

ANNUAL REPORT

2001



NATIONAL LOTTERIES BOARD

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CHAIRPERSON'S REPORT



It is with great pleasure that I present the 3rd Annual Report of the National Lotteries Board for the year ended 31 March 2001, in accordance with Section 12 of the Lotteries Act as amended.

After the launch of the National Lottery in March 2000, the Lottery, its Lotto game and catch phrase "tata ma chance, tata ma millions" have become an integral part of South African life. Each week more than 6 million adults buy lottery tickets and more than half a million win prizes ranging from R15.00 to several million rand.

The Board is proud and privileged to have been part of the process of setting up the National Lottery in a manner that was transparent, impartial and with the utmost integrity.

The Board is also proud to have been assigned the additional task of providing the administrative and management support for the distribution of monies generated by the National Lottery and will ensure that this process too, will be conducted with the utmost integrity.

I would like to thank the members of the Board, the Chief Executive Officer and staff of the Board for their untiring effort and to congratulate them on their accomplishments in the period under review. I would also like to thank the Minister of Trade and Industry and his department for the invaluable input and assistance that they have provided.

The year ahead is full of challenges for the Board, excitement for the players and great joy to all the good causes that will receive money from the National Lottery Distribution Trust Fund. The Board looks forward to the next year with the ongoing commitment of maximising the revenue generated for good causes and ensuring that the National Lottery is run with all due propriety.

A handwritten signature in black ink, appearing to read 'J A Foster', written in a cursive style.

J A Foster
Chairperson

24 July 2001

ACTIVITIES OF THE BOARD

In the year prior to the period under review, the Board successfully evaluated bids for the National Lottery, negotiated the Licence to Operate the National Lottery with Uthingo Management (Pty) Ltd and set up its organisational structure.

Before the National Lottery was launched on 2 March 2000, the Board had to satisfy itself that all the conditions prescribed in the Licence were met.

In the year under review, the National Lotteries Board was involved in the following activities:

THE NATIONAL LOTTERY

South Africa's first National Lottery was launched on 2 March 2000 with the purchase of the first ticket being witnessed by President Mbeki at a retail outlet in Langa in the Western Cape. The sales of lottery tickets have already shown a steady improvement throughout the year under review.

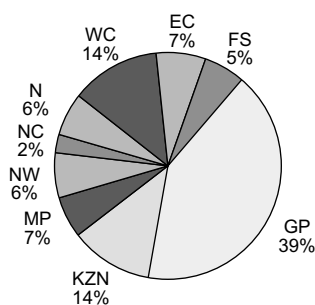
The country waited eagerly for the National Lottery's first millionaire to emerge. Mr. Batsirayi Mupfawi will never forget the 8 April 2000. It was the day of the fourth Lotto draw and the day that changed his life as he scooped the R13,8m jackpot prize to become South Africa's first Lotto millionaire.



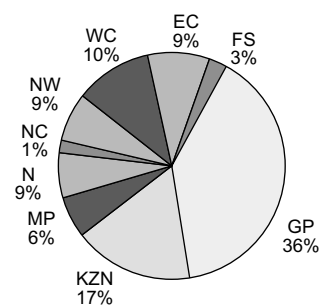
Mr. Batsirayi Mupfawi with the cheque that changed his life.

A total of 69 millionaires have been produced and all nine provinces have Lotto millionaires. Millions of South Africans have won prizes in the other six prize categories. The highest level of sales recorded in any week was R105m in the week of the 30th draw.

PROVINCIAL TICKET SALES



LOTTO MILLIONAIRES PER PROVINCE



Salient Lottery facts for the year under review are as follows:

Prize Winners	23 308 015
Millionaires	69
Rollovers	21
Highest Jackpot	R26.3 million
Highest Prize	R13.8 million
Average Number Of Players Per Week	6 million
Total Sales (excl. VAT)	R2 709 890 916
Highest Weekly Sales	R105 million
Total Prizes Paid	R1 328 583 000
Total Contribution To NLDTF	R418 307 049

Scratchcard Project

In conformance with their bid commitments, Uthingo Management (Pty) Ltd, the operator of the National Lottery submitted an implementation schedule for the introduction of the Scratchcard (Instant) games. As required by the Licence, the Board approved an initial launch date. As a result of technical difficulties, Uthingo was not in a position to launch on the approved date and has consequently incurred a penalty. Scratchcards were finally introduced on 16 October 2000.

In view of the extremely high levels of security required in the design, validation and printing of Scratchcard tickets, members of the Technical Sub-committee of the National Lotteries Board visited the printing plant in San Antonio, Texas to satisfy themselves that adequate measures were in place to uphold the integrity of the National Lottery and related games. The structure of each game is approved by the Board before it is scheduled for printing and subsequent launch. In addition, the prize structure and odds of each game is audited independently before launch.



It pays to scratch.

Quickpick Project

Uthingo also submitted the implementation schedule for the Lotto Quickpick game. By choosing the Quickpick option, players allow the system to randomly choose combinations for them. As required by the Licence, the Board approved the functional specifications and the independent testing of the changes required in the central system software. The Quickpick game was launched on 22 October 2000 and currently contributes to an average of 14% of Lotto sales.

Penalties

In the year under review, Uthingo incurred penalties in respect of the late launch of the Scratchcard game and for failing to enforce the provisions of the Licence in respect of the use of the National Lottery copyright by third parties. The total sum of the penalty incurred was R10,217,000.00. This amount has been subsequently added to the National Lottery Distribution Trust Fund.

Terminal Rollout

	31 March 2000	31 March 2001
SA Post Office	450	463
Chain Stores	1 166	1 269
Independent Retailers	4 210	4 254
Forecourts	-	418
Total	5 826	6 404

The figures above represent online terminals that are capable of selling tickets and do not include terminals that are installed and connected to the network but have been suppressed and therefore not capable of selling tickets. Terminal suppression occurs for various reasons ranging from bad debts to fraud to breach of the Retailer Agreement.



Queuing for a chance to win millions.

A number of retailers have voluntarily terminated their relationship with the National Lottery because of the threat of robberies specifically targeted at lottery retailers.

Uthingo's Social Responsibility and Economic Empowerment Programme

As part of its bid and Licence commitments, Uthingo is required to comply with a complex and comprehensive Social Responsibility and Economic Empowerment Programme.



Staff members from Uthingo painting the Soweto Police Station.

The programme is made up various components as indicated below:

- Affirmative Action, Employment Equity, and Representation;
- Training and Skills Development;
- Services, Equipment and Material Procurement;
- Promotion of Small Businesses and Job Creation;
- Recreation and Entertainment Value;
- Accessibility for Players, Rural Populations, and the Differently Abled;
- Contribution Towards Nation Building;
- Establishing Peace and Security;
- Advance of Women in Business;
- Winner Counselling and Financial Advice;
- Responsible Revenue Generation and Delivery;
- Responsible Marketing;
- Prevention of Under-age Play; and
- Social Impacts of Gaming.

The Board monitors progress for specific activities within each of these areas. While the actual progress in some areas is slower than desired, the Board is in general satisfied with the management and overall achievements of the programme.

Fraud and Copyright Issues

There have been 25 attempts at defrauding the National Lottery. The status of these attempts is indicated below. There have also been 29 cases of copyright infringements.

Cases withdrawn by the Prosecutor	9
Cases in Court	14
Cases pending investigation	1
Convictions	1

Uthingo's Performance Standard Measures

As part of its bid commitments and during Licence negotiations, Uthingo and the Board agreed on a set of performance measures in respect of the National Lottery. The set of measures currently used will be extended as the lottery evolves and new activities are added. The more important measures are indicated in the table that follows:

Performance Area	Measure	Attained
Availability of Online Facilities (Central Systems)	99.98%	99.94%
Availability of Network	99.6%	99.6%
Terminal Reliability (number of unscheduled repair visits per year per terminal)	< 2	Yes
Timeliness of Payments to the NLDTF	Each Wednesday before 11:00	Yes
System Validation of Online prizes on the morning after draw	98%	99.94%
Payments of Walk-in claims exceeding R50 000 in less than 1 hour	90%	94%
Processing of undisputed postal claims and cheques dispatched within 5 days	80%	88%
Processing of damaged online tickets and cheques posted within 20 days	90%	92%
Player Relations: Replies required by mail within 5 days	90%	99%
Player Relations: Answering of Calls within 5 mins - Peak	60%	77%
Player Relations: Answering of Calls within 5 mins - Off-peak	90%	89%
Player Relations: Complaints resolved within 10 days	85%	80%

STAFF OF THE BOARD

As at the end March 2001, the staff compliment of the Board amounted to 17. It is envisaged that a few more members of staff will be engaged in the coming year to include more support staff to accomplish the goals and aims of the Board.

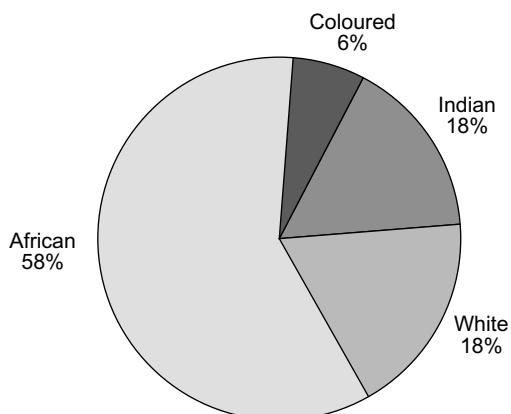


(Back to front and left to right): Vevek Ram (CEO); Thulani Sikonela; Alice Price; Lamla Gege; Winston October; Gloria Mokgathla; Sershan Naidoo; Yvonne Dau; Pauline Monaheng; Londani Mathavana; Joy Mashego; Irene Leope; Sanjay Hargovan.

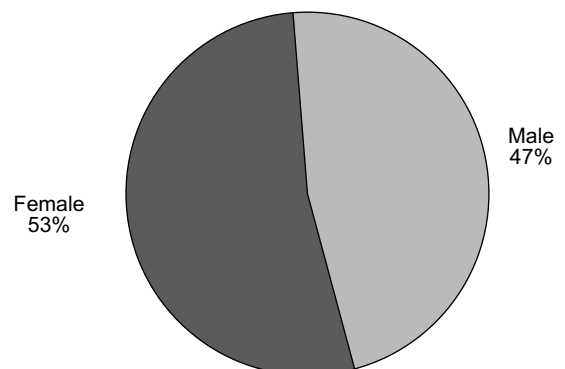
(Absent): Christelle Vogelsang; Lydia Tsheole; Patrick Magoro; Renee Hartzler.

The Board is committed to equity and redress. In appointing members of staff, preference is given to candidates from previously disadvantaged groups as is represented by the following Equity Distribution chart that shows 82% of the Board's staff coming from previously disadvantaged groups.

EQUITY



GENDER



NATIONAL LOTTERY DISTRIBUTION TRUST FUND

Emergency Funds Distribution

In response to the general request from organisations which had been funded through the sale of Scratchcard lotteries before the Lotteries Act made these lotteries unlawful, the Minister directed the Board to call for applications from these organisations and to consider their requests in respect of whether they were in imminent danger of closing down because of the lack of financial support. A call for applications was made in all major newspapers on 8 October with the closing date set as 30 November. The Board considered these applications in December 2000 and January 2001.



Joe Foster with 4 of the 80 recipients of Emergency Funding.

The following schedule indicates the Emergency Fund beneficiaries:

Name of Organisation	Amount	Date of Transfer
ACVV Worcester	15,000	14-Dec-00
Beaufort West Association for the Physically Disabled	10,000	14-Dec-00
East London Child and Family Welfare Society	6,000	14-Dec-00
Elsies River Social Welfare Association	10,000	14-Dec-00
FAMSA – East Rand	15,000	14-Dec-00
FAMSA – Eastern Cape	24,000	14-Dec-00
FAMSA – Family and Marriage Society of South Africa	150,000	14-Dec-00
FAMSA – Kimberley	10,000	14-Dec-00
Greater Germiston Society for Child and Family Welfare	10,000	14-Dec-00
Ikageng Old Age Relief Centre	50,000	14-Dec-00
Johannesburg Child Welfare Society	150,000	14-Dec-00
Mpumalanga Mental Health Society	50,000	14-Dec-00
Muscular Dystrophy Foundation of South Africa – Gauteng	30,000	30-Jan-01
NABB	5,000	18-Dec-00
North Gauteng Mental Health	35,000	14-Dec-00
Operation Hunger	500,000	14-Dec-00
Port Elizabeth Childline and Family Centre	100,000	14-Dec-00
Princess Alice Adoption Home	50,000	14-Dec-00
SANCA Western Cape	20,000	14-Dec-00
SANTA	150,000	14-Dec-00
Somerset East Child Welfare	6,000	14-Dec-00
South African Congress for Early Childhood Development	20,000	14-Dec-00
South African Council for the Aged	250,000	14-Dec-00
South African National Council for Child and Family Welfare	300,000	14-Dec-00
South African National Council for the Blind	300,000	14-Dec-00
Tembisa Child and Family Welfare Society	25,000	14-Dec-00

Wynberg Society for the Aged	40,000	9-Feb-01
Alzheimer's and Related Dementia Assoc.: National Office	20,000	30-Jan-01
Assoc. for Persons with Disabilities & the Deaf: Free State	50,000	30-Jan-01
Bloemfontein Hospice	32,000	30-Jan-01
Cancer Association for South Africa: Free State	10,000	30-Jan-01
Cancer Association for South Africa: Northern Cape	10,000	8-Feb-01
Cape Mental Health Society: Head Office	125,000	30-Jan-01
Cheshire Home Eastern Cape	55,000	8-Feb-01
Child and Family Welfare Caledon	5,000	8-Feb-01
Child and Family Welfare Society: Grahamstown	50,000	30-Jan-01
Child and Family Welfare Society: Uitenhage	5,000	30-Jan-01
Chipros Rural Development Centre	30,000	8-Feb-01
Christian Social Council - CSC: Witbank	5,000	31-Jan-01
Cradock Child and Family Welfare	6,000	30-Jan-01
Deaf Federation of South Africa (DEAFSA)	50,000	30-Jan-01
Diaconal Service: Clanwilliam	5,000	30-Jan-01
Diocesan Council of the Catholic Women's League: Adoption Society	10,000	30-Jan-01
Diocesan Council of the Catholic Women's League: Family and Community Services	10,000	30-Jan-01
Diocesan Council of the Catholic Women's League: Mary Immaculate Queen Pre-School	10,000	30-Jan-01
Family Health and Communication	1,000	31-Jan-01
FAMSA: Pietermaritzburg	10,000	8-Feb-01
FAMSA: Pretoria	50,000	30-Jan-01
FAMSA: West Rand	20,000	30-Jan-01
GADRA	5,000	30-Jan-01
Gerald Fitzpatrick House	15,000	30-Jan-01
Helen Bishop Orthopaedic After Care Home	10,000	30-Jan-01
Highway Aged	10,000	30-Jan-01
Hospice In the West	15,000	30-Jan-01
House Otto	20,000	30-Jan-01
Johannesburg Institute of Social Services	20,000	30-Jan-01
Johannesburg Parent and Child Counselling Centre	20,000	31-Jan-01
Khanya Family Centre	5,000	30-Jan-01
Kimberley Adult Education Centre	12,000	30-Jan-01
Life Line: East London	30,000	30-Jan-01
Lowveld Association for People with Disabilities	5,000	31-Jan-01
Mental Health: Vaal Triangle	10,000	8-Feb-01
Mpumalanga Council for Persons with Disabilities	5,000	31-Jan-01
Mzamo Child Guidance Clinic	10,000	31-Jan-01
Nokuthula Centre and School	30,000	8-Feb-01
Oudtshoorn Assoc. for the Physically Disabled	5,000	30-Jan-01
Peter Pan Down Syndrome Centre	5,000	31-Jan-01
Pietermaritzburg Mental Health Society	30,000	8-Feb-01
Pinetown - Highway Child and family Welfare Society	50,000	30-Jan-01
Rivoni Society for the Blind	50,000	30-Jan-01
Sally Aucamp Home for the Physically Disabled	15,000	30-Jan-01
SANCA: National Directorate	350,000	30-Jan-01
SANEL: National Office	350,000	31-Jan-01
Save the Children Fund: Johannesburg	15,000	8-Feb-01
St Thomas' Home for Children	10,000	8-Feb-01
Stellenbosch Work Centre for the Disabled	15,000	31-Jan-01
The African Child Development Trust	40,000	8-Feb-01
Uitenhage Mental Health	25,000	30-Jan-01
TOTAL	R4,082,000	

Setting up of the Distributing Agencies



In May 2000, the Department of Trade and Industry issued an advert in all the major newspapers calling for nominations for persons to serve on the Distributing Agencies for the categories:

- Charities
- Arts, Culture and National Heritage
- Sport and Recreation

After discussions between the Minister of Trade and Industry and the Ministers responsible for the beneficiary categories, 27 of the nominees were appointed to serve on the three Distributing Agencies. The Board hosted an orientation workshop to bring together all the appointed Members and the Minister of Trade and Industry in order to prepare the framework for developing the funding policies for the Distributing Agencies.

Minister Erwin also formally appointed the National Lotteries Board to provide the administrative and management support to the Distribution Agencies. The Board began to set up the infrastructure required for this function in November 2000. A highly specialised, computerised grant-making system was designed and additional staff have been employed.

The first meeting of the Distributing Agency for Charities was held on 23 February 2001 to determine a policy framework for the allocation of grants. Similar meetings were held by the Arts, Culture and National Heritage Distributing Agency on 10 March 2001 and the Sport and Recreation Distributing Agency on 19 March 2001.

Advertisements calling for applications were issued on 25 March 2001 for the Charities category and 1 April 2001 for the Sport and Recreation; and Arts, Culture and National Heritage categories. It is expected that disbursements will commence July 2001.

SOCIETY AND OTHER LOTTERIES

Regulations in respect of Society and Other Lotteries were promulgated on 18 April 2000 in Government Gazette No. 21119.

In terms of the regulations, Societies that wish to raise funds through lottery-type competitions have to first register with the National Lotteries Board and comply with requirements of the regulations. In doing so, all organisations are obliged to inform the Board of each competition they run. The regulations also govern, amongst others, the amount that can be raised in each lottery, the frequency of lotteries and the amount that can be allocated to legitimate expenses. Organisations are given the opportunity to apply for exemptions, should they so require.

Application for Registration

	Received	Approved	Declined	Outstanding
Applications for Society Registration	150	44	0	106
Applications for Scheme Registration	52	48	0	4

Application for Exemption

Registration Number	Name of Society	Draw Date	The Nature of Exemption Granted
00006	Variety Club of South Africa	30/11/00	Exemption in terms of amount to be raised in one lottery. This society was allowed to raise R4.4million instead of R2million in one lottery.
00008	St Luke's Combined Hospices	Monthly	This society was allowed to run 3 clubs at a time with each club running a lottery on a monthly basis. This makes a total of 36 lotteries for one society at a time.
00009	Fish Hoek Association for the Welfare of the Elderly	Monthly	Exemption in terms of the frequency of lotteries in a year. This society has been authorised to run 12 lotteries instead of the 6 allowed by the regulations.
00013	Pretoria Child and Family Care	11/11/00	Exemption for level of expenses.
00015	Nu-Life Care Centre	26/05/01 30/10/01	Exemption for level of expenses.
00016	Loerie Jeugsentrum Trust	31/03/01	Exemption for level of expenses.
00018	International Assemblies of God	03/11/00	Exempted from providing an NPO certificate in order to register with the Board regarding its status as a church.
00020	The South African Red Cross Society	Monthly	Exemption in terms of the frequency of lotteries in a year.
00021	The Highway Hospice Association	Monthly	Exemption in terms of the frequency of lotteries in a year.
00022	The Fairest Cape Association	21/03/01	Exemption for level of expenses.
00029	Sanwild Wildlife Trust	31/08/01	Exemption from total value of tickets sold in a single lottery.
00030	Pretoria Sungardens Hospice	Monthly	Exemption in terms of the frequency of lotteries in a year.
00039	Chatsworth Child and Family Welfare Society	01/07/01	Exemption for level of expenses.

Promotional Competitions

The Board engaged the Bureau for Market Research at UNISA to investigate and clarify the nature of the responses to the Draft Regulations on Promotional Competitions published in November 1999. The study consisted of a series of questionnaires and interviews with the designated target groups and was completed in October 2000. The Board intends to study the findings and make recommendations to the Minister by June 2001.

STATEMENT OF RESPONSIBILITY

The Board is responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The auditors are responsible for reporting on the fair presentation of the financial statements. The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Public Finance Management Act as amended.

The Board is also responsible for the National Lotteries Board's system of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect misstatement and deficit. Nothing has come to the attention of the Members to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements have been prepared on the going concern basis, since the Members have every reason to believe that the Board has adequate resources in place to continue in operation for the foreseeable future.

FINANCIAL RESULTS

The financial results of the National Lotteries Board are set out in the attached financial statements.

MEMBERS OF THE BOARD

The Members of the Board are:

Mr. Joe Foster (Chairperson)	(appointed 22/10/98)
Mr. Norman Axten	(appointed 15/10/98)
Adv. Nceba Dukada	(appointed 15/10/98)
Ms. Nora Fakude-Nkuna	(appointed 15/10/98)
Mr. Henry Makgothi	(appointed 20/07/00)
Dr. Alistair Ruiters	(appointed 02/07/00)
Ms. Shelley Thomas	(appointed 15/10/98)
Dr. ZZR Rustomjee	(resigned 07/07/00)

MATERIAL EVENTS AFTER YEAR END

No matter which is material to the financial affairs of the National Lotteries Board has occurred between the balance sheet date and the date of approval of the financial statements.

AUDITORS

The Office of the Auditor-General will continue to perform the audit in accordance with the National Lotteries Act.

The financial statements set out on pages 15 to 26 were approved by the Board and are signed on their behalf.



JA Foster
Chairperson

24/07/2001



Prof. V Ram
Chief Executive Officer

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF THE NATIONAL LOTTERIES BOARD for the year ended 31 March 2001**1. AUDIT ASSIGNMENT**

The financial statements as set out on pages 15 to 25, for the year ended 31 March 2001, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995), and section 12 of the National Lotteries Act, 1997 (Act No. 57 of 1997). These financial statements, the maintenance of effective control measures and compliance with the relevant laws and regulations are the responsibility of the chief executive officer. My responsibility is to express an opinion on these financial statements and the compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

2. REGULARITY AUDIT**2.1 Nature and scope****2.1.1 Financial audit**

The audit was conducted in accordance with generally accepted government auditing standards, which incorporate generally accepted auditing standards. These standards require the audit to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

2.1.2 Compliance audit

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations, which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

2.2 Audit opinion**2.2.1 Financial audit**

In my opinion, the financial statements fairly present, in all material respects, the financial position of the National Lotteries Board at 31 March 2001 and the results of its operations and cash flows for the year then ended, in accordance with Generally Accepted Accounting Practice in South Africa.

2.2.2 Compliance audit

Based on the audit work performed nothing has come to my attention that causes me to believe that material non-compliance with laws and regulations, applicable to financial matters, has occurred.

3. APPRECIATION

The assistance rendered by the staff of the National Lotteries Board during the audit is sincerely appreciated.



T M NOMBEMBE
for Auditor-General

Pretoria
24/07/2001

BALANCE SHEET as at 31 March 2001

	Notes	2001 R	2000 R
ASSETS			
Non-current assets			
Property, plant and equipment	5	1 489 828	976 320
		<u>1 489 828</u>	<u>976 320</u>
Current assets			
Receivables and pre-payments	6	81 048 043	40 224
Cash and cash equivalents	7	3 387 867	3 513 375
Investments		-	1 124 158
		<u>84 435 910</u>	<u>4 677 757</u>
Total assets		<u><u>85 925 738</u></u>	<u><u>5 654 077</u></u>
EQUITY AND LIABILITIES			
Reserves			
Retained earnings		3 284 770	3 425 613
		<u>3 284 770</u>	<u>3 425 613</u>
Non-current Liabilities			
Finance lease	8	23 921	31 715
Deferred Income: Licence fees	13	911 393	1 139 241
		<u>935 314</u>	<u>1 170 956</u>
Current Liabilities			
Accounts payable	9	81 705 654	1 057 508
Deferred income : Government grant	4	-	-
		<u>81 705 654</u>	<u>1 057 508</u>
Total equity and liabilities		<u><u>85 925 738</u></u>	<u><u>5 654 077</u></u>

INCOME STATEMENT for the year ended 31 March 2001

		2001	2000
	Notes	R	R
Revenue		5 365 181	3 069 471
Operating costs		(5 924 357)	(5 218 181)
Operating (deficit) before finance costs		(559 176)	(2 148 710)
Finance costs	3	(5 173)	(537)
Operating (deficit)		(564 349)	(2 149 247)
Investment income		423 506	687 091
(Deficit) before tax		(140 843)	(1 462 156)
Tax		-	-
(Deficit) for the year	1	(140 843)	(1 462 156)

STATEMENT OF CHANGES IN EQUITY for the year ended 31 March 2001

Notes	2001 R	2000 R
Retained earnings as at 1 April 2000		
At beginning of year	(3 425 613)	(5 960 478)
Change in accounting policy for adoption of AC 134 Government Grants	-	1 072 709
Retained opening balance as restated	(3 425 613)	(4 887 769)
Deficit for the year	140 843	1 462 156
Balance as at end 31 March 2001	(3 284 770)	(3 425 613)

CASH FLOW STATEMENT for the year ended 31 March 2001

Notes	2001 R	2000 R
Cash flow from operating activities		
Cash receipts from customers	(75 870 486)	3 446 356
Cash paid to suppliers and employees	75 165 262	(4 721 169)
Cash flows from operating activities	(705 224)	(1 274 813)
Investment Income	423 506	687 091
Finance charges	(5 173)	(537)
Net cash (utilised in) operating activities	(286 891)	(588 259)
Cash flow from investing activities		
Acquisition of property, Plant and equipment	(954 982)	(1 041 256)
Decrease / (increase) in investments	1 124 158	(1 124 158)
Net cash generated by / (used in) investing activities	169 176	(2 165 414)
Cash flow from financing activities		
Payment of long term borrowings	(7 793)	(17 568)
Net cash (used in) financing activities	(7 793)	(17 568)
Net (decrease) in cash and cash equivalents	(125 508)	(2 771 241)
Cash and cash equivalents at beginning of year	3 513 375	6 284 616
Cash and cash equivalents at end of year	3 387 867	3 513 375

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2001

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Basis of preparation

The principal accounting policies of the Board and the disclosures made in the financial statements conform to Statements of Generally Accepted Accounting Practice in South Africa. The financial statements are prepared on the historical cost basis. The principal policies are consistent with those applied in previous years.

Property, plant and equipment

All property, plant and equipment are initially recorded at cost. Property, plant and equipment are stated at historical cost less accumulated depreciation and are written off over the expected useful life of the asset.

Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful life as follows:

- Furniture and fittings	5 years
- Machinery	5 years
- Office equipment	5 years
- Computer equipment	3 years
- Motor vehicles	4 years
- Leasehold improvements	3 years
- Intangible assets	3 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Where the cost of an asset is less than R2,000.00 that asset is expensed immediately.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying value and are taken into account in determining operating profit.

Leased assets

Finance lease

Leases of property, plant and equipment where the National Lotteries Board assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payment. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are disclosed as non-current liabilities. The interest element of the finance charges is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the useful lives of the assets.

Operating leases

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2001

Provisions

Provisions are recognised when the National Lotteries Board:

- has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave and service bonuses are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and service bonuses as a result of services rendered by employees up to the balance sheet date.

Revenue recognition

Revenue earned by the Board is recognised on the following basis:

- Licence fees - over the period of the license contract;
- Interest income - as it accrues (taking into account the effective yield on the asset) unless collectability is in doubt; and
- Fees received from the bidders - as it accrues.

Government Grants

Government grants/assistance utilised to purchase property and equipment are included in non-current liabilities as deferred income and are credited to the Income Statement on a straight line basis over the expected lives of the related assets.

Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, creditors, leases and borrowings.

Measurement

Financial instruments are initially measured at cost. Subsequent to initial recognition these instruments are measured as set out below.

Investments

Investments are shown at cost. Where there has been a permanent diminution in the value of an investment impairment, it is recognised as an expense in the period in which the diminution is identified.

Trade and other receivables

Trade and other receivables are stated at cost less provision for doubtful debts.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

Financial liabilities

Financial liabilities are recognised at amortised cost, namely original debt less principal payments and amortisations.

Retirement benefit cost

The Government Employees Pension Fund is a defined contribution fund, which provides retirement and death benefits for the Chairperson. The pension plan is generally funded by payments from the Chairperson and the National Lotteries Board. The contributions are charged to the income statement in the year to which they relate.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2001

	2001	2000
	R	R

1 Deficit

The following items have been charged/credited in arriving at the deficit:

Depreciation on property, plant and equipment

Furniture and fittings	152 085	140 737
Machinery	-	997
Office equipment	50 356	35 955
Computer equipment	58 997	30 326
Leasehold improvements	160 260	-
Motor vehicles	19 776	16 480
	<u>441 474</u>	<u>224 495</u>
Auditors' remuneration		
Audit fees - current year	370 928	99 265
Under/(over) provision: previous years	112 196	(17 244)
	<u>483 124</u>	<u>82 021</u>

2 Remuneration

Salaries and wages	2 451 740	1 509 937
National Lotteries Board Members	597 555	1 664 096
Board meetings	68 000	296 950
Professional Fees	(233 041)	285 915
Salary	648 552	643 180
Travel allowance	18 226	408 502
Loss of income	38 000	-
Other	57 818	29 549
Distributing Agency Members	149 099	-
Board meetings	62 000	-
Professional Fees	80 000	-
Travel allowance	7 099	-
Total	<u>3 198 394</u>	<u>3 174 033</u>

Average weekly number of persons employed:

- Full time	17	11
- Part time	-	-
	<u>17</u>	<u>11</u>

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2001

	2001	2000
	R	R
3 Finance costs		
Interest paid	<u>5 173</u>	<u>537</u>
4 Government grants		
Opening balance	-	1 072 709
Government grants received	3 500 000	1 500 000
Government assistance received - NLDTF	1 604 000	-
Portion of grant utilised	(5 104 000)	(2 572 709)
	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2001

5 Property, plant and equipment (R)

	Furniture and fittings	Machinery	Office equipment	Computer equipment	Motor vehicles	Leasehold Improvements	Intangible assets	Total
Period ended 31 March 2001								
Opening net-book amount	719 900	4 988	129 027	59 781	62 624	-	-	976 320
Trf to/(from) office equipment	-	(4 988)	4 988	-	-	-	-	-
Trf to/(from) leasehold improvements	(275 884)	-	-	-	-	275 884	-	-
Additions	130 670	-	42 131	385 562	-	7 619	389 000	954 982
Depreciation charge	(152 085)	-	(50 356)	(58 997)	(19 776)	(160 260)	-	(441 474)
Net book value end of year	422 601	-	125 790	386 346	42 848	123 243	389 000	1 489 828

Period ended 31 March 2000

Opening net-book amount	-	-	91 700	67 859	-	-	-	159 559
Additions	860 637	5 985	73 282	22 248	79 104	-	-	1 041 256
Depreciation charge	(140 737)	(997)	(35 955)	(30 326)	(16 480)	-	-	(224 495)
Net book value end of year	719 900	4 988	129 027	59 781	62 624	-	-	976 320

At 31 March 2001

Cost	672 070	-	214 518	477 928	79 104	326 856	389 000	2 159 476
Accumulated depreciation	(249 469)	-	(88 728)	(91 582)	(36 256)	(203 613)	-	(669 648)
Net book value end of year	422 601	-	125 790	386 346	42 848	123 243	389 000	1 489 828

At 31 March 2000

Cost	860 637	5 985	166 399	92 366	79 104	-	-	1 204 491
Accumulated depreciation	(140 737)	(997)	(37 372)	(32 585)	(16 480)	-	-	(228 171)
Net book value end of year	719 900	4 988	129 027	59 781	62 624	-	-	976 320

Leased assets included above where the National Lotteries Board is a lessee under a finance lease comprise of office equipment.

	2001 R	2000 R
Cost	43 980	43 980
Accumulated depreciation	(17 592)	(8 796)
Total book value	26 388	35 184

The leased assets are encumbered as security in respect of the finance lease liability. (Refer note 8)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2001

	2001	2000
	R	R
6 Receivables and pre-payments		
Other receivables	1 226 560	-
Uthingo management (Pty) Ltd	79 751 570	-
Sundry receivables – staff loans	42 161	11 384
Taxation receivable	17 752	18 840
Deposits	10 000	10 000
Receivables and prepayments	<u><u>81 048 043</u></u>	<u><u>40 224</u></u>

The amount due from Uthingo Management (Pty) Ltd was raised in accordance with the National Lottery licence agreement, whereby the Licensee is to pay a specified amount to the Board, in order to assist with the continued operation of the National Lottery after expiry, termination or revocation of the licence for any reason.

7 Cash and cash equivalents

Cash	50 880	501 456
Call deposits and negotiable certificates	3 336 987	3 011 919
	<u><u>3 387 867</u></u>	<u><u>3 513 375</u></u>

For the purpose of the cash flow statement the year-end cash and cash equivalents comprise of the following:

Bank balances	50 880	501 456
Cash on hand	3 336 987	3 011 919
	<u><u>3 387 867</u></u>	<u><u>3 513 375</u></u>

8 Finance lease

The liability arose from a lease agreement repayable over 60 months commencing in March 1999. Interest is calculated on the Nedbank prime-lending rate as at year-end.

Total amount outstanding	31 746	38 495
Less: Current portion transferred to current liabilities	(7 825)	(6 780)
Total interest bearing borrowings	<u><u>23 921</u></u>	<u><u>31 715</u></u>

The interest rate exposure of borrowings of the National Lotteries Board was as follows:

At fixed rates (%)	0%	0%
At floating rates (%)	<u>14.5%</u>	<u>16.5%</u>

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2001

	2001	2000
	R	R
The present value of finance lease liabilities may be analysed as follows:		
Not later than year end	7 825	6 780
Later than year end and not later than 5 years	23 921	31 715
Later than 5 years	-	-
	31 746	38 495
Finance lease liabilities - minimum lease payments:		
Not later than year end	11 922	11 892
Later than year end and not later than 5 years	28 287	40 163
Later than 5 years	-	-
	40 209	52 055
Less: future finance charges on finance leases	(8 463)	(13 560)
Present value of finance lease liabilities	31 746	38 495

9 Accounts payable

Accruals	1 521 598	135 487
Escrow liability	79 751 570	-
Other payables	87 725	1 981
Deferred income: license fees current portion	227 848	227 848
Provision for pension	-	126 941
Other provisions	109 088	297 630
Taxation payable	-	260 841
Current portion of long term liability	7 825	6 780
	81 705 654	1 057 508

With reference to note 6 above, the Escrow liability represents the initial amount reserved in order to assist with the continued operation of the National Lottery after expiry, termination or revocation of the licence for any reason.

Included in other provisions are provisions for bonuses and leave pay.

10 Operating lease commitments

Amounts payable within 1 year	536 992	477 073
Later than 1 year but not later than 5 years	-	536 992
	536 992	1 014 065

Office premises are leased. Certain items of office equipment are also leased. Rentals are charged as an expense as and when incurred.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2001

	2001	2000
	R	R
11 Contingencies		
The amount represents a guarantee provided by Nedbank for the rental-operating lease	<u>35 325</u>	<u>35 325</u>
12 Cash flows from operating activities		
(Deficit)	(140 843)	(1 462 156)
Adjusted for:		
Depreciation included in other operating costs	441 474	224 495
Interest income	(423 506)	(687 091)
Borrowing costs capitalised	5 173	537
Provisions	(66 645)	612 174
Accrued expenses	909 424	(169 153)
Deferred income: Government grants	-	(1 072 709)
Deferred income: licenses	(227 848)	1 139 241
Movements in current assets and liabilities		
(Increase)/decrease in receivables and prepayments	(81 007 819)	310 353
Increase/(decrease) in trade and other payables	<u>79 805 366</u>	<u>(170 504)</u>
Cash flows from operating activities	<u>(705 224)</u>	<u>(1 274 813)</u>

13 Deferred income licence fees

Licence fees relate to the licence awarded to Uthingo Management (Proprietary) Limited for the National Lottery. This licence is valid for 7 years and will be amortised over this period.

Balance at beginning of year	1 367 089	-
License fee	-	1 500 000
Charged to income statement	(227 848)	(132 911)
Balance	<u>1 139 241</u>	<u>1 367 089</u>
Current portion of licence fee	(227 848)	(227 848)
Balance at end of year	<u>911 393</u>	<u>1 139 241</u>

Detailed Income Statement for the year ended 31 March 2001	2001 R	2000 R
Bid fees	-	249 083
Interest	423 506	687 091
Licence signing fees	227 848	132 911
State contribution	5 104 000	2 572 709
Sundry income	33 333	114 768
Income	5 788 687	3 756 562
Accounting fees	-	54 465
Advertising	298 751	7 968
Auditors' remuneration	483 124	82 021
Bank charges	13 111	10 156
Board allowances and expenses	597 555	1 664 096
Cleaning	5 170	1 617
Conferences	20 891	-
Consulting fees	195 165	942 161
Consumable stores	6 250	5 863
Depreciation	441 474	224 495
Distributing agency members	149 099	-
Entertainment	7 946	2 046
Evaluation	80 272	6445
Insurance	18 340	8 085
Interest paid	-	537
Computer expenses	25 042	9 983
Leasing charges	5 173	(2 828)
Legal fees	50 050	-
Levies	9 757	-
Motor vehicle expenses	7 410	2 700
Penalties and fines	8 864	9 429
Postage and telephone services	9 958	5 326
Rent	477 072	423 900
Rental office equipment	12 299	8 434
Repairs and maintenance	23 816	13 517
Security costs	5 688	98 695
Staff costs	2 451 739	1 509 937
Staff welfare	854	-
Stationery	85 216	16 886
Subscriptions	6 336	2 650
Sundry expenses	4 133	6 690
Telephone and fax	90 644	73 026
Travel and accommodation	300 036	(2 765)
Water and electricity	38 295	33 183
Expenses	5 929 530	5 218 718
(Deficit) for the year	(140 843)	(1 462 156)

**NATIONAL LOTTERY DISTRIBUTION TRUST FUND
(NLDTF)**

ANNUAL FINANCIAL STATEMENTS

for the year ended

31 March 2001

NATIONAL LOTTERY DISTRIBUTION TRUST FUND

Registered address:

Block A, Equity Park
257 Brooklyn Road
Brooklyn
Pretoria

Postal address:

P O Box 1556
Brooklyn Square
Pretoria
0075

Auditors:

Auditor-General

Bankers:

Rand Merchant Bank
First National Bank

APPROVAL OF NLDTF FINANCIAL STATEMENTS for the year ended 31 March 2001

The financial statements set out on pages 32 to 36 were approved by the National Lotteries Board and are signed on their behalf.



Joe Foster
Chairperson

24/07/2001



Prof. V Ram
Chief Executive Officer

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF THE NATIONAL LOTTERY DISTRIBUTION TRUST FUND for the year ended 31 March 2001**1 AUDIT ASSIGNMENT**

The financial statements as set out on pages 32 to 35 for the year ended 31 March 2001, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995), and section 2 of the National Lottery Act, (Act No. 57 of 1997). These financial statements, the maintenance of effective control measures and compliance with the relevant laws and regulations are the responsibility of the National Lottery Board. My responsibility is to express an opinion on these financial statements and compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

2. REGULARITY AUDIT**2.1 NATURE AND SCOPE****2.1.1 Financial Audit**

The audit was conducted in accordance with generally accepted government auditing standards, which incorporate generally accepted auditing standards. These standards require the audit to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

2.1.2 Compliance Audit

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

2.2 QUALIFICATION**2.2.1 Financial Audit**

Section 64(2) of the Lotteries Act stipulates that "All unexpended money in (a) the Distribution Account referred to in the State Lotteries Act, 1984 (Ciskei) and the State Lottery Trustee Account referred to in the Lotteries Decree, 1989 (Transkei) immediately before the commencement of this Act, shall be paid into the fund". To date these funds have not been transferred to the National Lottery Distribution Trust Fund and the responsibility to effect these transfers vests with the Department of Trade and Industry. At the date of this report the amounts involved were not known.

2.3 AUDIT OPINION

2.3.1 Qualified Opinion: Financial Audit

In our opinion, except for the effect on the financial statements of the matter referred to in paragraph 2.2.1, the financial statements fairly present, in all material respects, the financial position of the National Lottery Distribution Trust Fund at 31 March 2001 and the results of its operations and cash flows for the year then ended, in accordance with Generally Accepted Accounting Practice in South Africa.

2.3.2 Unqualified Opinion: Compliance Audit

Based on the audit work performed, nothing has come to my attention that causes me to believe that material non-compliance with laws and regulations, applicable to financial matters, has occurred.

3. APPRECIATION

The assistance rendered by the staff of the National Lottery Distribution Trust Fund during the audit is sincerely appreciated.



T M NOMBEMBE
for Auditor-General

Pretoria
24/07/2001

NLDTF BALANCE SHEET as at 31 March 2001

	Notes	2001 R	2000 R
ASSETS			
Current assets			
Accounts receivable	3	20 778 496	1 638 594
Investments	4	335 073 297	5 000 000
Cash and cash equivalents	5	103 205 853	3 657 609
Total assets		459 057 646	10 296 203
EQUITY AND LIABILITIES			
Capital and reserves			
Retained earnings		458 831 086	10 296 203
Current liabilities			
Accounts payable	6	226 560	-
Total equity and liabilities		459 057 646	10 296 203

NLDTF INCOME STATEMENT for the year ended 31 March 2001

	Notes	2001 R	2000 R
Revenue		418 307 049	10 281 278
Interest received		25 929 797	14 948
Other income		10 217 318	-
		454 454 164	10 296 226
Operating expenses - disbursement of funds		(4 082 000)	-
Grant to National Lotteries Board		(1 828 560)	-
Other operating expenses		(8 721)	(23)
Net surplus for the year	2	448 534 883	10 296 203

NLDTF STATEMENT OF CHANGES IN EQUITY for the year ended 31 March 2001

	Notes	2001 R	2000 R
Retained earnings			
At beginning of year		10 296 203	-
Net surplus for the year		448 534 883	10 296 203
At end of year		<u>458 831 086</u>	<u>10 296 203</u>

NLDTF CASH FLOW STATEMENT for the year ended 31 March 2001

	Notes	2001 R	2000 R
Cash flow from operating activities			
Cash receipts		409 384 465	8 642 661
Cash paid		(5 692 424)	-
Cash flows from operating activities	7	<u>403 692 041</u>	<u>8 642 661</u>
Interest received		25 929 797	14 948
Interest paid		(297)	-
Net cash from operating activities		<u>429 621 541</u>	<u>8 657 609</u>
Cash flow on investment activities			
Increase in investment		(330 073 297)	(5 000 000)
Net cash (used in) investment activities		<u>(330 073 297)</u>	<u>(5 000 000)</u>
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year		3 657 609	-
Cash and cash equivalents at end of year	5	<u>103 205 853</u>	<u>3 657 609</u>

NOTES TO THE NLDTF FINANCIAL STATEMENTS for the year ended 31 March 2001**1 Basis of preparation**

The annual financial statements are prepared on the historical cost basis. The following are the principal accounting policies used by the National Lottery Distribution Trust Fund, which are consistent with those of the previous year.

1.1 Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables and payables. Financial instruments are initially measured at cost. Subsequent to initial recognition, these instruments are measured according to the particular methods adopted as disclosed in the individual policy statements associated with each of them.

Receivables

Receivables are stated at cost less provision for doubtful debts.

Investments

Investments are shown at realisable value, capitalising interest income as it accrues.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and investments in money market instruments that mature in less than three months and are not only considered to be low risk investments, but may also be converted to cash earlier if considered necessary.

Financial liabilities

Financial liabilities are stated at cost.

1.2 Revenue recognition

- Share of ticket sales and unclaimed prize money received according to the licence agreement is recognised as it accrues.
- Interest income is recognised as it accrues, taking into account the effective yield on the investment, unless collectability is in doubt.

	2001	2000
	R	R
2 Net surplus		
The following items have been (charged)/credited in arriving at net surplus:		
Interest paid	(297)	-
Bank charges	(8 424)	(23)
Penalties received	10 217 318	-
3 Accounts receivable		
Uthingo Management (Pty) Ltd	18 777 697	1 638 594
Uthingo Participants Trust - interest on unclaimed prizes	2 000 799	-
	20 778 496	1 638 594

NOTES TO THE NLDTF FINANCIAL STATEMENTS for the year ended 31 March 2001

	2001	2000
	R	R
4 Investments		
Fixed deposits, bankers acceptances and negotiable certificates of deposit with maturity dates greater than three months:		
Capital amount	330 593 534	5 000 000
Accrued interest	4 479 763	-
	<u>335 073 297</u>	<u>5 000 000</u>
5 Cash and cash equivalents		
Cash	2 007 001	406
Call deposits	30 601	-
Bankers acceptances and negotiable certificates of deposit	101 168 251	3 657 203
	<u>103 205 853</u>	<u>3 657 609</u>
For the purpose of the cash flow statement the year-end cash and cash equivalents comprise of the following:		
Bank balances	2 007 001	406
All deposits and negotiable certificates	101 198 852	3 657 203
	<u>103 205 853</u>	<u>3 657 609</u>
6 Accounts payable		
Accrual - grant due to The National Lotteries Board	<u>226 560</u>	-
7 Cash flows from operating activities		
Net surplus	448 534 883	10 296 203
Adjusted for		
Interest received	(25 929 797)	(14 948)
Interest paid	297	-
Movements in current assets and liabilities		
(Increase) in receivables and prepayments	(19 139 902)	(1 638 594)
Increase / (decrease) in trade and other payables	226 560	-
Cash flows from operating activities	<u>403 692 041</u>	<u>8 642 661</u>

DETAILED NLDTF INCOME STATEMENT for the year ended 31 March 2001

	Notes	2001 R	2000 R
Income			
Revenue		418 307 049	10 281 278
Penalties received		10 217 318	-
Interest received		25 929 797	14 948
Total income		454 454 164	10 296 226
Less: Expenses/disbursements			
Bank charges		8 424	23
Disbursement of funds		4 082 000	-
Interest paid		297	-
Grant to the National Lotteries Board		1 828 560	-
Total expenses		5 919 281	23
Operating profit		448 534 883	10 296 203