaining 55 child care centres were acquired from 39 separate vendors for \$81.8 million⁷⁸ at a multiple of 4.9 times forecast EBITDA with settlement to occur during the period from December 2014 to March 2015.

Think Childcare

18 June 2015

- 25 Announced the acquisition of two child care centres (157 licensed places) in Australia for consideration of some \$3.1 million at a multiple of 4.1 times forecast EBIT.

24 October 2014 and 2 October 2014

- 26 Think Childcare listed on 24 October 2014 at an offer price of \$1.00 per share which represented a forecast EBITDA multiple of 6.7 times, forecast EBIT multiple of 6.9 times and forecast PE multiple of 9.0 times based on pro forma earnings for the company (after head office costs) for the year ended 31 December 2015.
- 27 Funds from the listing were used, amongst other things, to acquire a portfolio of 30 child care centres (2,244 licensed places) in Australia for some \$37.9 million at multiple of 5.7 times forecast EBIT.

⁷⁸ NZD88.2 million converted to AUD at the AUD:NZD exchange rate of 1.0782 on 5 December 2014.

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

Appendix E

Glossary

Term	Meaning
ACECQA	Australian Children's Education and Care Quality Authority
ACT	Australian Capital Territory
Affinity or the Company	Affinity Education Group Limited
Agreement	The Scheme Implementation Deed dated 15 September 2015
ANAO	Australian National Audit Office
Anchorage	Anchorage Capital Partners Pty Ltd
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Cash Offer	The on-market bid made by G8 Education for all the Affinity shares that it did not already own for consideration of \$0.80 cash per Affinity share
CBA	Commonwealth Bank of Australia
CCB	Child Care Benefit scheme
CCR	Child Care Rebate scheme
Centralised Costs	Costs include marketing, IT, insurance and procurement. These costs relate to the operation of the individual centres but are paid by Affinity's head office
Corporate Charges	Affinity corporate head office expenses including costs associated with being a publicly listed company (e.g. listing and registry fees, shareholder communication costs etc), CEO and CFO (and other head office staff member) salaries, head office lease charges and general consultancy fees
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
DCF	Discounted cash flow
DEEWR	Department of Education, Employment and Workplace Relations
DSS	Department of Social Services
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation of acquired intangibles
EBITDA	Earnings before interest, tax, depreciation and amortisation
ELS	Early Learning Services Limited
EV	Enterprise value
Evolve Education	Evolve Education Group Limited
EYQF	Early Years Quality Fund
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
G8 Education	G8 Education Limited
G8 Education Offers	The collective reference to G8 Education's Revised Scrip Offer and Cash Offer
IER	Independent expert's report
IPO	Initial public offering
LEA	LonerGAN Edwards & Associates Limited
National Law	<i>Education and Care Services National Law Act 2010</i>
National Regulations	<i>Education and Care Services National Regulations</i>
NPAT	Net profit after tax
NPV	Net present value
NQF	National Quality Framework
NQS	National Quality Standard
NSW	New South Wales
NT	Northern Territory
NZD	New Zealand dollars
PBT	Profit before tax

ANNEXURE E INDEPENDENT EXPERT'S REPORT (CONT)

Appendix E

Term	Meaning
PE	Price earnings
Prescribed Events	As defined at paragraph 8
QLD	Queensland
Revised Scrip Offer	The off-market bid made by G8 Education for all the Affinity shares that it did not already own for consideration of one fully paid ordinary share in G8 Education for every 4.25 fully paid ordinary shares in Affinity
RG 111	Regulatory Guideline 111 – <i>Content of expert reports</i>
SA	South Australia
Scheme	The scheme of arrangement under which Anchorage will acquire 100% of the issued shares in Affinity
Scrip Offer	The former off-market bid made by G8 Education for all the Affinity shares that it does not already own for consideration of one fully paid ordinary share in G8 Education for every 4.61 fully paid ordinary shares in Affinity (this off-market bid has been superseded by the Revised Scrip Offer).
Shared Services	Costs associated with the direct oversight of the individual centres as well as shared services (such as human resources, payroll, accounts processing). These costs relate to the operation of the individual centres but are paid by Affinity's head office
Sterling Early Education	Sterling Early Education Limited
TAS	Tasmania
Think Childcare	Think Childcare Limited
VIC	Victoria
Voting Deed	G8 Education's agreement to appoint the Chairperson of Affinity as its proxy for the Scheme meeting in respect of 14.5% of its interest in Affinity shares
VWAP	Volume weighted average price
WA	Western Australia
WANOS	Weighted average number of shares outstanding

CORPORATE DIRECTORY

Directors	Stuart James Justin Laboo Stephanie Daveson Jeffrey Forbes Gabriel Giufre
Company Secretary	Paul Cochrane
Registered Office	Level 14, 100 Creek Street Brisbane, Queensland 4000
ASX Code:	AFJ
Website	www.affinityeducation.com.au
Financial Advisers	Luminis Partners Pty Ltd
Legal Advisers	Corrs Chambers Westgarth
Independent Expert	Lonergan Edwards & Associates Limited
Share Registry	Link Market Services Limited
Affinity Shareholder Information Line	1300 911 275

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