



AFFINITY EDUCATION

G R O U P

ABN 37 163 864 195

20 November 2015

## CHAIRMAN'S ADDRESS – SCHEME MEETING

In accordance with ASX Listing Rule 3.13, we **attach** the Chairman's address to be given at today's scheme meeting.

Yours faithfully

**Paul Cochrane**

Company Secretary

Affinity Education Group Limited

## **CHAIRMAN'S ADDRESS – SCHEME MEETING**

### **Introduction**

Good morning ladies and gentlemen, and welcome to the scheme meeting of Affinity Education Group Limited. My name is Stuart James, and I am the Chairman of Affinity. I will be chairing the scheme meeting today.

We are joined today by my fellow directors: Jeff Forbes, Stephanie Daveson, Justin Laboo and Gabriel Giufre. Also joining us today is our company secretary Paul Cochrane.

### **Business of meeting and notice of meeting**

It is now 11:00 am, being the scheduled commencement time for the scheme meeting.

A quorum is present and therefore I declare the scheme meeting open. Before we proceed, I ask that you ensure that any mobile phones, electronic equipment and recording devices are turned off.

The scheme meeting is convened in accordance with orders made by the Federal Court on Wednesday, 14 October 2015 under section 411(1) of the Corporations Act.

The purpose of today's scheme meeting is for Affinity shareholders to consider and, if Affinity shareholders think fit, vote in favour of a scheme of arrangement under which Anchorage Childcare Pty Limited will acquire all of the shares in Affinity.

If the requisite majorities vote in favour of the scheme at the scheme meeting today (and the other conditions of the scheme, such as the approval of the scheme by the Federal Court at the Second Court Hearing, are satisfied or waived), all of the shares held by Affinity shareholders on the scheme record date will be transferred to Anchorage Childcare, and Affinity shareholders will receive 92 cents cash for each Affinity share they hold on the scheme record date. The scheme record date is expected to be 7:00 pm (Melbourne time) on Tuesday, 8 December 2015.

The business of the scheme meeting is set out in the notice of scheme meeting, which is included in annexure D to the scheme booklet. The notice of scheme meeting was distributed to shareholders on Wednesday, 21 October 2015 and therefore I will take the notice of scheme meeting as read.

The scheme booklet provides Affinity shareholders with a detailed overview of the scheme, including a summary of the reasons whether or not to vote in favour of the scheme at the scheme meeting today. The scheme booklet also includes a copy of the Independent Expert's Report prepared by Lonergan Edwards & Associates Limited, which concluded that the scheme is fair and reasonable and is in the best interests of Affinity shareholders in the absence of a superior proposal.

### **Background**

I would now like to give you some background on how we have come to be at the scheme meeting today.

Earlier this year, G8 Education Limited acquired 19.89% of the shares in Affinity, and made two takeover offers for all of the shares in Affinity that it did not own:

- a share offer (of 1 G8 share for every 4.61 Affinity shares, which was subsequently revised to 1 G8 share for every 4.25 Affinity shares (which, as at the last practicable date before Affinity's target's statement was lodged with ASIC, implied a value of 78 cents for each Affinity share); and

- a cash offer of 80 cents cash for each Affinity share.

In response to the G8 takeover offers and the acquisition of the significant stake, Affinity sought out other interested parties with the aim of achieving a superior outcome for Affinity shareholders.

On 24 August 2015, Affinity announced that it had entered into a heads of agreement, under which Anchorage Childcare would acquire all of the assets and business of Affinity for \$208.3 million and Affinity would return 90 cents cash for each Affinity share to Affinity shareholders.

This proposal was subsequently revised, with Affinity announcing on 15 September 2015 that it had entered into a scheme implementation deed with Anchorage Childcare, under which Affinity agreed to implement the scheme of arrangement that is the subject of the resolution to be considered at the scheme meeting today. As mentioned earlier, if the requisite majorities vote in favour of the resolution at the scheme meeting today (and the other conditions of the scheme, such as the approval of the scheme by the Federal Court at the Second Court Hearing, are satisfied or waived), all of the shares held by Affinity shareholders on the scheme record date will be transferred to Anchorage Childcare, and Affinity shareholders will receive 92 cents cash for each Affinity share they hold on the scheme record date. The scheme record date is expected to be 7:00 pm (Melbourne time) on Tuesday, 8 December 2015.

Affinity also announced that it had entered into a voting deed with G8 under which G8 agreed to irrevocably appoint 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) in favour of the scheme; and announced that it will vote all other Affinity shares it holds at the time of the scheme meeting in favour of the scheme.

### **Independent board subcommittee**

Chris Giufre, Gabriel Giufre's husband, worked with Anchorage Capital Partners Pty Limited 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 Gabriel Giufre and that any disclosure of sensitive information was subject to appropriate oversight and control.

Chris Giufre is now working with the Anchorage Childcare Group in relation to the scheme. Accordingly, these protocols have also been applied in relation to the Affinity Board's consideration of the scheme.

### **Tagging**

As explained in the scheme booklet, Affinity will tag any Affinity shares voted by:

- entities associated with Chris Giufre and Gabriel Giufre; and
- Greg Kern and his associates,

so that, if any such votes would have affected the outcome of the vote on the scheme, this can be taken into account by the Federal Court in the exercise of its discretion whether or not to approve the scheme at the Second Court Hearing.

The connections that Chris Giufre and Greg Kern have with Anchorage Capital Partners and Anchorage Childcare are discussed in more detail in the scheme booklet.

### **Directors' recommendation**

For the reasons set out in the scheme booklet, the independent Affinity directors – Jeff Forbes, Stephanie Daveson, Justin Laboo and I – consider that the scheme is in the best interests of Affinity shareholders. Accordingly, we:

- unanimously recommend that you vote in favour of the scheme at the scheme meeting today, in the absence of a superior proposal; and
- have already voted all the Affinity shares that we own and control in favour of the scheme.

Also for the reasons set out in the scheme booklet, Gabriel Giufre also considers that the scheme is in the best interests of Affinity shareholders. Accordingly, she:

- recommends that you vote in favour of the scheme at the scheme meeting today, in the absence of a superior proposal; and
- has already voted all the Affinity shares that she owns and controls in favour of the scheme.

I confirm that no superior proposal has been received, and each Affinity director continues to believe that the reasons set out in the scheme booklet to vote in favour of the scheme outweigh the potential reasons to vote against the scheme. We maintain our recommendation that the scheme is in the best interests of Affinity shareholders.