

LOTTERIES AND GAMING AUTHORITY

**Annual Report
and
Financial Statements**

31 December 2006

 **ERNST & YOUNG**



LOTTERIES AND GAMING AUTHORITY

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and
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Annual Financial Statements for the year ended 31 December 2006

CONTENTS

	Pages
General Information	2
Report of the board members of the authority	3 - 4
Auditors' Report	5
Income Statement	6
Balance Sheet	7
Statement of Changes in Equity	8
Cash Flow Statement	9
Notes to the Financial Statements	10 - 16

LOTTERIES AND GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2006

GENERAL INFORMATION

Registration

The Lotteries and Gaming Authority was established by virtue of the Lotteries and Other Games Act, Cap. 438.

Board members of the Authority

Dr. Joseph Zammit Maempel (Chairman)
Mr. Joseph Ross (Deputy Chairman)
Dr. Michael Xuereb
Mr. Jesmond Pace
Dr. Roberta Fenech Gauci

Secretary of the Board of the Authority

Dr. Richard Sladden

Head Office

Lotteries and Gaming Authority
'La Concorde'
Abate Rigord Street
Ta' Xbiex, MSD 12
MALTA

Auditors

Ernst & Young
Certified Public Accountants
Fourth Floor
Regional Business Centre
Achille Ferris Street
Msida MSD 1751
MALTA

LOTTERIES AND GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2006

REPORT OF THE BOARD MEMBERS OF THE AUTHORITY

The board members of the Authority submit their annual report and the audited financial statements for the year ended 31 December 2006.

Principal activity

The Lotteries and Gaming Authority was established by virtue of the Lotteries and Other Games Act, Cap. 438 for the purposes of carrying out the functions defined in the said Act.

Results

The total operating income generated by the Authority during the year amounted to Lm13,744,856 out of which Lm12,636,036 was transferred to the Government of Malta. After deducting all expenditure of Lm577,831 the Authority registered a surplus for the year of Lm13,177,252.

Board members of the Authority

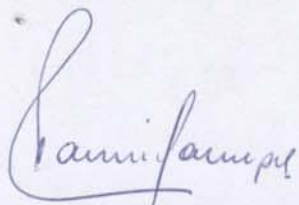
The board members of the Authority who served during the year under review are listed on page 2.

In accordance with Part IV, section 9 (2) of the Lotteries and Other Games Act, Cap. 438, the chairman and other board members of the Authority are appointed by the minister responsible for finance for a maximum period of three years but may be reappointed on the expiration of their term of office.

Auditors

Ernst & Young have expressed their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

The report of the board members of the Authority is signed on their behalf by:



DR. JOSEPH ZAMMIT MAEMPEL
Chairman



DR. MICHAEL XUEREB
Board member

28 June 2007

INDEPENDENT AUDITORS' REPORT TO THE BOARD MEMBERS OF THE AUTHORITY OF LOTTERIES AND GAMING AUTHORITY

We have audited the financial statements of the Lotteries and Gaming Authority, which comprise the balance sheet as at 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set on pages 6 to 16.

Board members of the Authority's Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Authority as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Lotteries and Other Games Act, Cap. 438.

*This copy of the audit report has been signed by
Anthony Doublet (Partner) for and on behalf of*

Ernst & Young
Certified Public Accountants

28 June 2007

LOTTERIES AND GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2006

INCOME STATEMENT
for the year ended 31 December 2006

	Notes	2006 Lm	2005 Lm
Revenue	3	13,746,047	10,966,474
Administrative and other expenses	4	(577,831)	(412,300)
Operating surplus	5	13,168,216	10,554,174
Finance revenue	7	9,036	6,233
Surplus for the financial year		13,177,252	10,560,407

The accounting policies and explanatory notes on pages 10 to 16 form an integral part of the financial statements.

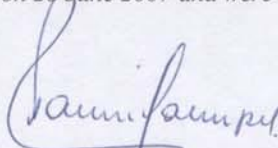
LOTTERIES AND GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2006

BALANCE SHEET
as at 31 December 2006

	Pages	Notes	2006 Lm	2005 Lm
ASSETS				
Non-current assets				
Property, plant and equipment		9	78,107	43,515
Current assets				
Trade and other receivables		10	1,309,958	1,103,870
Cash at bank and in hand		13	374,619	322,533
			1,684,577	1,426,403
TOTAL ASSETS			1,762,684	1,469,918
EQUITY AND LIABILITIES				
EQUITY				
Reserve fund	8		-	-
National Lottery reserve fund	8	12	-	-
			-	-
CURRENT LIABILITIES				
Trade and other payables		11	1,762,684	1,469,918
TOTAL EQUITY AND LIABILITIES			1,762,684	1,469,918

The accounting policies and explanatory notes on pages 10 to 16 form an integral part of the financial statements.

The financial statements on pages 6 to 16 have been authorised for issue by the board members of the Authority on 28 June 2007 and were signed on its behalf by:


DR. JOSEPH ZAMMIT MAEMPEL
 Chairman


DR. MICHAEL XUEREB
 Board Member

LOTTERIES AND GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2006

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2006

	Pages	National lottery reserve fund Lm	Reserve fund Lm	Total Lm
At 1 January 2005		-	-	-
Appropriation from income and expenditure account		365,083	10,195,324	10,560,407
Unclaimed prizes transferred in terms of section 54 of the Lotteries and Gaming Act, Cap. 438		420,073	-	420,073
Payments made to Government in terms of section 50 of the Lotteries and Other Games Act, Cap. 483		(785,156)	(9,400,401)	(10,185,557)
Payment due to government		-	(794,923)	(794,923)
At 31 December 2005	7	-	-	-
At 1 January 2006		-	-	-
Appropriation from income and expenditure account		405,580	12,771,672	13,177,252
Unclaimed prizes transferred in terms of section 54 of the Lotteries and Gaming Act, Cap. 438		276,191	-	276,191
Payments made to Government in terms of sections 50 and 59 of the Lotteries and Other Games Act, Cap. 483		(681,771)	(12,636,036)	(13,317,807)
Payment due to government		-	(135,636)	(135,636)
At 31 December 2006	7	-	-	-

The accounting policies and explanatory notes on pages 10 to 16 form an integral part of the financial statements.

LOTTERIES AND GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2006

CASH FLOW STATEMENT
for the year ended 31 December 2006

	Note	2006 Lm	2005 Lm
Cash flows from operating activities			
Surplus for the year		13,177,252	10,560,407
Adjustments for:			
Depreciation of tangible fixed assets		23,120	14,371
Interest received		(9,036)	(6,233)
Operating surplus before working capital changes		13,191,336	10,568,545
Increase in debtors		(206,088)	(272,472)
Increase/(decrease) in creditors		157,130	(16,115)
Cash generated from operations		13,142,378	10,279,958
Interest received		9,036	6,233
NET CASH GENERATED FROM OPERATING ACTIVITIES		13,151,414	10,286,191
Cash flows from investing activities			
Purchase of tangible fixed assets		(57,712)	(18,922)
Cash flows from financing activities			
Repayment to government		(13,041,616)	(9,996,971)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		52,086	270,298
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		322,533	52,235
CASH AND CASH EQUIVALENTS AT END OF YEAR	13	374,619	322,533

The accounting policies and explanatory notes on pages 10 to 16 an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These financial statements have been prepared on a historical cost basis and have been presented in Maltese Lira.

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the Lotteries and Other Games Act, Cap. 438.

2.1 CHANGES IN ACCOUNTING POLICIES

During the year the Authority has adopted new standards and interpretations which became applicable for December 2006 year-ends. Adoption of their revisions did not have any effect on the financial statements of the Authority.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2007 or later periods but which the Authority has not early adopted. These are as follows:

- **IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective for financial years beginning on or after 1 January 2007). IFRS is not relevant to the Authority's operations.

- **IFRS 8, Operating Segments** (effective for financial years beginning on or after 1 January 2009). IFRS 8 is not relevant to the Authority's operations.

- **IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies** (effective for financial years beginning on or after 1 March 2006). IFRIC 7 is not relevant to the Authority's operations.

- **IFRIC 8, Scope of IFRS 2** (effective for financial years beginning on or after 1 May 2006). IFRIC 8 is not relevant to the Authority's operations.

- **IFRIC 9, Reassessment of Embedded Derivatives** (effective for financial years beginning on or after 1 June 2006). IFRIC 9 is not relevant to the Authority's operations.

- **IFRIC 10, Interim Financial Reporting and Impairment** (effective for financial years beginning on or after 1 November 2006). IFRIC 10 is not relevant to the Authority's operations.

- **IFRIC 11, IFRS 2-Group and Treasury Share Transactions** (effective for financial years beginning on or after 1 March 2007). IFRIC 11 is not relevant to the Authority's operations.

- **IFRIC 12, Service Concession Arrangements** (effective for financial years beginning on or after 1 January 2008). IFRIC 12 is not relevant to the Authority's operations.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are set out below:

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for licenses, duties and application fees in the normal course of business. All revenue is recognised on the accrual basis. The following specific recognition criteria must also be met before revenue is recognised:

Licences

Revenue is recognised when the licence becomes due.

Application fees

Revenue is recognised upon receipt of a valid application form.

Duties

Duties are recognised on an accruals basis.

Interest income

Interest income is recognised as the interest accrues, unless collectibility is in doubt.

Trade and other receivables

Trade receivables are recognised and carried at original amount due less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Amounts due from related parties are recognised and carried at cost.

Cash and cash equivalents

Cash in hand and at banks are carried at cost.

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash in hand and deposits at banks, net of outstanding bank overdrafts.

Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Authority.

Amounts due to related parties are carried at cost.

Property, plant and equipment

Property, plant and equipment, are initially recorded at cost. All other tangible fixed assets are stated at historical cost less depreciation.

LOTTERIES AND GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2006

NOTES TO THE FINANCIAL STATEMENTS - continued

2.2 SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment (continued)

Depreciation is calculated to write down the cost of the assets to their residual values over their estimated useful life as follows:

	Straight line %
Improvements to premises	5
Furniture and fittings	10
Office equipment	16.67-25
Motor vehicles	20
Computer equipment	25

2.3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the management, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised) - 'Presentation of financial statements'.

3. REVENUE

Revenue represents the following:

	2006 Lm	2005 Lm
Licence fees	217,127	133,934
Duties	13,448,745	10,746,340
Application fees	66,516	75,697
Other	13,659	10,503
	13,746,047	10,966,474

4. ADMINISTRATIVE EXPENSES

	2006 Lm	2005 Lm
Staff costs	263,832	214,524
General administrative expenses	182,783	140,556
Professional fees	23,224	8,757
Promotional expenses	84,872	34,092
Depreciation	23,120	14,371
	577,831	412,300

LOTTERIES AND GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2006

NOTES TO THE FINANCIAL STATEMENTS - continued

5. OPERATING SURPLUS

The operating surplus is stated after charging:

	2006	2005
	Lm	Lm
Chairman's emoluments and Board honoraria	12,000	9,900
Auditors' remuneration	1,534	375

6. EMPLOYEE INFORMATION

a. Staff costs

The total employment costs were as follows:

	2006	2005
	Lm	Lm
Salaries, wages and social security costs	258,720	213,216
Fringe benefits	1,264	-
	259,984	213,216

b. Staff numbers

The average number of persons employed by the Authority during the year was as follows:

	2006	2005
	Number	Number
HR and administrative	8	4
Information analysis	1	0
Legal and enforcement	6	8
Compliance	4	1
Inspectorate	9	7
Total	28	20

7. FINANCE REVENUE

	2006	2005
	Lm	Lm
Bank interest receivable	9,036	6,233

LOTTERIES AND GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2006

NOTES TO THE FINANCIAL STATEMENTS - continued

8. TAXATION

No provision for income tax has been made in these financial statements as the Authority's income is exempt from any liability to income tax.

9. PROPERTY, PLANT AND EQUIPMENT

	Improvements to premises Lm	Furniture and fittings Lm	Office equipment Lm	Motor vehicles Lm	Computer equipment Lm	Total Lm
Cost						
At 1 January 2005	-	5,552	8,012	29,805	8,661	52,030
Additions	-	5,201	2,720	5,285	5,716	18,922
At 31 December 2005	-	10,753	10,732	35,090	14,377	70,952
Additions	16,248	8,144	3,539	4,800	24,981	57,712
At 31 December 2006	16,248	18,897	14,271	39,890	39,358	128,664
Depreciation						
At 1 January 2005	-	555	3,240	5,961	3,310	13,066
Charge for the year	-	1,076	2,683	7,018	3,594	14,371
At 31 December 2005	-	1,631	5,923	12,979	6,904	27,437
Charge for the year	812	1,889	2,907	7,978	9,534	23,120
At 31 December 2006	812	3,520	8,830	20,957	16,438	50,557
Net book value						
At 31 December 2006	15,436	15,377	5,441	18,933	22,920	78,107
At 31 December 2005	-	9,122	4,809	22,111	7,473	43,515

10. TRADE AND OTHER RECEIVABLES (current)

	2006 Lm	2005 Lm
Duties and licences receivables	1,283,399	1,099,217
Prepaid expenses	26,559	4,653
	1,309,958	1,103,870

LOTTERIES AND GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2006

NOTES TO THE FINANCIAL STATEMENTS - continued

11. TRADE AND OTHER PAYABLES (current)

	2006	2005
	Lm	Lm
Amounts due to government (note i)	1,599,711	1,464,075
Other creditors	7,804	3,389
Accruals	8,311	2,454
Deferred income	146,858	-
	1,762,684	1,469,918

i. Amounts due to the government are unsecured, interest free and have no fixed date of repayment.

12. NATIONAL LOTTERY RESERVE FUND

By virtue of section 59 (1) of the Lotteries and Other Games Act, Cap. 438 the National Lottery Licensee is to pay funds standing in its Unclaimed Prizes Reserve to the Authority. All funds received are to be credited to the National Lottery Reserve Fund. In accordance with section 50 (6) of the same act, all funds credited to the letter reserve shall be paid, not later than six weeks after the financial year end, to the National Lotteries Good Causes Fund held by the Treasury Department.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand and balances with banks. Cash and cash equivalents included in the cash flow statement reconcile to the balance sheet amounts as follows:

	2006	2005
	Lm	Lm
Cash at bank and in hand	374,619	322,533

14. COMMITMENTS

Operating lease commitment

The commercial lease agreement on the premises used as offices by the Authority expires on 31 January 2020.

The future minimum rentals payable, including VAT, under these operating leases as at 31 December are as follows:

	2006	2005
	Lm	Lm
Within 1 year	37,524	37,287
After 1 year but not more than five years	163,487	158,850
After 5 years	572,321	614,482
	773,332	810,619

NOTES TO THE FINANCIAL STATEMENTS - continued

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

At the year end, the Authority's main financial assets on the balance sheet comprise trade receivables, accrued income, deferred costs and cash at bank and in hand. At the year end, there were no off-balance sheet financial assets.

At the year end, the Authority's main financial liabilities on the balance sheet consisted of accruals and deferred income, trade and other payables, and amounts due to the government.

Timing of cash flows

The presentation of the financial assets and liabilities listed above under the current and non-current headings within the balance sheet is intended to indicate the timing in which cash flows will arise.

Credit risk

The Authority trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Authority's exposure to bad debts is not significant. Carrying amounts for trade debtors are stated net of the necessary impairment provisions which have been prudently made against bad and doubtful debts in respect of which management reasonably believes that recoverability is doubtful. Credit risk with respect to debts is limited due to a number of licencees comprising the Authority's debtors base and the Authority has no significant concentrated or credited risk.

The Authority's cash at bank is placed with quality financial institutions.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Fair values

The carrying amounts of cash at bank, trade receivables, trade payables and accrued expenses and short term borrowings approximated their fair values.

Interest rate risk

With the exception of cash and bank balances, the value of the Authority's assets and liabilities are not subject to interest-rate movements.

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in accordance with this year's presentation of the financial statements.

SUPPLEMENTARY STATEMENT

Statement

Administrative and other expenses

I

ADMINISTRATIVE AND OTHER EXPENSES

	Year ended 31 December 2006		Year ended 31 December 2005	
	Lm	Lm	Lm	Lm
Salaries and national insurance	259,984		213,216	
Training	301		1,308	
Recruitment expenses	3,547		-	
Staff costs		263,832		214,524
Depreciation		23,120		14,371
Chairman's emoluments and Board honoraria	12,000		9,900	
Security fees	-		1,200	
Telecommunications	12,770		7,170	
Water and electricity	4,193		2,103	
Rent	37,287		35,567	
Insurance	2,445		3,262	
Lottery supervisions/Inspectorate costs	1,575		20,128	
Postage, stationery and printing	8,331		9,801	
Office expenses	3,613		4,172	
Motor vehicle running expenses	6,025		4,618	
Bank charges	900		92	
Cleaning expenses	4,167		2,676	
Subscriptions	7,820		4,245	
Repairs and maintenance	7,301		3,145	
Entertainment	2,305		1,707	
Overseas travelling	36,362		30,770	
Certification expenses (Net)	12,019		-	
Hosting of seminars/conferences	23,670		-	
General administrative expenses		182,783		140,556
Accountancy fees	1,876		1,800	
Professional fees	17,678		6,207	
Legal fees	2,136		375	
Auditor's remuneration	1,534		375	
Professional fees		23,224		8,757
Promotional expenses		84,872		34,092
		577,831		412,300