



▲ HEPS up

54%

▼ Gearing down

51%

▲ NAV per share up

25%

# ENRICHING HUMAN CAPITAL

## Chairman and CEO's report

### GENERAL REVIEW

ADvTECH's financial results for the 2003 year present clear and gratifying evidence of the Group's successful reconstruction, particularly revealed in the Group's cleansed continuing operations which are now soundly anchored by the expanding and rewarding Education Division. At the same time, of necessity, they remain cluttered with detail on discontinued operations. Rational and robust management interventions during the year also brought a conclusion to several legacy issues, yielding a mixture of extraordinary recoupments and recoveries collectively and positively enhancing the Group's annual performance. The more compelling features of the Group's overall results are an increase of 54% in headline earnings per share to 8.8 cents, a 25% increase in the tangible net asset value per share to 57.5 cents and, as a result of the Group's improved asset and cash flow management, a 51% reduction in the debt-equity ratio to 37%.

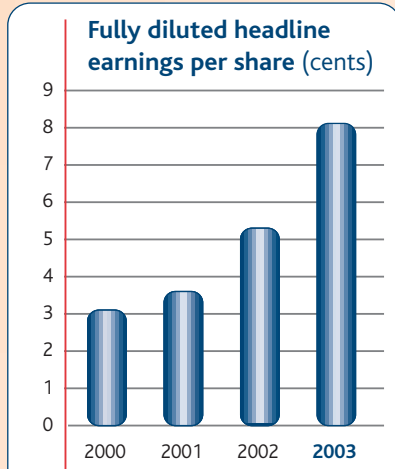
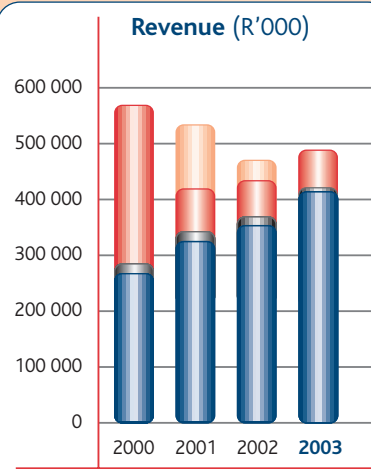
The cycle of the Group's cash flow is weighted such that the Group reports maximum borrowings at year-end. However, the average funds employed during the year were R25.6 million lower than at year-end which implies that average gearing is of the order of 25% compared to the 37% reported at year-end.

### REVIEW OF OPERATIONS

#### Education

ADvTECH management has competently and creatively developed a range of vibrant, stimulating and caring learning environments where learners within their own academic aspirations and capacity can excel, grow and prepare to compete in South Africa's dynamic and transforming society. Students at each level are now exposed to a full spectrum of instruction and human experiences designed to enrich their cultural appreciation and to expand their physical, intellectual and cultural horizons. The Group's well known and established brands in the Education Division include Crawford Schools, Abbots College, Junior College, Varsity College, College Campus, Rosebank College, Vega the Brand Communication School and Bond South Africa. Together these brands form the Group's composite education business which is a leader in the field of independent education in South Africa. ADvTECH has consistently promoted and supported the deliberate drive by the Department of Education (DoE), Council on Higher Education (CHE) and South African Qualifications Authority (SAQA) to improve the general standards of education governance, the quality of teaching and the learners' assessment. In order to fulfil these objectives and standards ADvTECH embraces and co-operates fully on all regulatory processes and willingly engages with all representatives when called upon to do so. Furthermore, in order to keep conversant with regulatory guidelines and achieve best teaching practice, the ADvTECH Academic Advisory Board was constituted this year. It has specific responsibility for monitoring developments in the field of education and advising the Group on all requirements for the enhancement of academic standards and instruction techniques. Its members comprise of independent and distinguished academics.

The most encouraging feature of this year's results was the performance of the Education Division. Excluding the effect of Bond South Africa, which incurred a loss of R5.2 million, the Education Division improved its continuing EBITDA contribution by 29.5% to R85.2 million. The Group's relationship with Bond Australia has for various reasons been extremely demanding and is presently receiving close management attention.



### Resourcing

The Resourcing Division comprises mainly the Group's recruitment businesses together with other smaller businesses. The Recruiting Division has unfortunately been unable to sustain the improvement indicated in the second half of last year and accordingly produced disappointing results. However, when compared with its peers in the recruitment industry, the performance could be regarded as satisfactory. Fortunately, the nature of the resourcing business is non-capital intensive and notwithstanding the sub-optimal progress, the division did contribute a favourable return on funds employed with a positive cash flow impact. In a more conducive environment for recruitment services, this division has the propensity for premium earnings.

### Accounting adjustments

Changes in accounting and disclosure requirements prescribed by the JSE resulted in the need to consolidate the Group's Share Incentive Trust with the financial statements of the company. The effect of these new requirements are set out in the table below:

	Unit	2003	2002	Growth
Number of shares in issue at year end	000	393 665	393 665	
Less: Shares held by Share Incentive Trust	000	40 463	29 009	
Net shares in issue after consolidation of the Share Incentive Trust	000	353 202	364 656	
Headline earnings	R'000	31 845	20 999	52%
Weighted average number of shares in issue – for EPS calculation purposes	000	363 465	366 168	
Headline earnings per share – excluding Share Incentive Trust	cents	8.1	5.3	53%
Headline earnings per share – 2003	cents	8.8	5.7	54%
Diluted number of shares in issue – for diluted EPS calculation purposes	000	377 041	367 140	
Diluted HEPS – 2003	cents	8.4	5.7	47%
Fully diluted number of shares in issue	000	393 665	393 665	
Fully diluted HEPS – 2003	cents	8.1	5.3	53%
Net asset value	R'000	213 118	172 396	23%
Plus: Shares held by the Share Incentive Trust	R'000	13 026	8 106	
Net asset value excluding Share Incentive Trust	R'000	226 144	180 502	25%
Number of shares in issue at year-end per share register	000	393 665	393 665	
Net asset value per share	cents	57.5	45.9	25%

### Litigation

Shareholders were informed in September 2003 of the terms of the settlement of the litigation against Graeme Crawford which included, inter alia, the surrender to ADvTECH of 15.4 million ADvTECH shares to the then value of R8.9 million and a cash payment, including interest, of R5.5 million. Having regard to the complexities in this matter, the Board considered the settlement terms to be most satisfactory. The legal proceedings and the principal issues for determination in respect of the claims against Andy and Marina Welhockyj et al. are unambiguous and definitive and continue in process. The Board Litigation Sub-Committee and the Group's legal advisors are confident of the merits of this matter and aggressively pursue the Group's claims despite the obstructive strategies by the defendants to deliberately procrastinate and delay. The Group has no additional exposure other than for legal costs in this matter. Legal and related costs of R3.7 million net of recoveries (2002: R8 million), were incurred during the year.

### Distribution to shareholders

The Board has resolved to institute in future a policy of distributing between 30% and 40% of attributable profits available in each year. Notice is hereby given of the declaration of a dividend in the nominal amount of 1 cent per share, in respect of the year ended 31 December 2003. The last day to trade cum dividend will be Thursday, 1 April 2004 and the shares will commence trading ex dividend from Friday, 2 April 2004, with the record date being Thursday, 8 April 2004. Payment will be effected on Tuesday, 13 April 2004. Share certificates may not be dematerialised or rematerialised from Friday 2 April 2004 to Thursday, 8 April 2004, both days inclusive.

### Board

During the year Campbell Bomela retired by rotation at the annual general meeting, and did not stand

## ▼ Abridged income statement

for the year ended 31 December 2003					
(R'000)	Notes	% change	Audited 31 Dec 2003	Audited 31 Dec 2002	
Revenue		3	485 784	470 078	
Operating profit before depreciation and amortisation		18	65 472	55 292	
Depreciation and amortisation			21 032	19 835	
Operating profit		25	44 440	35 457	
Net finance costs		(21)	(10 911)	(13 891)	
Equity accounted earnings			—	1 129	
Profit before exceptional items		48	33 529	22 695	
Exceptional items	2		17 884	(258 806)	
Profit/(loss) before taxation			51 413	(236 111)	
Taxation	4		140	7 148	
Profit/(loss) after taxation			51 273	(243 259)	
Attributable to outside shareholders			823	(77)	
Attributable to ordinary shareholders			50 450	(243 182)	
Number of shares in issue ('000)			393 665	393 665	
Less: Shares held by the Share Incentive Trust			(40 463)	(29 009)	
Net shares in issue after consolidation of the Share Incentive Trust			353 202	364 656	
Weighted average number of shares in issue ('000) – for EPS calculation			363 465	366 168	
Earnings/(loss) per share (cents)			13.9	(66.4)	
Headline earnings per share (cents)	54		8.8	5.7	
Diluted number of shares ('000) – for diluted EPS calculation			377 041	367 140	
Diluted earnings/(loss) per share (cents)			13.4	(66.2)	
Diluted headline earnings per share (cents)	47		8.4	5.7	
Net asset value per share (cents)	25		57.5	45.9	
Gearing	(51)		36.7	74.9	

## ▼ Statement of changes in equity

for the year ended 31 December 2003						
(R'000)	Share capital	Share premium	Shares held in the Share Incentive Trust	Non-distributable reserves	Accumulated loss	Total
Balance at the beginning of the year as originally reported	3 937	355 100	—	18 231	(196 766)	180 502
Consolidation of Share Incentive Trust	—	—	(8 106)	—	—	(8 106)
Balance at the beginning of the year restated	3 937	355 100	(8 106)	18 231	(196 766)	172 396
AC133 opening balance adjustment	—	—	—	273	—	273
Net profit for the year	—	—	—	50 450	—	50 450
Shares acquired – Crawford settlement	—	—	(8 622)	—	—	(8 622)
Loss on sale of shares to Share Incentive Trust	—	—	2 794	—	(2 794)	—
Share options exercised	—	—	907	—	—	907
Movement in translation reserves	—	—	—	(2 287)	—	(2 287)
Balance at the end of the year	3 937	355 100	(13 027)	15 944	(148 837)	213 117

## ▼ Abridged balance sheet

as at 31 December 2003				
(R'000)	Notes	Audited 31 Dec 2003	Restated 31 Dec 2002	
<b>ASSETS</b>				
Property, plant and equipment	5	313 751	310 632	
Goodwill and trademarks		1	1	
Development costs		—	2 168	
Deferred taxation asset		40 207	38 188	
Investments		495	1 933	
<b>Current assets</b>		<b>26 467</b>	<b>44 147</b>	
Inventories		4 764	3 842	
Prepayments		2 284	3 109	
Taxation		10	2 779	
Accounts receivable		18 982	29 413	
Cash resources and liquid instruments		427	5 004	
<b>TOTAL ASSETS</b>		<b>380 921</b>	<b>397 069</b>	
<b>EQUITY AND LIABILITIES</b>				
Share capital		3 937	3 937	
Share premium		355 100	355 100	
Shares held by the Share Incentive Trust		(13 026)	(8 106)	
Non-distributable reserves		15 944	18 231	
Accumulated loss		(148 837)	(196 766)	
<b>Ordinary shareholders' equity</b>		<b>213 118</b>	<b>172 396</b>	
Outside shareholders' interest		823	—	
Interest bearing debt		78 551	134 163	
– medium term	5	7 554	20 624	
– short term	5	24 753	36 915	
– bank overdrafts and bankers' acceptances	5	46 244	76 624	
Vendor claims		8 844	7 333	
Fees in advance		32 167	24 746	
Accounts payable and provisions		46 418	54 588	
Taxation		1 000	3 843	
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>380 921</b>	<b>397 069</b>	

## ▼ Supplementary information

for the year ended 31 December 2003			
(R'000)		Audited 31 Dec 2003	Audited 31 Dec 2002
Capital expenditure – current year		26 031	33 336
Capital commitments			
– contracted for		2 597	2 442
– approved by the Board but not contracted for		47 604	38 052
Operating lease commitments future years		105 222	109 025

for re-election, following changes in the structure of the Black Management's Forum shareholdings. We thank him for his efforts and his contribution to the ADvTECH Group since his appointment in July 2000. Professor Dolina Dowling and Alex Isaakidis were appointed alternate directors to Craig Duff and Frank Thompson respectively.

### Staff

ADvTECH staff has grown to 2 263 employees, the majority of which are academic and teaching staff. ADvTECH is a "people" business and its success is dependent on the quality of its people and the value of the services they provide. The high proportion of professionally qualified employees is indicative of the intellectual character attracted to and retained by the Group. The excellent results attained by ADvTECH students this year are a tribute to the commitment and dedication of these and indeed all our personnel. We appreciate their loyalty, we are proud of their contribution and we thank them for their devoted efforts this year. The ADvTECH Group continues to subscribe to the national priorities in skills development and employment equity and remains in good standing as to formal compliance with all legal requirements. The main thrust of our activities has been in the development of our own staff, a majority of whom benefited directly from initiatives in human development. The strategy of growing through people has resulted, for example, in six of the Crawford Schools being awarded the international "Investors in People" award. Crawford Schools are the only schools in South

## ▼ Abridged cash flow statement

for the year ended 31 December 2003			
(R'000)		Audited 31 Dec 2003	Audited 31 Dec 2002
Operating profit before depreciation and amortisation		65 472	55 292
Exceptional items affecting cash flow		4 303	(13 112)
Other items of income and expenditure affecting cash flow		(1 755)	(2 973)
Cash generated by operations		68 020	39 207
Net interest paid		(9 400)	(13 891)
Taxation paid		(2 350)	(1 690)
Working capital changes		14 158	1 170
(Increase)/decrease in inventories		(2 454)	408
Decrease in accounts receivable and prepayments		8 597	8 376
Increase/(decrease) in accounts payable		594	(9 336)
Increase in fees in advance		7 421	1 722
Cash flows from operating activities		70 428	24 796
Cash flows absorbed by investing activities		(19 871)	(30 413)
Cash flows absorbed by financing activities		(24 141)	(11 639)
Net increase/(decrease) in cash		26 416	(17 256)
Cash at beginning of year		(71 620)	(56 607)
Cash disposed		(613)	2 243
<b>CASH AT END OF YEAR</b>		<b>(45 817)</b>	<b>(71 620)</b>

## ▼ Notes to the financial statements

for the year ended 31 December 2003			
(R'000)		Audited 31 Dec 2003	Audited 31 Dec 2002
1. The preliminary announcement has been prepared in accordance with SA GAAP applicable to interim financial reporting and the accounting policies are consistent with those applied in the previous financial year, with the following exceptions: the Group has adopted AC133, with no material impact on the Group's results; the Share Incentive Trust has been consolidated in accordance with the interpretation of the GAAP Monitoring Panel and Varsity College campus in Pietermaritzburg previously shown under equity accounted earnings has now been consolidated.			
2. <b>Exceptional items</b>			
Exceptional items before taxation		18 605	(264 181)
Exceptional items after taxation		17 884	(258 806)
Profit/(losses) – discontinued operations – Australia		6 988	(5 860)
Profit/(losses) – discontinued operations – other		4 303	(1 126)
Loss on disposal of divisions or assets		(385)	(6 897)
Development costs impaired		(1 643)	—
Crawford settlement – Recoupment of goodwill written off		8 621	—
Goodwill written off		—	(238 099)
Goodwill amortisation		—	(6 824)
Taxation on exceptional items		721	(5 375)
<b>3. Determination of headline earnings</b>			
Profit/(loss) attributable to ordinary shareholders per income statement		50 450	(243 182)
Exceptional items after taxation		18 605	(264 181)
<b>Headline earnings</b>		<b>31 845</b>	<b>20 999</b>
4. <b>Taxation</b>			
Current year taxation – SA normal		6 019	5 220
– Foreign		—	(2 807)
Prior year taxation		(3 860)	3 210
Deferred taxation – Current		(2 329)	1 525
– Prior		310	—
Total taxation per the income statement		140	7 148
5. Interest bearing debt comprises a number of loan agreements substantially short term in nature. Notwithstanding this classification, the loans have been secured by collateral bonds to facilitate the registration of mortgage bonds over the Group's fixed property.			
6. The Group auditors, Deloitte & Touche, have completed an audit of the annual financial statements on which this preliminary announcement is based and a copy of their unqualified audit report is available at the Group's registered office.			

## ▼ Abridged segmental reporting

for the year ended 31 December 2003						
(R'000)	Education		Resourcing		Central administration	Total
	2003	2003	2003	2003	2003	2003
Revenue	423 708	62 076	—	—	—	485 784
Continuing operations	421 212	62 076	—	—	—	483 288
Discontinuing operations and disposal of businesses	2 496	—	—	—	—	2 496
EBITDA	80 605	4 806	(19 939)	—	—	65 472
Continuing operations	79 963	4 919	(16 353)	—	—	68 529
Discontinuing operations and disposal of businesses	642	—	—	—	—	642
Crawford settlement – recoupment of litigation costs	—	—	5 250	—	—	5 250
Litigation costs	—	(113)	(8 836)	—	—	(8 949)
(R'000)	2002	2002	2002			