UNIVERSITY OF MALTA

Annual Report and Consolidated Financial Statements
30 September 2007

LETTER OF TRANSMITTAL

The Hon Louis Galea, B.A., LL.D., M.P.
Minister of Education, Youth and Employment
Great Siege Road
Floriana CMR 02

Dear Minister

In accordance with section 73(7) of the Education Act, Cap 327, I have the honour to transmit the Annual Report and Consolidated Financial Statements of the University of Malta for the period ended 30 September 2007.

Yours sincerely

Rector
University of Malta
Tal-Qroqq
Msida

17 January 2008

Financial and operating review

Council

The Council is the supreme governing body of the University. Its functions are defined in the Education Act, Section 77.

Council consists of twenty-six members, including the President. The members of Council are listed hereunder:

PRO-CHANCELLOR – PRESIDENT (ex officio)
Professor David Attard LLD. D.Phil

RECTOR – VICE PRESIDENT (ex officio)
Professor Juanito Camilleri B.Sc. (Hons.) (Kent), Ph.D (Cantab) from 01.07.2006

REPRESENTATIVES OF SENATE
Professor Dominic Fenech B.A. (Hons) D.Phil
Professor Ian Refalo B.A. LLD. Dip. I.L. up to 21.06.2007
Professor Richard Muscat B.Sc. (Hons.) (Liv) M.Sc.(Lond.) Ph.D. (Lond.)
Professor Alfred Vella B.Sc. M.Sc. Ph.D. C.Sci. C.Chem. F.R.S.C.
Dr. Michael Angelo Saliba B.Mech.Eng.(Hons), M.A.Sc.(Brit.Col.), Ph.D.(Brit.Col.), MASME, MIEEE, MAPS from 22.06.2007

MEMBERS ELECTED BY THE ACADEMIC STAFF
Professor Peter G Xuereb LL.D. LL.M(London) PhD. (Cambridge)
Professor Josef Lauri BSc. MSc. Ph.D

MEMBERS ELECTED BY THE NON-ACADEMIC STAFF
Mr Joseph Borg up to 22.02.2007
Ms Stephanie Abood
Mr Norman Bonello from 23.02.2007

STUDENT REPRESENTATIVES
Mr Damian Kovac up to 20.11.2007
Ms Roberta Avellino from 21.11.2007
Mr Benjamin Briffa from 21.11.2007

MEMBER APPOINTED BY THE MINISTER OF EDUCATION, YOUTH AND EMPLOYMENT
Mr Francis Borg M.Ed., B.A., Dip. Admin. & Mgt., Dip. Counselling from 01.02.2006

MEMBER APPOINTED BY THE COUNCIL OF THE FOUNDATION FOR THEOLOGICAL STUDIES
H.E. Mgr. Professor Annetto Depasquale

Financial and operating review - continued

Council - continued

MEMBERS APPOINTED BY THE PRIME MINISTER TO REPRESENT THE GENERAL INTEREST OF THE COUNTRY
Mr Paul A Attard Dip. Educ. (Admin. & Mgt.)
Ms Angela Callus M.Q.R., B.A.
Mr Alan Caruana M.B.A.(Bath), F.I.A., I.S.A.C.A., I.M.I.S., C.P.A.
Mr Godfrey Grima
Mr Joseph W. Izzo
Ing. Philip Micallef B.Sc (Eng)., C. Eng., M.I.E.E., Eur. Ing., M.B.A. (Warwick)
Mr Frank Mifsud B.A.
Ms Bernie Mizzi B.Ed (Hons)
Chev. Charles Sciberras Dip. Trib. Eccl. Melit., D.P.A., M.I.M.
Mr David Spiteri Gingell B.A. (Hons) (Publ. Admin), M.P.A. (L'pool), M.O.T.M.
Mr Anthony J. Tabone Dip. MRS.,MCIM
Mr Winston Zahra

A Statement of responsibilities of the Council in respect of the financial statements is set out on page 8.

The Council has established a number of Committees with specific responsibilities as follows:

Buildings and Maintenance Committee
Committee for Gender Issues
Computer Services Centre (CSC) Committee
Energy Saving Committee
Finance Committee
Further Training/Work Resources Committee (Non-Academic)
Safety Committee
Staff Development and Scholarships Committee
Student Affairs Committee
University Community Welfare Committee
University House Liaison Committee
Work Resources Committee (Academic)
Write-Off Committee

Senate

The Senate is responsible for the general direction of the academic matters of the University and deals with any matter of an academic nature arising in the administration of the University. Senate regulates studies and research in the University; it establishes by regulations the conditions for admission into the University; makes regulations governing all courses leading to University awards, and approves programmes of studies constituting such courses. It advises the Council on matters of an academic nature even if of such a nature only in part. The Senate is chaired by the Rector and is composed of representatives of Faculties and Institutes and the student body.

Faculty board

The Faculty Board directs the academic tasks of the Faculty. The Board determines the studies, teaching and research and distributes tasks within the Faculty. It makes bye-laws concerning its courses and presents them for the approval of Senate. It prepares plans for the development of the Faculty and presents them to the Senate and the Council.

Financial and operating review - continued

Change of accounting reference date

The University's main operating activities are dictated by the academic year. The divergence between the financial year reporting period ending 31 December, and the academic year ending 30 September, was impinging on some of the work streams of the University, in particular those relating to the Finance Office.

It was therefore deemed beneficial to align the financial year with the academic year, in particular, to facilitate financial planning, monitoring and control processes of the University.

Furthermore, the University of Malta holds shareholder interests in nine companies, seven of which have a financial year that ends on the 30 September. The conversion of the University's financial year-end to 30 September was expected to facilitate the financial consolidation reporting process.

In light of the above, the financial year-end of the University of Malta has changed from 31 December to 30 September. Accordingly, these financial statements have been prepared for the period from 1 January to 30 September 2007.

Operational Review

Restructuring process

During 2007 the University continued with the restructuring programme that was initiated towards the latter part of the year 2006. In particular, further work was carried out to fully implement the accruals concept. These financial statements have been prepared using the accruals concept with the exception for the capitalisation of fixed assets.

It is expected that the University will commence the process of capitalising its fixed assets during 2008.

Restructuring of group companies

Moreover, a restructuring process of the University companies is underway. The restructuring is particularly focused on the core business of the Group whilst exploring new business ventures. It is expected that the restructuring process would be concluded during the next financial year.

Consolidated financial statements

In line with its commitment to produce Consolidated financial statements so as to report the group results, during 2007 the University completed the set-up of the financial reporting consolidation process, which mainly focused on reconciling inter-company balances and combining the individual group financial statements to present the consolidated results. In this respect, the University is herein presenting the first set of consolidated financial statements for the entire University Group.

Financial and operating review - continued

Recruitment exercise

During 2007 the University undertook an extensive recruitment exercise. In the main, during the recruitment exercise, the University's management assessed whether the human resources available were sufficient to meet the current level of operations. Subsequently various calls for applications were issued to address those areas that were considered as being under resourced.

Between 1 January and 30 September 2007 the total number of employees increased by circa 64, thereby increasing the total number of employees from 1,383 in 2006 to 1,447 as at 30 September 2007. Between October and December 2007, an additional number of 57 employees were recruited, bringing the total number of employees at the end of year to circa 1,504.

The total cost of recruitment during the year ended 31 December 2007 amounted to approximately Lm525,000 and government has provided additional funding specifically for this purpose.

Joint Venture – Project Management Office

On 16 December 1993, the University and Malta University Services Limited entered into a joint venture agreement with the Director of Works, Ministry of Public Works and Construction to set up a Project Management Office to provide project management services in connection with architectural and engineering projects in Malta and to provide opportunities for the training and on the job experience for both students and academic staff of the University of Malta.

On 31 May 2007, the parties agreed to terminate the joint venture agreement. Upon termination, the remaining surplus of Lm207,324 was apportioned between the parties to the extent of one-third each. Following termination, the University of Malta and Malta University Services Limited are to receive Lm69,108 each of the surplus of the Project Management Office JV.

Financial Performance

In line with the change in accounting reference date, these financial statements have been prepared for the period 1 January to 30 September 2007 whilst the comparative figures for 2006 reflect a whole year. For comparative purposes and more specifically for reviewing the financial performance the nine-month figures presented in these financial statements have been extrapolated to a full year on a proportionate basis.

Key financial highlights

The group's income has increased by 3.6% from Lm16,817,858 to Lm 17,424,090 (after extrapolation to a 12-month period). This increase is mainly attributable to the following factors:

- an increase in government's subvention, a substantial part of which being specific for the purposes of recruitment; and
- the group's surplus amounting to Lm138,216 arising out of the termination of the Joint Venture – Project Management Office referred to above.

After removing the one-time surplus resulting from the termination of the Joint Venture, the percentage net increase in income amounts to 2.5%.

Financial and operating review - continued

Financial Performance- continued

The group's total expenditure has increased by 3.3% from Lm16,647,768 to Lm17,190,224 (after extrapolation to a 12-month period). The increase in expenditure is mainly due to the increase in staff costs as a result of the recruitment exercise that was undertaken by the University during the year under review. Up till 30 September 2007, staff costs represented

74.8% of total expenditure, an increase of 4 percentage points over the comparative relationship between staff costs and total costs at the end of 2006.

The group's surplus before tax of Lm175,400 for 2007, includes the one-time surplus resulting from the termination of the Joint Venture. After eliminating this surplus, the resulting group's surplus before tax amounts to Lm37,184. After extrapolation to represent a full year, the resulting group's surplus for 2007 amounts to Lm49,578. This results in an approximate decrease in the surplus before tax of Lm120,512, from Lm170,090 in 2006 to Lm49,578 (extrapolated surplus before tax) in 2007. This is the result of an increased income of 2.5% (after removing the one-time event) vis-à-vis a 3.3% increase in expenditure.

The cash shortfall between cash and liquid investments and the funds designated for specific purposes that was a concern to the University's administration for the past years, improved as at 30 September 2007. As at 31 December 2006, the University's cash shortfall, excluding capital funds amounted to Lm819,411, whilst as at 30 September 2007, the shortfall amounted to Lm2,011. Notwithstanding this improvement the negative balance in the net current liabilities for the University remains at Lm1,066,684. This is the result of an increase in the University's creditors of Lm886,742 (from Lm4,668,686 in 2006 to Lm5,555,428 in 2007), and an increase in debtors of Lm931,065 (from Lm3,557,679 in 2006 to Lm4,488,744 in 2007), hence leaving the net current liabilities relatively unchanged (2007: Lm1,066,684; 2006: Lm1,111,007). At consolidated level, however, although still negative, the net current liabilities as at 30 September 2007 amount to Lm104,576.

Way Forward

The University will continue to align its financial reporting with IFRSs and SORP, especially with regard to the capitalisation of fixed assets. To this end, work is underway to set in motion the setting up of a fixed asset register. The first exercise in this respect will be to update the present inventory recording system and the immediate capture of assets that will be purchased in the financial year-end 2008.

The University is also committed to invest in a new Information System in order to facilitate operational procedures, improve financial reporting mechanisms, to have a more transparent view of its costs and also to facilitate internal communication and processing time. In this respect a tender has been published for the purchase of an Integrated University Information System. It is expected that the evaluation process of the offers submitted will commence shortly.

Whilst the University is committed to acquire external funds (apart from Government grants) to enable it to improve its standing in the higher education market, in the short to medium terms it is imperative that Government continues to provide its financial support in order to ensure that the University improves the quality of the services offered and also to wipe out the deficit in the net current liabilities. Meanwhile, the University Group is in the process of exploring new ventures and business opportunities with a view of improving its financial situation in order to be able to partially generate its own funds in particular in those areas of interest that are highly specialised. Moreover, the University will continue to tap into EU Funds to support its members of staff in participating in research activities as well as collaborative initiatives with other EU institutions.

Financial and operating review - continued

Way Forward - continued

It is envisaged that with the continued financial support from Government, the possibility of generating own funds, and with the funding obtained from external sources, in particular those available from the EU, it will be possible for the University to expand its operations and also have the necessary funds to invest and acquire the necessary resources to meet current and future demands whilst operating in a competitive market.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office as auditors.

This report was authorised for issue by the Council and was signed on its behalf by:

Prof Juanito Camilleri
Rector

Ms Anita Aloisio
Director of Finance

17 January 2008

Statement of responsibilities of the Council

The Council is responsible through the Finance Office for the preparation of financial statements which give a true and fair view of the state of affairs of the University as at the end of each financial period and of the surplus or deficit for that period.

In preparing these financial statements, the Council is responsible for:

- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- stating which comprehensive basis of accounting has been followed, subject to any material departures disclosed and explained in the accounts;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue its activity as a going concern.

The Council is also responsible for designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the relevant provisions of Statute 6.2.4 of the Education Act, Cap. 327. The Council is also responsible for safeguarding the assets of the University and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report
Issued under section 73(6) of the Education Act, Cap. 327

To the Council of the University

We have audited the financial statements of the University on pages 11 to 38 which comprise the balance sheet as at 30 September 2007 and the income and expenditure account, statement of recognised gains and losses, and cash flow statement for the period then ended and a summary of significant accounting policies and other explanatory notes.

Council's Responsibility for the Financial Statements

The Council of the University through the Finance Officer, is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting policies described on pages 14 to 21. As described in the statement of responsibilities of the Council on page 8, this responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. These financial statements have been prepared broadly taking into account International Financial Reporting Standards (IFRSs) and the UK SORP published in 2003 except for certain departures as disclosed in accounting policy A – "Basis of accounting".

Auditor's 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 of 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 auditor's judgment, 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 in 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 Council, as well as evaluating the overall presentation of the financial statements.

We believe that the 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 University and the Group as at 30 September 2007 and of the financial performance and cash flows for the period then ended in accordance with the accounting policies described on pages 14 to 21.

Independent auditor's report
Issued under section 73(6) of the Education Act, Cap. 327 - continued

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 to the financial statements. As at 30 September 2007, the University had net current liabilities of Lm1,066,684 and net liabilities of Lm435,718. Included in liabilities is an amount of Lm3,490,776 (note 24) representing funds designated for specific purposes. Although these funds are adequately covered by cash and liquid investments as at 30 September 2007, the fact that the University had net current liabilities as at that date means that should it utilise its cash resources to settle its outstanding net creditors, it would create a shortfall between funds designated for specific purposes and the cash held to cover these funds. After taking into account the Government budget allocation for 2008 and the other sources of income, Council expects that the University will be able to generate the required liquidity to meet all its liabilities and to be able to continue supporting the intended appropriation of its designated funds as the need arises.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

167 Merchants Street
Valletta
Malta

17 January 2008

Income and expenditure accounts

	Notes	Group Period from 1 January to 30 September 2007 Lm	Group Year ended 31 December 2006 Lm	University Period from 1 January to 30 September 2007 Lm	University Year ended 31 December 2006 Lm
Income	3	**13,068,068**	16,817,858	**12,362,901**	16,088,491
Expenditure					
Staff costs	4	**9,646,164**	11,789,496	**9,449,661**	11,574,492
Other operating expenses	5	**3,221,204**	4,803,653	**2,866,301**	4,354,741
Net allocation to funds	16	**25,300**	54,619	**25,300**	54,619
		12,892,668	16,647,768	**12,341,262**	15,983,852
Surplus for the period/year before tax		**175,400**	170,090	**21,639**	104,639
Tax expense	6	**(67,269)**	(25,753)	**-**	-
Surplus for the financial period/year		**108,131**	144,337	**21,639**	104,639
Attributable to:					
Equity holders		**105,207**	141,639	**21,639**	104,639
Minority interest		**2,924**	2,698	**-**	-
		108,131	144,337	**21,639**	104,639

Statements of total recognised gains and losses

	Group Period from 1 January to 30 September 2007 Lm	Group Year ended 31 December 2006 Lm	University Period from 1 January to 30 September 2007 Lm	University Year ended 31 December 2006 Lm
Surplus for the period/year	**105,207**	141,639	**21,639**	104,639
Total recognised gains for the year	**105,207**	141,639	**21,639**	104,639
Reconciliation				
Opening funds and equity	**193,008**	51,369	**(457,357)**	(561,996)
Total recognised gains for the period/year	**105,207**	141,639	**21,639**	104,639
Closing funds and equity	**298,215**	193,008	**(435,718)**	(457,357)

Balance sheets

	Notes	Group		University	
		As at 30 September 2007 Lm	As at 31 December 2006 Lm	**As at 30 September 2007 Lm**	As at 31 December 2006 Lm
Fixed assets					
Tangible assets					
- Property, plant and equipment	8	**257,467**	222,520	**-**	-
Financial assets					
- Investments held-to-maturity	9	**192,400**	192,400	**192,400**	192,400
- Investments in subsidiaries	10	**-**	-	**326,450**	326,450
- Available-for-sale investments	11	**10,996**	10,996	**-**	-
- Loans to subsidiaries	12	**-**	-	**112,116**	134,800
Total fixed assets		**460,863**	425,916	**630,966**	653,650
Other non-current assets					
Deferred taxation	19	**23,472**	30,431	**-**	-
Total non-current assets		**484,335**	456,347	**630,966**	653,650
Current assets					
Stocks	13	**26,082**	7,539	**-**	-
Debtors	14	**1,369,409**	829,767	**1,192,379**	734,243
Taxation recoverable		**11,950**	53,599	**-**	-
Short term deposits	15	**1,272,324**	1,272,324	**750,000**	750,000
Cash at bank and in hand		**2,842,933**	2,432,466	**2,546,365**	2,073,436
Total current assets		**5,522,698**	4,595,695	**4,488,744**	3,557,679
Current liabilities					
Funds designated for specific purposes:					
Academic	16	**1,110,930**	1,171,081	**1,110,930**	1,171,081
Operational resources	16	**524,899**	936,111	**524,899**	936,111
Other	16	**1,730,206**	1,603,314	**1,730,206**	1,603,314
Capital projects funding	17	**(47,824)**	1,111	**(47,824)**	1,111
Trade and other creditors	18	**2,300,974**	1,060,972	**2,237,217**	957,069
Current taxation		**8,089**	7,825	**-**	-
Total current liabilities		**5,627,274**	4,780,414	**5,555,428**	4,668,686
Net current liabilities		**(104,576)**	(184,719)	**(1,066,684)**	(1,111,007)
Total assets less current liabilities		**379,759**	271,628	**(435,718)**	(457,357)
Represented by:					
Specific endowment funds	20	**124,741**	124,741	**124,741**	124,741
Other funds					
Capital fund	21	**59,500**	59,500	**59,500**	59,500
Accumulated net surplus/(deficit)	22	**113,974**	8,767	**(619,959)**	(641,598)
		298,215	193,008	**(435,718)**	(457,357)
Minority interest	23	**81,544**	78,620	**-**	-
Total funds and equity		**379,759**	271,628	**(435,718)**	(457,357)

The financial statements on pages 14 to 21 were authorised for issue by the Council on 17 January 2008 and were signed on its behalf by:

Prof Juanito Camilleri
Rector

Ms Anita Aloisio
Director of Finance

Cash flow statements

	Note	Group Period from 1 January to 30 September 2007 Lm	Group Year ended 31 December 2006 Lm	University Period from 1 January to 30 September 2007 Lm	University Year ended 31 December 2006 Lm
Operating activities					
Government recurrent vote		**10,515,177**	13,100,000	**10,515,177**	13,100,000
Receipts from all other sources of income		**1,340,238**	2,815,852	**852,914**	2,072,201
Payments to employees and suppliers		**(10,279,206)**	(14,413,804)	**(9,821,121)**	(13,846,201)
Taxation paid		**(18,397)**	(35,643)	**-**	-
Net cash generated from operating activities		**1,557,812**	1,466,405	**1,546,970**	1,326,000
Investing activities					
Government capital vote		**363,052**	407,348	**363,052**	407,348
Interest received from investments held-to-maturity		**7,720**	12,375	**7,720**	12,375
Dividend received from investments in subsidiaries		**-**	-	**-**	18,000
Proceeds from settlement of loans by subsidiaries		**22,684**	-	**22,684**	-
Other interest received		**45,331**	38,599	**45,331**	38,599
Movement in advances to other debtors		**(5,861)**	63,200	**(5,861)**	63,200
Payments for capital expenditure		**(664,395)**	(929,472)	**(591,091)**	(853,314)
Net cash used in investing activities		**(231,469)**	(407,950)	**(158,165)**	(313,792)
Movement in cash and cash equivalents before fund activities		**1,326,343**	1,058,455	**1,388,805**	1,012,208
Fund activities					
Receipts for academic funds		**582,518**	1,072,589	**582,518**	1,072,589
Receipts for operational resources funds		**881,832**	1,468,887	**881,832**	1,468,887
Receipts for other funds		**1,136,176**	1,013,133	**1,136,176**	1,013,133
Payments relating to academic funds		**(1,206,354)**	(1,666,046)	**(1,206,354)**	(1,666,046)
Payments relating to operational resources funds		**(1,293,044)**	(1,434,372)	**(1,293,044)**	(1,434,372)
Payments relating to other funds		**(1,017,004)**	(917,019)	**(1,017,004)**	(917,019)
Net cash used in fund activities		**(915,876)**	(462,828)	**(915,876)**	(462,828)
Movement in cash and cash equivalents		**410,467**	595,627	**472,929**	549,380
Cash and cash equivalents at beginning of year		**3,704,790**	3,109,163	**2,823,436**	2,274,056
Cash and cash equivalents at end of year	24	**4,115,257**	3,704,790	**3,296,365**	2,823,436

Accounting policies

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

A. Basis of accounting

These consolidated financial statements have been prepared under the historical cost convention and broadly take into account International Financial Reporting Standards (IFRSs) and the Statement of Recommended Practice ("SORP") on Accounting for Further and Higher Education Institutions, published in 2003 and followed in the United Kingdom, except for the capitalisation of fixed assets (refer to accounting policy G). The Council is currently considering any additional requirements from the SORP and IFRSs as well as their relevance to the operating environment of the University. It is expected that the process of capitalisation of fixed assets will commence in 2008.

With effect from 30 September 2007, the financial year end of the University of Malta has changed from 31 December to 30 September. Accordingly, these financial statements have been prepared for the period from 1 January to 30 September 2007. The consolidated financial statements are based on the audited financial statements for the year ended 30 September 2007 in respect of the principal subsidiaries listed in Note 10 and the audited financial statements for the 9-month period from 1 January to 30 September 2007 in respect of the University and University Broadcasting Services Limited.

The preparation of financial statements in conformity with IFRSs requires the use of certain accounting estimates. It also requires the Council to exercise its judgement in the process of applying the University's accounting policies (see Note 1 – Critical accounting estimates and judgements).

Standards, interpretations and amendments to published standards effective in 2007

In 2007, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2007. The adoption of these revisions to the requirements of IFRSs did not result in substantial changes to the Group's accounting policies.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements, that are mandatory for the Group's accounting periods beginning on 1 October 2007. The Group has not early adopted these revisions to the requirements of IFRSs and the Council is of the opinion that there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

B. Consolidation

Subsidiary undertakings

Subsidiary undertakings are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Group undertakings are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

B. **Consolidation** - continued

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income and expenditure account (see Accounting policy F).

Intra-group transactions, balances and unrealised gains on transactions between subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

A listing of the subsidiaries is set out in Note 10 to the financial statements.

C. **Investments subsidiary undertakings**

In the University's financial statements, investments in subsidiary undertakings are accounted for by the cost method of accounting. The dividend income from such investments is included in the income and expenditure account in the accounting year in which the University's rights to receive payment of any dividend is established. The University gathers objective evidence that an investment is impaired using the same process disclosed in Accounting policy I. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income and expenditure account.

D. **Income and expenditure**

In the University's financial statements, income mainly comprises allocations from the Government's national budget, other grants and subsidies, registration and tuition fees, examination fees and other sundry income. All such income is taken into account as it accrues over the academic year.

In addition, the net surplus/deficit arising from the difference between certain income and the related expenditure is allocated to the funds that meet the criteria set out in accounting policy N (funds designated for specific purposes). The income referred to above includes income from courses and conferences, a percentage of fees from courses to foreign students (that are allocated to individual faculties), and receipts from various other sources.

Income and expenditure transactions are recognised as follows:

- expenditure is recognised in the year to which it relates on an accrual basis;
- income is recognised in the year to which it relates on an accrual basis, unless collectibility is in doubt.

D. Income and expenditure - continued

Other sources of income for the Group are recognised in the income and expenditure accounts as follows:

(i) Sales of services in the hospitality activity

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Sales arising on hospitality activities are recognised when the service is performed and goods are supplied. Revenue is usually in cash, credit card or on credit. The recorded revenue, includes credit card fees payable for the transaction.

(ii) Rental Income

Rental income is charged to the income and expenditure account over the period of the lease to which it relates.

(iii) Sales of goods and services

Such revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the subsidiary's activities. Revenue is shown net of value-added tax or other sales taxes, returns, rebates and discounts.

(iv) Income arising on educational courses, projects and other services

Income arising on educational courses, projects and other services is recognised on the completion of individual contracts, or earlier if in an advanced state of completion.

(v) Consultancy fees

Consultancy fees are recognised upon performance of services, net of sales taxes and discounts.

(vi) Interest income

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

E. Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Maltese Liri, which is the Group's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income and expenditure account.

F. Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary undertaking at the date of acquisition. Goodwill on acquisitions of subsidiary undertakings is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Where an indication of impairment exists, in that the carrying amount of an intangible asset is greater than its estimated recoverable amount, a charge is made to write down the value of the asset to its estimated recoverable amount (see Accounting policy I).

G. Property, plant and equipment

In the financial statements of the University:

Capital projects funding

Expenditure on capital projects is recorded on a payments basis and is financed through payments made by the Government as approved in the national estimates. Such capital expenditure is not recognised as fixed assets in these financial statements, and any surplus over the financing from Government is retained in the balance sheet within current liabilities.

Other capital expenditure - Equipment and furniture

Capital expenditure, relating mainly to the purchase of equipment and furniture, other than that relating to capital projects funding, is not recognised as fixed assets in these financial statements and is expensed in the income and expenditure account in the year of purchase.

In the financial statements of the subsidiaries, Property, plant and equipment is accounted for as follows: Property, plant and equipment comprising improvements to leasehold premises, plant and machinery, office furniture and equipment, computer equipment and other equipment are stated at historical cost less depreciation.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount and are included in the income and expenditure account.

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

	%
Plant, machinery, furniture and equipment	5 - 25
Other equipment	10 - 20
Computer equipment	25

Improvements to leasehold premises are being depreciated over the life of the lease.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (see Accounting policy I).

H. Investments

The Group classifies its investments in the following categories: investments held-to-maturity and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired and is determined at initial recognition and re-evaluates this designation at every reporting date.

(i) Investments held-to-maturity

Investments with fixed maturity where the Council has both the intent and the ability to hold to maturity are classified as held-to-maturity. The Council determines the appropriate classification of its investments at the time of the purchase. Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment. Such investments are impaired if the carrying amount is greater than the estimated recoverable amount (see Accounting policy I).

(ii) Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale investments are subsequently re-measured at fair value. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. The fair value of investments is based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

I. Impairment of assets

Impairment of non financial assets

Assets (including goodwill) that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

I. Impairment of assets - continued

Impairment of financial assets - continued

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data about the certain events which can include (but are not restricted to) indications that there is a measurable decrease in the estimated future cash flow from the financial asset since the initial recognition.

If there is objective evidence that an impairment loss has been incurred on investments held-to-maturity carried at amortised cost, the amount of the loss is recognised in the income and expenditure account and measured as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income and expenditure account. Impairment losses recognised in the income and expenditure account on equity instruments are not reversed through the income and expenditure account.

J. Operating leases

Leases of assets where a significant portion of the risk and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income and expenditure account on a straight-line basis over the period of the lease.

K. Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out method. Net realisable value is the estimate of the selling price in the ordinary course of business.

L. Trade debtors

Trade debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade debtors is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of debts. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income and expenditure account.

M. Short term deposits

Short term deposits held with banks or credit institutions are stated at face value.

N. Funds designated for specific purposes

The Council of the University exercises its discretion in the creation and utilisation of research grants, academic initiatives and projects, scholarships, fellowships, studentships, bursaries, equipment replacement, and discretionary funds. Normally, such funds are in respect of projects that last more than twelve months. Any under or over-spending against such funds, after taking into account balances brought forward from the previous year, are carried forward to the following year.

The annual surplus or deficit in the income and expenditure account is stated after making transfers to meet expenditure already approved by the Council.

O. Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at face value. For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and short term deposits.

P. Deferred taxation

Deferred tax is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the tax losses and unabsorbed capital allowances can be utilised.

Q. Provisions

Provisions are recognised when the Group 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

R. Other financial instruments

The Group's other financial assets, which have not been referred to in the accounting policies disclosed above, are classified as loans and receivables originated by the Group in accordance with the requirements of IAS 39 (revised) and are measured at cost, that is, the face value of these assets. All regular way transactions in assets classified in this category are accounted for using settlement accounting.

A credit risk provision for financial asset impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts receivable from collateral, discounted based on the interest rate at inception.

The Group's financial liabilities, other than those referred to in the accounting policies above, are classified as liabilities which are not held for trading ("other liabilities") under IAS 39 (revised), and are measured at cost, that is, the face value of such investments.

Notes to the financial statements

1. 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 Council, 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).

2. Accumulated net deficit and cash shortfall on designated funds

The cash shortfall between cash and liquid investments and the funds designated for specific purposes that was a concern to the University's administration for the past years, improved as at 30 September 2007. As at 31 December 2006, the University's cash shortfall, excluding capital funds amounted to Lm819,411, whilst as at 30 September 2007, the shortfall amounted to Lm2,011. Notwithstanding this improvement the negative balance in the net current liabilities for the University remains at Lm1,066,684. This is the result of an increase in the University's creditors of Lm886,742 (from Lm4,668,686 in 2006 to Lm5,555,428 in 2007), and an increase in debtors of Lm931,065 (from Lm3,557,679 in 2006 to Lm4,488,744 in 2007), hence leaving the net current liabilities relatively unchanged (2007: Lm1,066,684; 2006:Lm1,111,007). At consolidated level, however, although still negative, the net current liabilities as at 30 September 2007 amount to Lm104,576.

Whilst the University is committed to acquire external funds (apart from Government grants) to enable it to improve its standing in the higher education market, in the short to medium terms it is imperative that Government continues to provide its financial support in order to ensure that the University improves the quality of the services offered and also to wipe out the deficit in the net current liabilities.

3. Income

	Group		University	
	Period from 1 January to 30 September 2007 Lm	Year ended 31 December 2006 Lm	**Period from 1 January to 30 September 2007 Lm**	Year ended 31 December 2006 Lm
Government budget allocation – recurrent vote:				
- University	**8,547,460**	10,800,000	**8,547,460**	10,800,000
- Junior College	**1,815,348**	2,300,000	**1,815,348**	2,300,000
Other grants and subsidies	**133,077**	142,041	**131,546**	142,041
Sale of books and publications	**26,441**	44,170	**-**	-
Matsec fees	**541,021**	551,540	**541,021**	551,540
Registration and tuition fees	**558,573**	1,119,641	**558,573**	1,119,641
Courses and seminars	**151,466**	211,372	**-**	-
Consultancy services	**112,405**	96,200	**51,995**	93,304
Accommodation and other ancillary services	**339,147**	387,505	**-**	-
Share of surplus of Project Management Office JV	**138,216**	-	**69,108**	-
Other income	**294,382**	360,498	**237,318**	277,074
	12,657,536	16,012,967	**11,952,369**	15,283,600
Income generated by faculties and centres:				
- Courses and seminars	**189,443**	493,408	**189,443**	493,408
- Tuition fees	**156,057**	78,580	**156,057**	78,580
- Other income	**65,032**	232,903	**65,032**	232,903
	410,532	804,891	**410,532**	804,891
Total income	**13,068,068**	16,817,858	**12,362,901**	16,088,491

4. Staff costs

Staff costs comprising salaries, wages and national insurance contributions are as follows:-

	Group		University	
	Period from 1 January to 30 September 2007 Lm	Year ended 31 December 2006 Lm	**Period from 1 January to 30 September 2007 Lm**	Year ended 31 December 2006 Lm
Academic:				
- University	**4,772,713**	5,627,654	**4,772,713**	5,627,654
- Junior College	**1,528,840**	1,931,822	**1,528,840**	1,931,822
Non-academic:				
- University	**2,970,405**	3,778,867	**2,970,405**	3,778,867
- Junior College	**177,703**	236,149	**177,703**	236,149
- Other	**196,503**	215,004	**-**	-
	9,646,164	11,789,496	**9,449,661**	11,574,492

Average number of persons employed by the Group during the period/year:

	Group		University	
	2007	2006	**2007**	2006
Academic	**640**	590	**640**	590
Non-academic	**670**	564	**631**	526
	1,310	1,154	**1,271**	1,116

5. Other operating expenses

Other operating expenses are classified by their nature as follows:

	Group		University	
	Period from 1 January To 30 September 2007 Lm	Year ended 31 December 2006 Lm	**Period from 1 January to 30 September 2007 Lm**	Year ended 31 December 2006 Lm
Capital expenditure	**200,014**	535,036	**200,014**	535,036
Library books and periodicals	**362,079**	661,799	**362,079**	661,799
Repairs and maintenance related costs	**345,167**	510,951	**345,167**	510,951
Allocation to work resources and research projects funds	**563,685**	736,061	**563,685**	736,061
Laboratory and office supplies	**151,858**	283,492	**151,858**	283,492
Energy and communications	**417,144**	572,612	**349,944**	518,907
Depreciation of property, plant and equipment	**38,357**	41,258	**-**	-
Operating lease rentals Payable – property	**75,000**	75,000	**-**	-
Other expenses	**1,067,900**	1,387,444	**893,554**	1,108,495
Total direct and other operating expenses	**3,221,204**	4,803,653	**2,866,301**	4,354,741

Auditors' remuneration for the current financial year amounted to Lm4,500 (2006: Lm4,500) for the University and Lm9,600 (2006: Lm9,600) for the group.

Included above are costs amounting to Lm73,542 (2006: Lm136,156) relating to the Junior College.

6. Tax expense

Under the terms of section 12(1)(a) of the Income Tax Act, Cap. 123, the income of the University of Malta is exempt from taxation. The tax expense in the Group's financial statements relates to the tax charge incurred by the subsidiaries.

	Group	
	Period from 1 January to 30 September 2007 Lm	Year ended 31 December 2006 Lm
Current tax expense	**60,310**	23,197
Deferred tax expense	**6,959**	2,556
	67,269	25,753

6. **Tax expense** - continued

The tax on the group's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group Period from 1 January to 30 September 2007 Lm	Year ended 31 December 2006 Lm
Profit before tax	**175,400**	170,090
Tax on ordinary profit at 35%	**61,390**	59,532
Tax effect of:		
Income subject to tax at 15%	**(3,987)**	(3,310)
Income not subject to tax	**(9,448)**	(47,639)
Temporary differences on results of associates	**6,019**	(2,975)
Temporary differences attributable to leasehold premises	**2,634**	2,119
Expenses not deductible for tax purposes	**190**	516
Underprovision of current tax asset in previous year	**-**	114
Temporary differences not recognised	**14,238**	-
Other differences	**(282)**	-
Tax effect of inter group transactions	**(3,485)**	17,396
Tax expense	**67,269**	25,753

7. **Directors' emoluments**

	Group Period from 1 January to 30 September 2007 Lm	Year ended 31 December 2006 Lm
Fees	**-**	6,179
Salaries and other emoluments	**-**	22,191
	-	28,370

In 2006, amounts disclosed above related exclusively to the directors' emoluments disclosed in the individual financial statements of the subsidiaries.

8. Property, plant and equipment

Group	Improvements to leasehold Premises Lm	Plant, machinery & equipment Lm	Furniture, fixtures & fittings & office equipment Lm	Total Lm
At 1 January 2006				
Cost	69,110	264,956	157,376	491,442
Accumulated depreciation	(7,693)	(196,020)	(100,109)	(303,822)
Net book amount	61,417	68,936	57,267	187,620
Year ended 31 December 2006				
Opening net book amount	61,417	68,936	57,267	187,620
Additions	40,002	23,848	12,308	76,158
Disposals	-	-	(7,342)	(7,342)
Depreciation charge	(6,055)	(21,972)	(13,231)	(41,258)
Depreciation released on disposals	-	-	7,342	7,342
Closing net book amount	95,364	70,812	56,344	222,520
At 31 December 2006				
Cost	109,112	288,804	162,342	560,258
Accumulated depreciation	(13,748)	(217,992)	(105,998)	(337,738)
Net book amount	95,364	70,812	56,344	222,520
Period ended 30 September 2007				
Opening net book amount	95,364	70,812	56,344	222,520
Additions	41,868	2,819	28,617	73,304
Depreciation charge	(7,528)	(15,780)	(15,049)	(38,357)
Closing net book amount	**129,704**	**57,851**	**69,912**	**257,467**
At 30 September 2007				
Cost	150,980	291,623	190,959	633,562
Accumulated depreciation	(21,276)	(233,772)	(121,047)	(376,095)
	129,704	**57,851**	**69,912**	**257,467**

9. Investments held-to-maturity

	Group and University	
	As at 30 September 2007	As at 31 December 2006
	Lm	Lm
5.00% Malta Government Stock 2021	**50,000**	50,000
6.60% Malta Government Stock 2019	**40,000**	40,000
7.80% Malta Government Stock 2018	**42,400**	42,400
6.65% Malta Government Stock 2016	**40,000**	40,000
6.35% Malta Government Stock 2013	**20,000**	20,000
	192,400	192,400

The investments are quoted on the Malta Stock Exchange. The market value of these investments at 30 September 2007 was Lm213,271 (31 December 2006: Lm227,476).

10. Investments in subsidiaries

	University	
	As at 30 September 2007	As at 31 December 2006
	Lm	Lm
Period/year ended 30 September/31 December		
Opening and closing net book amount	**326,450**	326,450
At 30 September/31 December		
Cost and net book amount	**326,450**	326,450

The principal subsidiaries all of which are unlisted at 30 September 2007 and 31 December 2006 are shown below:

	Effective holding	
	As at 30 September 2007	As at 31 December 2006
	%	%
Malta University Services Limited	**100**	100
University Broadcasting Services Limited	**100**	100
University Catering Services Limited	**100**	100
Metallurgical Services Limited	**100**	100
Surface Engineering Limited	**75**	75
University Sports Complex Limited	**51**	51
Malta University Publishers Limited	**80**	80
Malta University Centre for Distance Learning Limited	**100**	100
Malta University Holding Company Limited (formerly known as Malta University Share Management Company Limited)	**100**	100

10. Investments in subsidiaries - continued

The registered office of all the mentioned subsidiaries is 'The University of Malta, Msida, Malta'.

The objectives of the companies are as follows:

Malta University Services Limited

To initiate and monitor technology transfer, to strengthen education and industry relationships in Malta as well as between Malta and other countries by providing related consultancy, management and educational services and projects.

University Broadcasting Services Limited

To carry on the operation of a radio broadcasting station covering the Maltese Islands on behalf of the University of Malta.

University Catering Services Limited

To operate the canteen services on campus and to run the University Residence in Lija.

Metallurgical Services Limited

To hold the shares in Surface Engineering Limited and to provide the University of Malta with a wholly owned vehicle to take up further opportunities in the areas of mechanical engineering, including research and consultancy assignments related thereto, both in Malta and abroad.

University Sports Complex Limited

To manage, run and operate the University Sports Complex, and to manage and run any other sports centre, complex or facility as a national resource.

Malta University Publishers Limited

To publish works of scholarly and general interest, to acquire and dispose of manuscripts, copyrights, patents and other intellectual property rights and to market, distribute, purchase and sell books and other publications.

Malta University Holding Company Limited

To invest in the equity of limited liability companies set up by the University of Malta.

Other interests

The University of Malta exercises joint control on the Fondazione Link Campus University of Malta, with its registered address at Via Nomentana, 335, Roma. The Fondazione is an autonomous public entity established on the 19 January 2006 and registered as such in accordance with Italian law on the 30 January 2006 to carry out all academic activities as licensed under Italian law to the University of Malta. The University of Malta has a right to all the assets of the Fondazione (in the event of its dissolution for whatever cause, subject to the provisions of Italian law). All the management responsibilities for the running of the academic activities have been sub-contracted to Societa` per la Gestione della Link Campus University of Malta spa. The net assets of the Fondazione Link Campus University of Malta as at 31 December 2006 according to its Management Accounts amounted to €118,475.

Furthermore, the University owns an effective holding of 50% in UNIMAS Limited, through University Broadcasting Services Limited, which has been placed into voluntary liquidation on 30 March 2003.

11. Available-for-sale investments

	Group and University Unquoted Investments Lm
Period ended 30 September 2007 and year ended 31 December 2006	
Opening and closing net book amount	**10,996**
At 30 September 2007 and 31 December 2006	
Cost and net book amount	10,996

Shares are held in the following undertakings:

Name of company	Registered Office	Class of shares held	Percentage of shares held 2007	2006
Gestione Link SpA	Via Nomentana 335 Rome	Ordinary shares	**5%**	5%

The aggregate amount of capital and reserves of Gestione Link SpA as at 31 December 2006 amounted to Lm433,138 (2005: Lm430,888) and the profit for the year was Lm2,251 (2005: Lm1,159). The previous losses were made good by the shareholders by a capital restructuring including the fresh injection of new capital. In terms of a shareholders' agreement, the respective subsidiary has been excluded from making good its share of these losses and any other future losses. Gestione Link SpA was set up during 1999 with the objective of managing educational activities regarding which the University of Malta has been licensed by the Italian Authorities to carry out in Rome. The directors consider the carrying value of the investments to approximate their face value.

12. Loans to subsidiaries

	University As at 30 September 2007 Lm	As at 31 December 2006 Lm
Non-current		
Loan to Metallurgical Services Limited	**120,000**	120,000
Provision for impairment	**(26,000)**	(26,000)
	94,000	94,000
Loan to Malta University Holding Company Limited	**18,116**	40,800
	112,116	134,800

The above loans to subsidiaries (Note 27) are unsecured, interest free and are not repayable within the next 12 months.

13. Stocks

	Group	
	As at 30 September 2007 Lm	As at 31 December 2006 Lm
Finished goods and goods for resale	**26,082**	7,539

During 2006, inventory write-downs amounted to Lm2,497. These write-downs have been included in 'Other operating expenses' in the income and expenditure account.

14. Debtors

	Group		University	
	As at 30 September 2007 Lm	As at 31 December 2006 Lm	**As at 30 September 2007 Lm**	As at 31 December 2006 Lm
Current				
Trade debtors	**118,509**	172,486	-	-
Amounts owed by Malta University Services Limited	-	-	**182,921**	170,817
Amounts owed by University Catering Services Limited	-	-	**46,405**	44,388
Amounts owed by Malta University Publishers Limited	-	-	**36,000**	36,000
Amounts owed by Malta University Holding Company Limited	-	-	**5,341**	-
Amounts owed by Link Campus S.C.A.R.L.	-	-	**145,601**	-
Amounts owed by Project Management Office JV	**81,962**	-	**60,397**	-
Amounts owed by related parties	**223,998**	-	-	-
Indirect taxation recoverable	**112,141**	75,088	-	5,930
Other debtors	**329,728**	91,502	**287,507**	72,217
Prepayments, accrued income and deferred expenditure	**503,071**	490,691	**428,207**	404,891
	1,369,409	829,767	**1,192,379**	734,243

Amounts owed by subsidiaries (Note 27) are unsecured, interest free and repayable on demand.

15. Short term deposits

	Group		University	
	As at 30 September 2007	As at 31 December 2006	**As at 30 September 2007**	As at 31 December 2006
	Lm	Lm	**Lm**	Lm
Current				
Deposits held with bank	**1,272,324**	1,272,324	**750,000**	750,000

Short term deposits have a weighted average interest rate of 3.2% as at 30 September 2007 (31 December 2006: 3.1%) and have a maturity date not exceeding one year from the balance sheet date.

16. Funds designated for specific purposes

The movement in these funds during the year was as follows:-

	University			
	Balance at 1 January 2007	Receipts/ Allocations	(Payments/ transfers)	Balance at 30 September 2007
	Lm	Lm	Lm	Lm
(a) **Academic**				
Research	530,862	427,388	(449,877)	508,373
Courses and conferences	639,720	208,777	(305,598)	542,899
Work resources	499	510,038	(450,879)	59,658
	1,171,081	1,146,203	(1,206,354)	1,110,930
(b) **Operational resources**				
E. U. Programmes	738,127	707,190	(1,073,427)	371,890
Purchase of equipment	70,899	71,743	(119,611)	23,031
Campus network development	126,579	102,899	(99,500)	129,978
Equipment replacement	506	-	(506)	-
	936,111	881,832	(1,293,044)	524,899
(c) **Other**				
Prizes, scholarships and Bursaries	50,380	54,880	(851)	104,409
Publications	5,261	2,847	(1,221)	6,887
Bench fees	34,310	6,917	(12,435)	28,792
Academic services and centres	1,113,874	665,333	(606,184)	1,173,023
Other	399,489	413,919	(396,313)	417,095
	1,603,314	1,143,896	(1,017,004)	1,730,206
Total funds	3,710,506	3,171,931	(3,516,402)	3,366,035

These funds include an aggregate amount of Lm1,506,794 (an increase of Lm25,300 over the 2006 amount of Lm1,481,494) representing net amounts allocated in accordance with accounting policy D. These funds will be used for the specific needs of faculties and departments, and for other specific needs.

17. Capital projects funding

	Group		University	
	As at 30 September 2007 Lm	As at 31 December 2006 Lm	**As at 30 September 2007 Lm**	As at 31 December 2006 Lm
Current				
At beginning of period/year	**1,111**	56,950	**1,111**	56,950
Capital projects payments effected by the University during the year	**(411,987)**	(463,187)	**(411,987)**	(463,187)
	(410,876)	(406,237)	**(410,876)**	(406,237)
Remittances received from Government	**363,052**	407,348	**363,052**	407,348
At end of period/year	**(47,824)**	1,111	**(47,824)**	1,111

18. Trade and other creditors

	Group		University	
	As at 30 September 2007 Lm	As at 31 December 2006 Lm	**As at 30 September 2007 Lm**	As at 31 December 2006 Lm
Current				
Trade creditors	**182,069**	63,526	**73,436**	-
Amounts owed to subsidiaries	-	-	**116,839**	119,839
Indirect taxes and social security	**9,766**	7,760	-	-
Other creditors	**354,093**	208,998	**305,378**	142,758
Accruals and deferred income	**1,755,046**	780,688	**1,741,564**	694,472
	2,300,974	1,060,972	**2,237,217**	957,069

Amounts owed to subsidiaries (Note 27) are unsecured, interest free and repayable on demand.

19. Deferred taxation

	Group	
	As at 30 September 2007 Lm	As at 31 December 2006 Lm
At beginning of the period/year	**30,431**	32,987
Charged to income and expenditure account (Note 6)	**(6,959)**	(2,556)
At end of period/year	**23,472**	30,431

19. **Deferred taxation** - continued

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2006: 35%).

The balance at the period/year end represents:

	Group	
	As at 30 September 2007 Lm	As at 31 December 2006 Lm
Temporary differences on fixed assets	**9,683**	10,342
Temporary differences arising on provisions	**13,022**	19,322
Temporary differences arising on unabsorbed capital allowances	**767**	767
	23,472	30,431

At 30 September/31 December, the Group had the following potential deferred tax asset which has not been recognised in the financial statements:

	Group	
	As at 30 September 2007 Lm	As at 31 December 2006 Lm
Unabsorbed tax losses and capital allowances carried forward	**37,795**	24,904
Temporary differences on provisions	**1,750**	1,791
Temporary differences on fixed assets	**2,350**	4,159
	41,895	30,854

20. Specific endowment funds

	Group and University	
	As at 30 September 2007 Lm	As at 31 December 2006 Lm
A. Cachia Zammit Prize	**85**	85
Prof. J.J. Mangion Prize	**400**	400
Colombos Scholarships	**828**	828
Prof. Griffiths Prize	**100**	100
University Students' Bursaries	**1,000**	1,000
Corinthia Paediatric Fund	**2,000**	2,000
Anna Muscat Azzopardi Prize	**500**	500
Hugh Muscat Azzopardi Prize	**1,103**	1,103
BMA-UM Travelling Fellowship	**1,590**	1,590
Fund Karmen Micallef Buhagiar	**1,475**	1,475
Paul and Elvira Saliba Attard Fund	**461**	461
Prof. John Borg Fund	**4,000**	4,000
Prof. Craig Memorial Fund	**11,199**	11,199
Prof. Keith Richardson Fund	**100,000**	100,000
	124,741	124,741

Endowment funds are derived from gifts and donations to the University and can only be used for specific purposes. The individual funds' income and expenditure is included within the University's main income and expenditure account. In most cases the University contributes from its own funds to achieve the objectives of the funds' specific purposes, particularly with respect to funds set up many years ago.

21. Capital fund

This represents the equivalent of the total cost of investments made by the University in subsidiary and associated companies as at 31 December 1993 amounting to Lm34,500, which were previously expensed, together with a loan to University Broadcasting Services Limited amounting to Lm25,000 which was also previously expensed.

22. Accumulated net surplus/(deficit)

	Group		University	
	As at 30 September 2007 Lm	As at 31 December 2006 Lm	**As at 30 September 2007 Lm**	As at 31 December 2006 Lm
At beginning of period/year	**8,767**	(132,872)	**(641,598)**	(746,237)
Surplus for the period/year	**105,207**	141,639	**21,639**	104,639
At end of period/year	**113,974**	8,767	**(619,959)**	(641,598)

23. Minority interest

	Group	
	As at 30 September 2007	As at 31 December 2006
	Lm	Lm
At beginning of period/year	**78,620**	75,922
Share of results for the year	**2,924**	2,698
At end of period/year	**81,544**	78,620

24. Cash and cash equivalents

For the purposes of the cash flow statement, the year end cash and cash equivalents comprise the following:

	Group		University	
	As at 30 September 2007	As at 31 December 2006	**As at 30 September 2007**	As at 31 December 2006
	Lm	Lm	**Lm**	Lm
Cash at bank and in hand	**2,842,933**	2,432,466	**2,546,365**	2,073,436
Short term deposits (Note 15)	**1,272,324**	1,272,324	**750,000**	750,000
	4,115,257	3,704,790	**3,296,365**	2,823,436

Cash and cash equivalents are restricted as disclosed below:

	University	
	As at 30 September 2007	As at 31 December 2006
	Lm	Lm
Cash and liquid investments		
Cash and cash equivalents	**3,296,365**	2,823,436
Investments held-to-maturity (Note 9)	**192,400**	192,400
Total cash and liquid investments	**3,488,765**	3,015,836
Funds		
Funds designated for specific purposes:		
Academic (Note 16a)	**1,110,930**	1,171,081
Operational resources (Note 16b)	**524,899**	936,111
Other (Note 16c)	**1,730,206**	1,603,314
Specific endowment funds (Note 20)	**124,741**	124,741
Total funds	**3,490,776**	3,835,247
Shortfall	**(2,011)**	(819,411)

24. Cash and cash equivalents - continued

In its capacity as leader and administrator in the Navigation Du Savoir – Euromed Heritage II Programme, the University of Malta holds certain bank balances of the same Programme in a fiduciary capacity. As at the balance sheet date, the University of Malta held bank balances amounting to Lm151,701, which are included in these financial statements.

25. Commitments

At 30 September 2007 and 31 December 2006 the Group and the University had commitments not provided for in these financial statements as follows:

	Group		University	
	As at 30 September 2007 Lm	As at 31 December 2006 Lm	**As at 30 September 2007 Lm**	As at 31 December 2006 Lm
Capital commitments authorised but not contracted for	**69,108**	-	**69,108**	-
Capital commitments authorised and contracted	**1,042,187**	236,120	**1,042,187**	236,120
Commitments under non-cancellable operating leases	**456,250**	531,250	-	-
	1,567,545	767,370	**1,111,295**	236,120

Future minimum lease payments due by the Group under non-cancellable operating leases are as follows:

	Group	
	As at 30 September 2007 Lm	As at 31 December 2006 Lm
Falling due within one year	**75,000**	75,000
Falling due between 2 and 5 years	**300,000**	300,000
Falling due after more than 5 years	**81,250**	156,250
	456,250	531,250

26. Contingent liabilities

As at the year-end, the University had pending claims filed by third parties in the ordinary course of activities. The University is defending these claims and at this stage it is premature to determine the financial impact, if any, on the financial position of University. During 2007, decisions have been taken against the University in relation to cases instituted in previous years. The financial impact of these decisions is approximately Lm20,000. These decisions are being strongly contested by the University.

26. Contingent liabilities - continued

At 30 September 2007, the Group had contingent liabilities amounting to Lm1,270 (2006: Lm5,142) in respect of guarantees issued by the bank on its behalf in favour of third parties in the ordinary course of business.

27. Related party transactions

The Council considers the University companies disclosed in Note 10 to be related parties. The following transactions were carried out by the University with related parties:

	University	
	As at 30 September 2007 Lm	As at 31 December 2006 Lm
Income		
Dividend receivable	-	18,000
Other income	**105,072**	129,304
Expenses		
University radio running costs	**51,000**	68,000
Other expenses	**106,477**	30,193

In 2006, key management personnel compensation, consisting of directors' remuneration within the subsidiaries was disclosed in Note 7.

Year end balances with related parties are disclosed separately in Notes 12, 14 and 18.

28. Joint Venture

On 16 December 1993, the University and Malta University Services Limited entered into a joint venture agreement with the Director of Works, Ministry of Public Works and Construction to set up a Project Management Office to provide services and management techniques of the highest professional level and standard in architectural and engineering projects in Malta and to provide opportunities for the training and on the job experience for both students and academic staff of the University of Malta.

On 31 May 2007, the parties agreed to terminate the joint venture agreement. Upon termination, the remaining surplus of Lm207,324 was apportioned between the parties to the extent of one-third each. Following termination, the University of Malta and Malta University Services Limited are to receive Lm69,108 each of the surplus of the Project Management Office JV.

Detailed accounts

Detailed analysis of other operating expenses

	University Period from 1 January to 30 September 2007 Lm	Year ended 31 December 2006 Lm
Equipment and furniture	**200,014**	535,036
Repairs and maintenance	**148,875**	244,081
Sub-contracted services		
- academic	**73,210**	27,701
- other	**253,508**	317,739
Office supplies and stationery	**130,193**	236,784
Allocation to work resources funds	**450,000**	600,000
Allocation to research projects funds	**113,685**	136,061
Laboratory supplies	**21,665**	46,708
Library books and periodicals	**362,079**	661,799
Scholarships	**93,780**	172,896
University radio and Foundation for International Studies running costs	**134,000**	152,141
Communications	**121,581**	134,287
Water and electricity	**228,363**	384,619
Travelling and accommodation	**148,895**	214,492
Other expenditure	**386,453**	490,397
Total other operating expenses	**2,866,301**	4,354,741

Statistics

	2007	2006
Students		
Full-time		
Undergraduates	**6,272**	6,180
Postgraduates	**766**	661
Part-time		
Undergraduates	**1,028**	1,070
Postgraduates	**1,126**	1,229
Overseas		
Undergraduates	**384**	435
Postgraduates	**134**	165
	9,710	9,740

Certificates/Diplomas awarded and Degrees conferred

Certificates	**83**	39
Diplomas	**343**	487
First Degrees	**1,570**	1,704
Masters	**645**	352
Post Graduate Diploma	**128**	168
Ph.D.	**10**	9
Pre-Tertiary Certificates	**30**	13
M. Phil	**2**	1
	2,811	2,773

Staff

Academic	**640**	590
Non-academic	**631**	526
	1,271	1,116