



AFFINITY EDUCATION
G R O U P

ABN 37 163 864 195

27 August 2015

Company Announcements Office
Australian Securities Exchange Limited

Dear Sir / Madam

Anchorage proposal

We **attach** a copy of a letter that has today been sent to Affinity shareholders.

Yours faithfully

Paul Cochrane
Company Secretary
Affinity Education Group Limited

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.



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Dear Shareholder,

Affinity Education Group Limited and Anchorage Capital Partners (“Anchorage”) have entered into a Heads of Agreement that, subject to finalisation of due diligence, documentation and receipt of shareholder approvals, will be able to return \$0.90 cash per share to Affinity shareholders.

Your Directors recommend that you REJECT the G8 Offers. Your Directors will confirm the status of the Anchorage Proposal and will provide you with detailed information about the proposal, by no later than 21 September 2015.

1. Background to the Anchorage Proposal and G8 Offers

As you know, G8 Education Limited (**G8**) has made a Cash Offer of \$0.80 per Affinity share and a Share Offer of 1 G8 share for every 4.25 Affinity shares (**G8 Offers**). G8 has declared that each of the G8 Offers is final and will not be increased.

Your Directors¹ appointed an Independent Expert to assist them in their assessment of the G8 Offers. The Independent Expert appointed by your Directors has concluded that the G8 Offers are **NEITHER FAIR NOR REASONABLE**. Your Directors have released a Target’s Statement that sets out in detail the reasons why we unanimously recommend that you **REJECT** both G8 Offers.

In response to the G8 Offers, your Directors sought out other interested parties with the aim of achieving a superior outcome for Affinity shareholders. As a result of these discussions, Affinity announced on 24 August 2015 that it had entered into a Heads of Agreement with Anchorage Childcare Pty Limited (**Anchorage Proposal**).

2. What is the Anchorage Proposal?

Anchorage is a leading Australian private equity firm with over A\$450 million in funds under management, which has made significant investments in Asia-Pacific. Anchorage’s investments include Dick Smith, Burger King NZ and Golden Circle.

As part of the proposal, Anchorage Childcare Pty Limited will acquire the business of Affinity (including **ALL** assets and **ALL** liabilities, including debt and tax, associated with the business or the Anchorage Proposal) for \$208.3 million.

Affinity will then be able to return the full amount of the sale proceeds (being \$0.90 cash per share) to Affinity shareholders. Affinity will ensure that the \$0.90 per share is returned through the best possible mechanism to Affinity shareholders. Currently, this is expected to be through an equal access buy back.

3. How much money will you receive under the Anchorage Proposal?

If implemented, Affinity shareholders will be able to receive \$0.90 cash for each Affinity share.

4. How certain is the Anchorage Proposal and when will you find out if it will proceed?

The Anchorage Proposal is subject to completion by Anchorage of outstanding due diligence, and the finalisation and execution of binding transaction documents.

¹ The Affinity Board has established an independent board subcommittee to consider the G8 Offers and the proposal from Anchorage. The husband of one of the Affinity Directors, Ms Gabriel Giufre, is working with Anchorage in relation to the Anchorage Proposal. Accordingly, Affinity has 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 Anchorage proposal is free from any influence from Ms Giufre and that any disclosure of sensitive information is subject to appropriate oversight and control.

Your Directors will confirm, **by no later than 21 September 2015**, that either:

- Affinity has entered into binding sale agreements to implement the Anchorage Proposal which are conditional only on Affinity shareholder approvals (there will be no financing conditions, regulatory conditions or third party approval conditions); or
- the Anchorage Proposal is not proceeding.

The shareholder approvals will require the passing of ordinary (i.e. 50%) resolutions by Affinity shareholders on which all Affinity shareholders will be able to vote. Affinity expects that any shareholder vote will take place in late October or early November 2015. If Affinity shareholders do not approve the Anchorage Proposal, then the Anchorage Proposal will not be completed and Affinity will continue to own its assets and business.

5. When will you be able to receive your money?

If the Anchorage Proposal is implemented and approved by Affinity shareholders, your Directors expect that you will be able to receive \$0.90 cash for each Affinity share in November 2015.

6. How will Anchorage fund the purchase price?

Affinity understands that Anchorage proposes to fund the Anchorage Proposal through a combination of external debt, equity from the Anchorage Capital Partners Fund II, and equity support from co-investors who have been long-term supporters of, and investors in, Anchorage. Anchorage has provided confidential copies of letters of support from external lenders in relation to the Anchorage Proposal.

Any binding sale agreements to implement the Anchorage Proposal will not contain any financing conditions.

7. Do your Directors intend to recommend the Anchorage Proposal?

Your Directors consider that the Anchorage Proposal, if implemented, will be a superior proposal to the G8 Offers.

Based on the closing prices of G8 and Affinity shares on ASX on 26 August 2015:

- G8's Cash Offer of \$0.80 per Affinity share is \$0.055 per share or 6.4% less than Affinity's share price; and
- G8's Share Offer is \$0.119 per share or 13.9% less than Affinity's share price.

The Anchorage Proposal represents a:

- 12.5% premium to G8's Cash Offer;
- 15.2% premium to the implied value of G8's Share Offer, based on the closing prices of shares in G8 and Affinity on 21 August 2015, being the trading day before the announcement of the Anchorage Proposal; and
- 22.2% premium to the implied value of G8's Share Offer based on the closing price of shares in G8 on 26 August 2015.

Put simply, based on the closing prices for G8 and Affinity shares on 26 August 2015, under the Anchorage Proposal you could receive:

- \$0.10 more for each Affinity share than under G8's Cash Offer;
- \$0.164 more for each Affinity share than under G8's Share Offer.

Accordingly, subject to the execution of binding transaction documents and no superior proposal emerging, your Directors intend to unanimously recommend that shareholders approve the Anchorage Proposal in the absence of a superior proposal.

8. Why are your Directors recommending that you REJECT the G8 Offers?

You should by now have received a Target's Statement that sets out in detail the reasons why your Directors unanimously recommend that you **REJECT** both G8 Offers.

G8 has declared that each of the G8 Offers is final and will not be increased. The Independent Expert appointed by your Directors in response to the G8 Offers has also concluded that the G8 Offers are **NEITHER FAIR NOR REASONABLE**.

Your Directors consider that your Affinity shares are worth more than G8 is offering and that the Anchorage Proposal, if implemented, will be a superior proposal to the G8 Offers.

9. What should you do now?

You do not need to take any action currently with regard to the Anchorage Proposal. Your Directors reiterate their recommendation that you **REJECT** the G8 Offers.

To reject both of the G8 Offers, **DO NOT RESPOND** and **DO NOTHING** in relation to any documents sent to you by G8.

The offer period for the G8 Offers will close at 7.00pm (Sydney time) on 28 September 2015 unless extended by G8. Your Directors will confirm, by no later than 21 September 2015 (that is, 7 days before the G8 Offers are due to close or longer, if G8 extends its offers) the status of the Anchorage Proposal.

As the G8 Offers are unconditional, Affinity shareholders will be able to accept the G8 Offers at any time before 28 September 2015 (or later, if G8 extends the offers), should you choose to do so.

10. What information will you receive on 21 September 2015?

Your Directors will confirm, **by no later than 21 September 2015**, that either:

- Affinity has entered into binding sale agreements conditional only on Affinity shareholder approvals to implement the Anchorage Proposal; or
- the Anchorage Proposal is not proceeding.

If, on 21 September 2015, Affinity announces that the Anchorage Proposal has been entered into, Affinity will provide shareholders with an updated Target's Statement, a notice of meeting and an explanatory memorandum, which will contain all relevant details of the Anchorage Proposal, including:

- the recommendations of your Directors with respect to the Anchorage Proposal and the G8 Offers, including detailed reasons for such recommendations;
- detailed information on the manner in which the Anchorage Proposal will be implemented;
- the timetable for implementing the Anchorage Proposal;
- any deal protection mechanisms agreed to between the parties;
- the key terms of the sale agreements and any transitional, management or other ancillary agreements entered into between the parties; and
- the tax implications for Affinity shareholders (which are expected to be similar to the tax implications under a cash takeover bid or scheme of arrangement).

Accordingly, Affinity shareholders will, on 21 September 2015, be able to make an informed decision as to whether to:

- vote in favour of the Anchorage Proposal;
- follow the current recommendation of your Directors and reject the G8 Offers (whether or not you choose to vote in favour of the Anchorage Proposal);
- sell your Affinity shares on market (the closing price of which was \$0.855 per Affinity share on 26 August 2015 and will be updated at the relevant time);
- accept the G8 Cash Offer of \$0.80 per share; or
- accept the G8 Share Offer of 1 G8 share for every 4.25 Affinity shares (the implied value of which was \$0.74 as at 26 August 2015 and will be updated at the relevant time).

While we cannot be certain at this stage that the Anchorage Proposal will proceed, it is in your interests to wait until 21 September 2015, when your Directors will confirm the status of the Anchorage Proposal, before you take any action.

Your Directors thank you for continued support and ask that you continue this support until 21 September 2015 when your Directors will confirm the status of the Anchorage Proposal.

Shareholder Information Line

Affinity shareholders who have questions about the G8 Offers or the Anchorage Proposal can call the Affinity Shareholder Information Line on 1300 911 275.

For further information please contact:

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Yours faithfully,



Stuart James
Chairman