# ADvTECH GROUP

ADvTECH Limited (Incorporated in the Republic of South Africa)
Registration number: 1990/001119/06
JSE code: ADH ISIN number: ZAE 0000 31035

| | | |
|---|---|---|
| Revenue | ▲ | 7% |
| Headline earnings per share | ▼ | 7% |
| Net asset value per share | ▲ | 11% |
| Distributions per share | | 21.5 cents |

# Audited results for the year ended 31 December 2010

## Condensed consolidated statement of comprehensive income

for the year ended 31 December 2010

| R'm | Note | Percentage increase/ (decrease) | Audited 31 Dec 2010 | Audited 31 Dec 2009 |
|---|---|---|---|---|
| **Revenue** | | 7% | 1 470,1 | 1 376,0 |
| Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) | | (3%) | 269,3 | 277,7 |
| **Operating profit before interest** | | (7%) | 202,9 | 218,9 |
| Net interest received | | | 9,2 | 10,9 |
| Interest received | | | 9,4 | 11,0 |
| Finance costs | | | (0,2) | (0,1) |
| Profit before taxation | | (8%) | 212,1 | 229,8 |
| Taxation | | | (63,3) | (69,6) |
| **Profit for the year** | | (7%) | 148,8 | 160,2 |
| **Earnings per share** | | | | |
| Basic (cents) | | (7%) | 37.2 | 40.1 |
| Diluted (cents) | | (7%) | 37.2 | 40.1 |
| **Headline earnings** | 2 | | 148,6 | 160,3 |
| **Headline earnings per share** | | | | |
| Basic (cents) | | (7%) | 37.2 | 40.1 |
| Diluted (cents) | | (7%) | 37.1 | 40.1 |
| Number of shares in issue (million) | | | 400,8 | 400,8 |
| Weighted average number of shares in issue (million) | | | 400,8 | 401,0 |
| Weighted average number of shares for purposes of diluted earnings per share (million) | | | 400,2 | 399,7 |
| Weighted average number of shares for purposes of basic earnings per share (million) | | | 399,9 | 399,4 |
| Net asset value per share (cents) | | 11% | 169.1 | 152.3 |
| Free operating cash flow before capex per share (cents) | | (15%) | 54.1 | 63.8 |
| Distributions per share (cents) | | 2% | 21.5 | 21.0 |

## Condensed consolidated statement of financial position

as at 31 December 2010

| R'm | Audited 31 Dec 2010 | Audited 31 Dec 2009 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | 852,6 | 787,9 |
| Property, plant and equipment | 682,3 | 636,5 |
| Goodwill | 95,9 | 80,9 |
| Intangible assets | 47,8 | 49,8 |
| Deferred taxation assets | 26,6 | 20,7 |
| **Current assets** | 132,0 | 140,8 |
| Trade and other receivables | 78,9 | 84,9 |
| Other current assets | 15,6 | 16,3 |
| Cash and cash equivalents | 37,5 | 39,6 |
| **Total assets** | 984,6 | 928,7 |
| **Equity and liabilities** | | |
| **Equity** | 677,8 | 610,6 |
| **Current liabilities** | 306,8 | 318,1 |
| Trade and other payables | 156,7 | 181,8 |
| Taxation | 26,8 | 35,7 |
| Fees received in advance | 123,3 | 100,6 |
| **Total equity and liabilities** | 984,6 | 928,7 |

## Supplementary information

for the year ended 31 December 2010

| R'm | Audited 31 Dec 2010 | Audited 31 Dec 2009 |
|---|---|---|
| Capital expenditure – current year | 105,2 | 128,6 |
| Capital commitments – future years | 94,3 | 122,6 |
| Operating lease commitments in cash – future years | 384,7 | 356,3 |

## Condensed consolidated statement of changes in equity

for the year ended 31 December 2010

| R'm | Audited 31 Dec 2010 | Audited 31 Dec 2009 |
|---|---|---|
| Balance at beginning of the year | 610,6 | 508,8 |
| Total comprehensive income for the year | 148,8 | 159,4 |
| Profit for the year | 148,8 | 160,2 |
| Other comprehensive expenses | – | (0,8) |
| Share-based payment expense | 1,8 | 1,7 |
| Shares issued for business acquisition | – | 35,6 |
| Share buy-back | – | (7,6) |
| Shares purchased by the Share Incentive Trust | (7,1) | (12,5) |
| Share awards granted | 2,0 | 2,1 |
| Broad-based scheme shares granted | 1,8 | 0,5 |
| Share options exercised | 5,2 | 3,0 |
| Capital distributions to shareholders | (85,3) | (80,4) |
| **Balance at end of the year** | 677,8 | 610,6 |

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**Directors:** LW Maasdorp* (Chairman), FR Thompson (CEO), JDR Oesch (Financial), DK Ferreira*, BM Gourley*, JD Jansen*, HR Levin*, JC Livingstone*, F Titi* *Non-Executive

**Group Company Secretary:** SC O'Connor

**Registered Office:** ADvTECH House, Inanda Greens, 54 Wierda Road West, Wierda Valley, Sandton, 2196.

**Transfer Secretaries:** Link Market Services SA (Pty) Ltd, 11 Diagonal Street, Johannesburg, 2001.

**Sponsor:** Bridge Capital Advisors (Pty) Ltd, 27 Fricker Road, Illovo, 2196.

## Condensed consolidated segmental report

for the year ended 31 December 2010

| R'm | Percentage increase/ (decrease) | Audited 31 Dec 2010 | Audited 31 Dec 2009 |
|---|---|---|---|
| Revenue | 7% | 1 470,1 | 1 376,0 |
| Education | 8% | 1 264,3 | 1 170,0 |
| Resourcing | 0% | 208,2 | 208,3 |
| Intra Group revenue | | (2,4) | (2,3) |
| Operating profit before interest | (7%) | 202,9 | 218,9 |
| Education | (7%) | 216,2 | 231,4 |
| Resourcing | 13% | 32,6 | 28,8 |
| Central administration | 9% | (44,8) | (41,2) |
| Litigation | | (1,1) | (0,1) |

## Condensed consolidated statement of cash flows

for the year ended 31 December 2010

| R'm | Note | Percentage decrease | Audited 31 Dec 2010 | Audited 31 Dec 2009 |
|---|---|---|---|---|
| Cash generated from operations | 3 | (3%) | 276,1 | 283,7 |
| Movement in working capital | | | (4,3) | 30,6 |
| Cash generated by operating activities | | (14%) | 271,8 | 314,3 |
| Net interest received | | | 9,2 | 10,9 |
| Taxation paid | | | (78,1) | (75,4) |
| Capital distributions paid | | | (84,2) | (80,2) |
| Net cash inflow from operating activities | | | 118,7 | 169,6 |
| Net cash outflow from investing activities | | | (122,3) | (155,3) |
| Net cash inflow/(outflow) from financing activities | | | 1,5 | (18,5) |
| Net decrease in cash and cash equivalents | | | (2,1) | (4,2) |
| Cash and cash equivalents at beginning of the year | | | 39,6 | 43,8 |
| Cash and cash equivalents at end of the year | | | 37,5 | 39,6 |
| **Free operating cash flow before capex per share (cents)** | | | | |
| Profit for the year | | | 148,8 | 160,2 |
| Adjusted for non-cash IFRS and lease adjustments (after taxation) | | | 5,5 | 5,0 |
| Net operating profit after taxation – adjusted for non-cash IFRS and lease adjustments | | | 154,3 | 165,2 |
| Depreciation and amortisation | | | 66,4 | 58,8 |
| Other non-cash flow items (after taxation) | | | (0,2) | 0,1 |
| Operating cash flow after taxation | | (2%) | 220,5 | 224,1 |
| Movement in working capital | | | (4,3) | 30,6 |
| Free operating cash flow before capex | | (15%) | 216,2 | 254,7 |
| Weighted average number of shares in issue for purposes of basic earnings per share (million) | | | 399,9 | 399,4 |
| Free operating cash flow before capex per share (cents) | | (15%) | 54.1 | 63.8 |

## Notes to the condensed consolidated financial statements

for the year ended 31 December 2010

**1. Statement of compliance**

The condensed financial information has been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) , the AC 500 standards as issued by the Accounting Practices Board and the information as required by IAS 34: Interim Financial Reporting. The report has been prepared using accounting policies that comply with IFRS which are consistent with those applied in the financial statements for the year ended 31 December 2009.

**Independent auditors' opinion**

The auditors, Deloitte & Touche, have issued their opinion on the Group's financial statements for the year ended 31 December 2010. The audit was conducted in accordance with International Standards on Auditing. They have issued an unmodified audit opinion. These condensed financial statements have been derived from the Group financial statements and are consistent in all material respects with the Group financial statements. A copy of their audit report is available for inspection at the Company's registered office.

Any reference to future financial performance included in this announcement, has not been reviewed or reported on by the Company's auditors.

| R'm | Audited 31 Dec 2010 | Audited 31 Dec 2009 |
|---|---|---|
| **2. Determination of headline earnings** | | |
| Profit for the year | 148,8 | 160,2 |
| Items excluded from headline earnings per share | (0,2) | 0,1 |
| (Profit)/loss on sale of property, plant and equipment | (0,3) | 0,2 |
| Taxation effects on adjustments | 0,1 | (0,1) |
| **Headline earnings** | 148,6 | 160,3 |
| **3. Note to the statement of cash flows** | | |
| **Reconciliation of profit before taxation to cash generated from operations** | | |
| Profit before taxation | 212,1 | 229,8 |
| Adjust for non-cash IFRS and lease adjustments (before taxation) | 7,1 | 5,8 |
| | 219,2 | 235,6 |
| Adjust: | 56,9 | 48,1 |
| Depreciation and amortisation | 66,4 | 58,8 |
| Net interest received | (9,2) | (10,9) |
| Other non-cash flow items | (0,3) | 0,2 |
| **Cash generated from operations** | 276,1 | 283,7 |
| **4. Business combination** | | |
| The Design School Southern Africa was acquired on 1 January 2010 for a consideration amounting to R19,5 million. | | |
| **Fair value of assets acquired** | | |
| Intangible assets | 4,4 | |
| Goodwill | 15,0 | |
| Property, plant and equipment | 0,9 | |
| Current assets | 0,7 | |
| Current liabilities | (1,5) | |
| Purchase price | 19,5 | |

There have been no material subsequent events since year end.

## Commentary

### Overview

ADvTECH achieved satisfactory financial results for the year ended December 2010, maintaining a sound return on funds employed and excellent cash conversion of earnings. These results confirm the resilience of the Education division which experienced growth in demand, albeit at a reduced rate due to the economic conditions, and to a lesser extent the lack of progress in the awarding of contracts by the Department of Higher Education and Training. The Resourcing division made an encouraging return to profit growth for the full year as well as returning to revenue growth in the second half. The further improvement in the Group's outstanding academic results at both schools and tertiary level underlines the continuing emphasis on quality education in its operations.

Our 1 213 Matric candidates achieved a 100% pass rate, all of whom qualified for entrance into higher education institutions. Collectively they achieved 2 729 subject distinctions and even more pleasing were the excellent results achieved across the entire cohort in key subjects such as Mathematics, Physical Science and English.

At post-schooling level, 2 931 students (2009: 2 468) graduated with qualifications at certificate, diploma, degree or honours level at the 15 graduation ceremonies held by the IIE. The Group's overall pass rate in the Unisa exams improved to 75% (2009: 72%), significantly ahead of national averages. Forbes Lever Baker and Varsity College students again achieved excellent results in the Certificate in the Theory of Accounting (CTA) at Unisa, occupying eight of the top 15 places nationally.

The Resourcing division provided a valuable component of the Group's profits notwithstanding the difficulties experienced by much of the employment services industry. This was a result of the division's focus on key niche markets in the permanent employment category and the strength of its operating model. In 2010, 4 100 (2009: 3 900) candidates were placed in new career positions.

More information about the overall achievements and individual highlights of students, candidates, clients and staff across the programmes, campuses and branches of the Group is included in the ADvTECH Annual report.

### Financial

The directors reported a 7% increase in revenue to R1,5 billion. Earnings before interest, taxation, depreciation and amortisation declined by 3% to R269 million and an increase in depreciation led to a 7% decrease in operating profit to R203 million. Headline earnings declined by 7%, in line with the trend established at mid-year, to 37.2 cents (2009: 40.1 cents).

As reported at mid-year, these results reflect the increased costs of operation, primarily occupancy costs and depreciation, flowing from the Group's long-term investment strategy. In this period these were not fully matched by revenue growth for reasons mentioned above. Other operating costs were well contained with per capita staffing costs increasing by 7% and other operating costs by less than this. Central administration costs increased by 9% (2009: 9%). This above inflation increase arose from costs associated with the roll-out of the Group's new IT system. This has proceeded well and the system is expected to be fully operational during 2011, providing benefits in the form of operational improvements, near real-time information and improved scalability for future growth. The Group's operating margin decreased from 16% to 14% although the Resourcing margin increased by 2% to 16%.

Although operating profit in the Education division declined by 7% to R216 million for reasons noted above, revenue increased by 8% to R1,3 billion. Operating margin declined to a still satisfactory 17% (2009: 20%). The Resourcing division maintained revenue of R208 million for the year. The benefits of the Division's stringent cost controls were realised in the form of a 13% increase in operating profit to R33 million.

Free operating cash flow before capex per share decreased by 15% to 54.1 cents per share. This is a direct result of the significant decrease in the Group's capital creditors which in turn arises from the delaying of certain capital expenditure projects in order to match better the capacity requirements of a lower rate of revenue growth in the short-term. In a difficult economic climate, management of debtors remained sound and net debtors declined by 7% notwithstanding revenue growth of 7%. The cash conversion of earnings, as reflected by the free operating cash flow before capex per share, amounted to 145% of earnings (2009: 159%).

This strong cash flow enabled the Group to earn almost as much in interest as last year, despite the very significant drop in interest rates, and fund from its own resources capital expenditure of R105 million (2009: R129 million), acquisitions of R20 million (2009: R57 million), company taxation of R78 million (2009: R75 million) and capital distributions of R84 million (2009: R80 million). Net asset value per share increased by 11% and the Group remains in a strong financial position with an ungeared balance sheet. A 23% increase in fees received in advance can be interpreted as a positive signal in regard to cash flow for 2011.

### Investment

In 2010 the Group continued with its consistent and strategic investment in new capacity, predominately within the Education division. This was tempered by the recognition of the short-term cost effects of such investments on earnings and cash flow which need to be taken into account in planning operations. As a result, capital expenditure in the year slowed to R105 million (2009: R129 million). R20 million was spent on the already reported acquisition of The Design School Southern Africa.

Capital commitments at the end of the year amounted to R94 million (2009: R123 million) and operating lease commitments, being primarily for the provision of leasehold educational premises, were R385 million (2009: R356 million). These commitments include the opening of a new Trinityhouse school in the West Rand which is the first tangible result of our commitment to building this brand.

### Education

The Education division under the academic guidance and governance of The Independent Institute of Education (IIE), houses the Group's education brands and institutions including Abbotts College, College Campus, Corporate College International, CrawfordSchools™, The Design School Southern Africa, Forbes Lever Baker, Imfundo, Junior Colleges, Rosebank College, The National College of Photography, Trinityhouse, Varsity College and Vega. Collectively, they provide a full range of educational services from pre-school to matric, certificates, diplomas, undergraduate and postgraduate degrees, as well as skills development, learnerships and adult basic education and training. In 2010, these activities addressed the needs of 32 500 full-time students (2009: 32 200) at the 59 (2009: 57) sites and campuses across South Africa from which the Group operates. The IIE, guided and supported by the Academic Advisory Council, Senate and various specialist advisory committees, provides the Education division with academic governance, leadership and quality assurance. With 50 (2009: 41) education programmes between NQF levels 5 and 7, offered across 21 (2009: 19) campuses the Group holds the largest base of accredited higher education programmes in the independent sector.

### Resourcing

The Resourcing division includes Brent Personnel, Cassel & Company, Communicate Personnel, Inkokheli HR Appointments, Insource.ICT, IT Edge, Network Recruitment, Tech-Pro Personnel, Vertex-Kapele and The Working Earth. The Division's major activities are permanent, temporary and other recruitment solutions, recruitment advertising and advertising response handling.

The Resourcing division maintained a strong focus on the key niche markets of Engineering, Finance and Information Technology, while also developing the smaller sectors of Freight and Logistics, Human Resources and Supply Chain Management.

### Transformation

ADvTECH's role in education, training and staffing makes a significant contribution to the transformation of South African society. More than two thirds of the student body and over 50% of placements are black. The Group maintained steady progress in its black staff complement as a whole as well as in its senior management structures. The Board Transformation Committee continues to guide the Group's progress against the relevant Department of Trade and Industry codes and the JSE Socially Responsible Investment Index, of which ADvTECH has been a constituent for the past five years.

Over the last three years, the Group has progressed its BEE rating from level 7 to a level 5 contributor.

### Litigation

Legal proceedings against Marina and Andry Welihockyj remain in process. The Group's legal counsel remains satisfied with the merits of the claims in this matter and that, save for legal costs, the Group has no further exposure.

### Capital reduction and dividend

The Board is pleased to announce final distributions to shareholders, to be paid out of share premium, of 11.0 cents (2009: 13.5 cents) per share, and a dividend of 2.5 cents per share. This would bring the total distributions and dividend for the year to 21.5 cents (2009: 21.0 cents) per share. The authority to make this payment to shareholders was obtained at the Annual General Meeting held on 18 May 2010, and the dividend is in terms of the Company's articles of association.

Set out in the table below are the salient dates and times applicable to these distributions:

| | 2011 |
|---|---|
| Declaration date | Monday, 28 March |
| Last date to trade in order to participate in the distribution | Thursday, 14 April |
| Trading commences ex-distribution | Friday, 15 April |
| Record date | Thursday, 21 April |
| Payment date | Tuesday, 26 April |

### Directorate

At the meeting on 25 March 2011 Mr Fani Titi announced his resignation from the Board. Mr Titi was appointed in 2006 and has provided much valuable insight to the Board.

### Company secretary

The company secretary, Stephen O'Connor, has resigned effective 31 March 2011.

### Prospects

The South African economy is expected to continue to recover from the effects of the recession, although doubt remains about the ability of the economy to create enough new jobs. Education remains a key requirement for securing suitable employment in a modern economy and the Group's unrelenting focus on academic quality and performance will stand it in good stead. The Resourcing division appears to have made solid gains in market position and expects to continue to develop its leadership in the niche markets for high demand scarce skills which it serves.

It is already evident that a positive response to the Group's commitment to quality is taking place in the form of growing demand for places at our campuses and an increase in the job specifications received. Accordingly, the directors remain committed to the long-term sustainable development strategy of the Group and continue to plan further investments for growth.

On behalf of the Board

**Leslie Maasdorp**
*Chairman*

**Frank Thompson**
*Chief Executive Officer*

28 March 2011

BASTION GRAPHICS