enriching human capital

Unaudited Results for the Six Months Ended 30 June 2004

ADTECH GROUP

Incorporated in the Republic of South Africa *Registration number* 1990/001119/06
Share code ADH *ISIN* ZAE000031035
Website www.advtech.co.za

+47% headline earnings per share

+23% net asset value per share

net gearing down to 4.5%

abridged income statement

for the six months ended 30 June 2004

(R'000)	Notes	Percentage change	Unaudited six months to 30 June 2004	Unaudited six months to 30 June 2003	Audited 12 months to 31 Dec 2003
Revenue			**284 778**	251 621	485 784
Education – Continuing operations		15	**241 860**	209 679	404 898
Education – Discontinuing operations			**7 888**	7 948	18 810
Resourcing – Continuing operations		3	**35 030**	33 994	62 076
Operating profit before depreciation and amortisation			**37 954**	31 713	65 472
Education – Continuing operations		8	**47 633**	44 291	83 603
Education – Discontinuing operations			**(2 525)**	(2 955)	(2 998)
Resourcing – Continuing operations		30	**4 501**	3 459	4 919
Central administration			**(9 849)**	(8 854)	(11 103)
Litigation costs			**(1 806)**	(4 228)	(8 949)
Depreciation and amortisation			**(10 730)**	(10 658)	(21 032)
Operating profit		29	**27 224**	21 055	44 440
Net interest paid		(80)	**(955)**	(4 751)	(10 911)
Profit before exceptional items		61	**26 269**	16 304	33 529
Exceptional items	2		**(5 075)**	4 435	17 884
Profit before taxation			**21 194**	20 739	51 413
Taxation			**(5 923)**	(2 149)	(140)
Profit after taxation			**15 271**	18 590	51 273
Attributable to outside shareholders			**(584)**	(696)	(823)
Attributable to ordinary shareholders			**14 687**	17 894	50 450
Number of shares in issue ('000)			**393 665**	393 665	393 665
Weighted average number of shares in issue ('000)			**353 503**	364 656	363 465
Diluted number of ordinary shares ('000)			**371 078**	364 656	377 041
Earnings per share (cents)		(15)	**4.2**	4.9	13.9
Headline earnings per share (cents)	3	47	**5.2**	3.5	8.8
Diluted earnings per share (cents)		(19)	**4.0**	4.9	13.4
Diluted headline earnings per share (cents)		40	**4.9**	3.5	8.4
Dividend per ordinary share (cents)			**1.0**	–	–
Net asset value per share (cents)		23	**63.5**	51.7	58.6

abridged balance sheet

as at 30 June 2004

(R'000)	Notes	Unaudited as at 30 June 2004	Unaudited as at 30 June 2003	Audited as at 31 Dec 2003
ASSETS				
Property, plant and equipment	4	**317 208**	316 934	313 751
Goodwill and trademarks		**1**	1	1
Deferred taxation asset		**41 905**	39 447	40 207
Investments		**495**	1 060	495
Current assets		**61 356**	39 374	26 467
Inventories		**2 765**	3 935	4 764
Prepayments		**3 343**	3 185	2 294
Accounts receivable		**48 117**	31 554	18 982
Cash resources and liquid instruments	4	**7 131**	700	427
Total assets		**420 965**	396 816	380 921
Equity and liabilities				
Ordinary share capital		**3 937**	3 937	3 937
Ordinary share premium		**355 100**	355 100	355 100
Shares held by Share Incentive Trust		**(12 886)**	(8 106)	(13 026)
Non-distributable reserve		**15 944**	15 943	15 944
Accumulated loss		**(137 682)**	(178 203)	(148 837)
Ordinary shareholders' equity		**224 413**	188 671	213 118
Outside shareholders' interest		**584**	696	823
Interest bearing debt		**17 233**	66 159	78 551
– medium-term	4	**1 577**	21 887	7 554
– short-term	4	**15 656**	25 505	24 753
– bank overdrafts and bankers' acceptances	4	**–**	18 767	46 244
Current liabilities		**178 735**	141 290	88 429
Vendor claims		**9 101**	7 668	8 844
Fees in advance		**104 556**	77 123	32 167
Accounts payable and provisions		**64 548**	53 106	46 418
Taxation		**530**	3 393	1 000
Total equity and liabilities		**420 965**	396 816	380 921

supplementary information

Capital expenditure	– current period	**14 210**	16 336	26 151
Capital commitments	– remainder of the year	**20 657**	10 158	–
	– future years	**27 143**	15 000	50 201
Operating lease commitments	– future years	**96 384**	107 159	105 222

statement of changes in equity

for the six months ended 30 June 2004

(R'000)	Ordinary share capital	Ordinary share premium	Shares held by Share Incentive Trust	Non-distributable reserves	Accumulated loss	Outside shareholders' interest	Total
Balance at 31 December 2002	3 937	355 100	(8 106)	18 231	(196 766)	–	172 396
Accumulated profit for the year					50 450	823	51 273
AC133 opening balance adjustment					273		273
Translation reserves				(2 287)			(2 287)
Shares acquired – Crawford settlement			(8 621)				(8 621)
Revaluation of shares in Share Incentive Trust			2 794		(2 794)		–
Share options exercised			907				907
Balance at 31 December 2003	3 937	355 100	(13 026)	15 944	(148 837)	823	213 941
Accumulated profit for the period					14 687	584	15 271
Payment to outside shareholders						(823)	(823)
Dividend paid					(3 532)		(3 532)
Share options exercised			140				140
Balance at 30 June 2004	3 937	355 100	(12 886)	15 944	(137 682)	584	224 997

abridged cash flow statement

for the six months ended 30 June 2004

(R'000)	Unaudited six months to 30 June 2004	Unaudited six months to 30 June 2003	Audited 12 months to 31 Dec 2003
Operating profit before depreciation and amortisation	**37 954**	31 713	65 472
Exceptional items affecting cashflow	**–**	538	2 548
Equity accounted earnings and translation differences	**–**	(846)	–
Cash generated by operations	**37 954**	31 405	68 020
Net interest paid	**(955)**	(4 751)	(9 400)
Taxation paid	**(8 081)**	(1 145)	(2 350)
Dividend paid	**(3 518)**	(1)	(1)
Working capital changes	**57 370**	54 456	14 158
Decrease/(Increase) in inventories	**1 999**	(93)	(2 454)
(Increase)/Decrease in accounts receivable	**(30 194)**	(2 151)	8 597
Increase in accounts payable and provisions	**13 176**	4 323	594
Increase in fees in advance	**72 389**	52 377	7 421
Cash flows from operating activities	**82 770**	79 964	70 427
Cash flows absorbed by investing activities	**(15 003)**	(16 575)	(19 871)
Cash flows absorbed by financing activities	**(14 819)**	(9 836)	(24 140)
Net increase in cash	**52 948**	53 553	26 416
Cash at beginning of period	**(45 817)**	(71 620)	(71 620)
Cash disposed	**–**	–	(613)
Cash at end of period	**7 131**	(18 067)	(45 817)

notes to financial statements

for the six months ended 30 June 2004

(R'000)	Unaudited six months to 30 June 2004	Unaudited six months to 30 June 2003	Audited 12 months to 31 Dec 2003
1. The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and the accounting policies are consistent with those applied in the previous financial period. The results for the six months ended 30 June 2004 have not been reviewed or audited.			
2. **Exceptional items**			
(Profit) – discontinued operations – Australia	**–**	(5 804)	(6 988)
(Profit) – discontinued operations – other	**–**	(650)	(4 303)
Loss – discontinuing operation – closure provision for Bond South Africa	**5 198**	–	–
(Profit)/Loss on disposal of divisions or assets	**(123)**	376	385
Graeme Crawford settlement – recoupment of goodwill written down	**–**	–	(8 621)
Development costs written down	**–**	1 643	1 643
Exceptional items before taxation per income statement	**5 075**	(4 435)	(17 884)
Taxation on exceptional items	**1 523**	638	721
Exceptional items after taxation	**3 553**	(5 073)	(18 605)
3. **Determination of headline earnings**			
Profit attributable to ordinary shareholders per Income Statement	**14 687**	17 894	50 450
Exceptional items expensed	**3 553**	(5 073)	(18 605)
Headline earnings	**18 240**	12 821	31 845
4. 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.			
5. **Discontinuing operations**			
On 18 June 2004 the board of directors announced a plan for the closure of the operations of Bond South Africa once current students had had the opportunity to complete their degrees.			
Financial impact of the discontinuing operation			
Operating loss to date of closure decision	**(2 525)**	(5 081)	(6 105)
Provision for closure costs	**(5 198)**	-	-
Loss attributable to discontinuing operation	**(7 723)**	(5 081)	(6 105)
Taxation	**2 320**	1 504	1 810
Net loss attributable to discontinuing operation	**(5 403)**	(3 577)	(4 295)
Total assets of the discontinuing operation	**13 361**	11 877	5 516
Total liabilities of the discontinuing operation	**24 893**	16 965	11 322
Cash inflow from operating activities	**1 852**	1 927	105
Cash outflow from investing activities	**143**	298	922
Cash (outflow)/inflow from financing activities	**(1 719)**	443	2 889

commentary

overview

The directors are pleased to report further progress and improvement in the Group's results for the six months to 30 June 2004 compared to the same period in 2003. A strong operating and financial performance saw headline earnings per share grow by 47%, while net asset value per share increased by 23% and the balance sheet is almost ungeared.

The 13% increase in revenue reflects both the benefits of a continued increase in enrolments and the success of the resourcing division returning to a growth path. Operating profit before depreciation and amortisation (EBITDA) increased by 20% to R38 million.

A major feature of the six months' results was the announcement by the Group, together with Bond University, Australia, of the closure of Bond South Africa. This will take place once all existing students have had an opportunity to complete their degrees. The international quality and standing of Bond degrees offered and conferred in South Africa remains unaffected. In addition to the operating loss of R2,5 million incurred by Bond South Africa up to date of the announcement, a further provision of R5,2 million has been made to provide for the costs of running out and closing the operation. These are disclosed separately as discontinuing operations and an exceptional item respectively and for the period will reduce the aggregate after tax effect on earnings by R5,4 million (1,5 cents per share) and on headline earnings R1,9 million (0,5 cents per share).

A 3% reduction in the average cost of borrowing together with an improvement in working capital management resulted in an 80% decrease in net interest paid by the Group. The increase in accounts receivable results mainly from the mix of turnover growth. The tax rate this year, and for the future, is expected to increase towards the normal tax rate of 30%.

divisional review

education

The education division houses the Group's education brands and institutions and provides a full range of educational services from infancy through schooling to Further and Higher Education bands in the independent education market.

The division represents the dominant contributor to the Group's results and strategic focus, and continuing operations increased revenue by 15% to R242 million and operating profit by 8% to R48 million for the six month period. Growth in operating profits were negatively affected by approximately R2 million as a result of exceptional uptake of early settlement fee options. This was an important contributor to the reduction in the interest cost for the period and to the growth in fees in advance in the balance sheet. In addition, start-up costs of approximately R2 million were incurred for new campuses.

A further overall increase in enrolments was achieved at the beginning of 2004 with strong performances in particular at Rosebank College, Varsity College, Vega and Crawford Schools. The new Abbotts College which opened in Northcliff, Gauteng, made a steady start and is on track to meet its enrolment target for the year. Construction has commenced on three new tertiary campuses in Gauteng and Natal in terms of plans outlined in the annual report.

resourcing

The resourcing division has as its central component the Group's branded recruitment operation and also includes a number of smaller businesses. Revenue for the six month period increased by 3% to R35 million and operating profit by 30% to R4,5 million.

Recruitment has now delivered 12 months of much improved performance and is the main contributor to the 30% improvement in EBITDA of the resourcing division. During the period, consolidation and re-organisation of the recruitment operation was concluded, which impacted favourably on operating costs. An increase in consulting resources was also effected during this period.

litigation and central administration

The reduction in litigation expenses reflects mainly reduced activity in the period following the satisfactory conclusion of the Graeme Crawford matter during the latter half of 2003. Every effort is being made to bring outstanding litigation matters to a speedy and satisfactory conclusion in the interest of shareholders.

The increase in central administration is the result of strengthening financial and human resource management at head office.

cash flow and net gearing

Cash generated by operations of R38 million combined with a reduction in net working capital of R57 million enabled the Group to generate net positive cash flow from operating activities of R83 million (2003 – R80 million). While part of this cash flow is a seasonal timing difference which will unwind itself during the second half of the year, it has enabled the Group to finance dividend and taxation payments, capital expenditure and the repayment of loans while still ending the reporting period with significantly reduced net borrowings of R10 million (2003 – R66 million). As a result of this and reduced interest rates, the net interest charge declined by 80% to R1 million (2003 – R4,8 million).

During June the Group concluded long-term loan facilities of R50 million with Nedbank which include a combination of fixed and variable rate loans designed to suit the seasonal nature of the Group's cash flows. The effect of this facility is to eliminate a funding mismatch which existed between the Group's long-term assets and short-term debt and thus strengthen the balance sheet. ABSA remains the Group's lead banker and continues to provide asset based, medium-term and working capital finance as well as most transaction services. It has not been necessary at this time to increase total borrowing facilities because of the strong operational cash generation.

directorate

At its meeting on 3 August 2004 the Board confirmed the appointment of John Deeb as Group Financial Director. Nico Booyens, who was the Group Financial Director has now been appointed as director responsible for the Group's property portfolio and a range of related projects.

prospects

With increased student enrolments in place and the impact of the Bond closure already provided for, the education division expects to post an improved contribution to headline earnings per share for the full year. The recruitment business has established positive momentum in its targeted niches and at the same time the market is showing signs of improvement. The resourcing division therefore expects to continue to post improved results for the full year.

As a result, in the absence of any material adverse developments, the Group expects to sustain an encouraging trend of performance during the second half of the year.

On behalf of the Board

HF Brown
Chairman

FR Thompson
Chief Executive Officer

Directors: HF Brown* *(Chairman)*, FR Thompson *(CEO)*, JNP Booyens *(Financial)*, BD Buckham*, CN Duff, DK Ferreira*, DL Honey, HR Levin*, MI Sacks* *Non-executive Director* **Alternate Directors:** A Isaakidis, DS Dowling** **British* **Group Secretary:** MJ Lämmle
Sponsor: Bridge Capital Services (Pty) Ltd **Registered address:** 364 Kent Avenue, Ferndale, Randburg 2194 (PO Box 2369, Randburg 2125) **Transfer secretaries:** Ultra Registrars (Pty) Ltd, 11 Diagonal Street, Johannesburg 2001