



**AINSWORTH**  
GAME TECHNOLOGY



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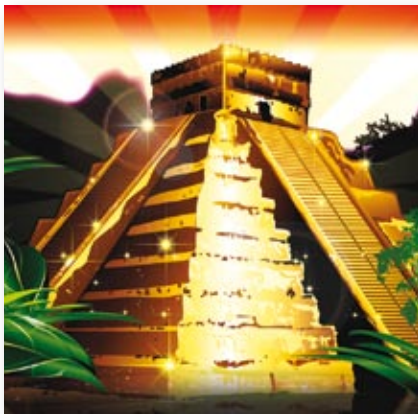
Ainsworth Game Technology  
Annual Report 2008



Ainsworth Game Technology's continued product strategy launched in 2007 and the introduction of the Ambassador SL model has culminated into a formidable global product range, tailored to delivering unique, innovative and entertaining games producing sustainable high levels of performance.

Brand development and the establishment of game families remains the key focus, building intellectual property in hardware platforms and games, portable across multiple jurisdictions.

Ainsworth Game Technology's Gameplus™ product range has been approved in multiple jurisdictions assisting in positioning the Company in the design, development and sale of gaming technologies globally.



Gameplus™ product range has been further expanded producing benchmark performance across multiple product categories headlined by "\$"Mystery Progressives, Play 40 Lines™, Play 50 Lines™, Double Shot™ standalone progressives and MutliPlay™ products.

These quality product ranges further reinforce Ainsworth Game Technology core aspirational values of - quality, innovation and excellence.

Welcome to Ainsworth Game Technology.

## Key Dates

Annual General Meeting:  
Wednesday 26th November 2008

Results announcement for six months  
ending 31st December 2008:  
18th February 2009

Results announcement for  
year ending 30th June 2009:  
27th August 2009

Dates may be subject to change.



## Notice of Annual General Meeting

**Ainsworth Game Technology Limited**  
**ABN 37 068 516 665**

Notice is hereby given that the 2008 Annual General Meeting of the members of Ainsworth Game Technology Limited will be held at:

Bankstown Sports Club  
"Georges River Room"  
8 Greenfield Parade (Cnr Greenfield Parade and Mona Street)  
BANKSTOWN NSW 2200

on Wednesday 26th November 2008  
at 10.00am.



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Australasian Gaming Expo, Sydney 2008





“The revised product strategy is continuing to provide improved product performance and has further enhanced the Company’s range of products. The expanded game brands available are proving successful and providing both increased operator returns and player acceptance.”

Dear Shareholder,

I am pleased to advise that following previously announced restructuring undertaken the Company is making good progress towards its primary objective, namely to establish profitable trading from its business activities over the short to medium term.

The revised product strategy is continuing to provide improved product performance and has further enhanced the Company’s range of products. The expanded game brands available are proving successful and providing both increased operator returns and player acceptance.

Ongoing investment in research and development for the next stage of the Company’s product release program is expected to further enhance market acceptance when these new products are released.

As outlined in the enclosed 2008 Annual Financial Report, I have provided the necessary funding of \$4.1 million, in addition to existing facilities, to enable the Company to expand its Newington premises. All operations are now consolidated at this facility, resulting in greater efficiencies and significant cost reductions. The full benefit of this consolidation will provide financial gains in future years.

Progress is being made in all areas of the Company’s operations, however the current international financial crisis may have an effect on the Company’s business that is difficult to predict. Historically, the gaming industry has been less affected than most other sectors during difficult economic periods.

Through selective recruitment, training and development and internal promotions, we have now established a talented team of gaming personnel combining youth, as well as seasoned gaming industry knowledge and experience. This will ensure continued achievement of the Company’s objectives over years to come. The team has been very ably led by the Chief Executive Officer, Mr Danny Gladstone, who has the full confidence and support of the Board.

I continue to be fully supportive of the Company despite the disappointing financial results achieved thus far. This is based on my belief that the difficulties being faced by the industry worldwide is an opportunity for “Ainsworth” in the global gaming market resulting from the strategies employed. My support has included the provision of additional financial facilities to the Company and the underwriting and taking up my full entitlement in the rights issue completed in December 2007. This has assisted the Company to strengthen its capital structure and provided the necessary funding to continue investment in research and development and licensing strategies.

I wish to thank all shareholders, fellow directors, executive management and staff for their continued support to the Company and for the efforts to bring about the expected turnaround.

A handwritten signature in black ink, appearing to read 'L. Ainsworth', written over a light blue horizontal line.

**Len Ainsworth**  
Executive Chairman



## CHIEF EXECUTIVE OFFICER'S REPORT



“The initiatives implemented include a strengthened management team, restructuring and rationalisation, and a revamped product development program – have started to take effect and “Ainsworth” is now in a stronger position to complete its financial turnaround.”

Dear Shareholder,

Over the past year our major focus and commitment has been on improving profitability, increasing sales and positioning Ainsworth for future growth. The results have been most gratifying and the Company has a positive outlook for the future, despite the tough financial times internationally.

While the Company reported an operating loss for the 2008 financial year of \$19.4 million, the result was a major improvement on the \$49.5 million loss in the previous year.

The second half of the 2008 result, included \$5.4 million of foreign exchange losses and one off impairment charges and provisions. Overall, excluding the impact of these one off items, the second half achieved a 69% improvement in trading performance, as compared to the first half of the 2008 financial year.

The turnaround achieved to date is encouraging and we are confident that the execution thus far of the strategies identified when I joined Ainsworth some 20 months ago, will continue to show positive results in the years ahead.

The 2008 year did present the Company with many challenges. However with the support of the company's loyal and dedicated employees, the key issues previously identified as part of the Company's Business Plan have either been finalised or are well on track to completion.

The initiatives implemented include a strengthened management team, restructuring and rationalisation, and a revamped product development program – have started to take effect and “Ainsworth” is now in a stronger position to complete its financial turnaround.

I am pleased to report that sales revenue increased by 60% for the 2008 year. This was achieved largely as the result of improved access in the key markets of the Americas, Europe and Asia. The difficulties faced by the worldwide gaming industry present an opportunity for the Company going forward, as we are well positioned in a number of important international markets.

The Company continues to expand its operations within the key North American market through the recruitment of experienced gaming executives and the continued establishment of an appropriate infrastructure to capitalise on the significant opportunities available. The 2008 financial year commenced to realise the benefits of this investment with sales revenue of \$7.3 million, of which \$7.0 million was achieved in the second six months of the year. This compares to sales revenue of \$0.2 million in the 2007 financial year.

In other international territories, all relevant product approvals have been received and initial deliveries have occurred to the Company's distributors in Asia, New Zealand and selected European markets. Within Asia a long term agreement with the Company's Asian partner, RGB Sdn Bhd, will provide increased certainty of revenue within this territory in the short to medium term.

The Company faces ongoing challenges in the domestic market, especially in New South Wales where the difficult legislative and regulatory environment, including smoking regulation and growing taxes, continues to have an impact. Revenue achieved in Queensland and Victoria, following receipt of approvals in May and June of the 2008 year assisted in offsetting the shortfalls experienced within NSW. Following positive product acceptance at the Australasian Gaming Expo held in August 2008 and shipments to date, initial signs of improving market conditions are evident.





Following the comprehensive review of all operations and the provision of additional funding by the Company's founder and Executive Chairman, the Company has relocated all operational activities to its Newington premises. This will reduce operational costs and continue to improve efficiency as the Company progresses its strategy to achieve the necessary licenses and product approvals in targeted global markets.

Consolidation of various departments, streamlining of manufacturing operations and utilisation of selective distributor sales channels in markets with unique legislative and product requirements, have resulted in increased efficiencies and a reduction in operating costs of 23%, compared with the corresponding period in 2007.

The management and reduction in working capital requirements through reduced inventory levels and the limiting of extended credit terms offered to international customers continues to be a priority for the Company. This, combined with current funding available, will ensure the Company generates the necessary cash from its operations to achieve its objectives in the short to medium term.

Previous legal action by the Company has now been successfully resolved, reducing further costs and allowing more attention to aspects of the Company's operations which will provide the greatest financial benefits.

The Company continues to improve its performance across a number of key operational areas including research and development, human resources, and compliance and licensing.

Continued investment in research and development and intellectual property will ensure advanced technological innovations are available to all existing and emerging markets. The Company's staff performance management system and retention programs will be further refined to ensure appropriate recognition and rewards for our employees. Regulators have found the Company has embraced a culture of compliance.

In accordance with best practice in management and our obligations to shareholders, we have been taking steps to ensure the continuity of all business operations in the future and this includes succession planning, which is on-going.

Having said that I'm pleased to report that our Executive Chairman, Mr Len Ainsworth, remains in robust good health and we look forward to him continuing to provide invaluable support, expertise and assistance to the company for many years to come.

With the groundwork now established for a turnaround in trading performance and profitability, we are confident the outlook for the Company is positive. I would like to thank the Chairman and Directors, the management team and all staff members for their continued commitment to the Company.

Handwritten signature of Danny Gladstone.

**Danny Gladstone**  
Chief Executive Officer



## OPERATIONAL REVIEW



### Sales

Sales revenue for the 2008 year was \$49.6 million compared to \$31.0 million in the previous corresponding period in 2007, an increase of 60%.

The principal factors which contributed to the increase in revenue were the improved penetration within the key international markets of the Americas, Europe and Asia which represented 68% of total revenue achieved, an increase of \$19.4 million or 134% on the previous period in 2007.

The market conditions within Australia continued to present challenges and resulted in domestic revenue of \$14.9 million during the 2008 year compared to \$18.3 million for the corresponding period in 2007. The recent legislative and regulatory environment within New South Wales, specifically in relation to smoking regulation and growing taxes, had a limiting affect within this market. Achievement of the necessary product approvals within the Queensland and Victorian markets assisted in offsetting the slow down experienced within New South Wales.

Further diversification into selected new international markets will assist in ensuring revenue growth can be sustained.

During 2008 revenue of \$6.4 million was achieved within Asia, representing a 234% increase over the corresponding period in 2007. The Company has agreed a long term manufacturing, supply and distribution agreement with its Asian partners RGB Sdn Bhd which will provide increased certainty of revenue in future periods within this territory.

Increased investment within the Americas resulted in revenue of \$22.9 million being achieved, an increase of 118% on the previous year. The Company's growth prospects within the key North American market are highly dependant on securing the necessary gaming licenses and product approvals in the jurisdictions concerned. Already the Company is licensed in 14 states and 53 tribes, with several new jurisdictional licenses expected in the coming year.

The further expansion of the global product strategy and the display of regulatory approved product at the Australasian Gaming Expo (AGE) held in August 2008, and the forthcoming G2E in Las Vegas in November, will continue to provide revenue opportunities within all domestic and international markets.

### Service

The Company has increased its direct service footprint and continues to reduce operational expenditure in line with market conditions within New South Wales. The service division has over 7,000 machines currently under venue maintenance agreements with further initiatives underway to expand market share and provide continued value added service to our customers.

Technical expertise and support offered to the market has increased substantially during the year. The provision of service maintenance has strengthened the Company's relationships with customers and provides direct feedback regarding technical performance to all operational areas, ensuring increased product reliability.





“The Company has achieved high yielding game performance across multiple jurisdictions and over a number of product categories, the consistent standout performer being “\$” Mystery Progressives.”

## Product Development

Significant milestones were achieved in 2008 with the further expansion of the Gameplus™ product range and the consolidation of game development programs on the Ambassador SL™ platform. With over 700 game approvals realised worldwide, the Product Development group has not only engendered efficiency but has supported the key corporate objective of expanding product range through first class game innovation and product presentation.

Investment in intellectual property has continued with the acquisition of licensed technologies and further patent and trademark applications. The Company has achieved high yielding game performance across multiple jurisdictions and over a number of product categories, the consistent standout performer being “\$” Mystery Progressives.

Emphasis on investment in innovation and technology advancement resulted in the introduction of four new Gameplus™ brands. The recent product releases, including Double Shot™ standalone progressives, Double Action™, Play 40 line and Play 50 line games, are performing well above the industry benchmark.

Through 2009, the game development strategy will continue to centre on the consolidation and leveraging off existing Gameplus™ brands and game styles. In addition, the range of games capable of being channeled to multiple jurisdictions are readily incorporated into enhancements in progress.

## Research and Development (R&D) / Engineering

To further enhance the Company’s technical responsiveness and its ability to service customers on a global basis, the R&D, Engineering and Product Management departments have been consolidated under a newly formed Technical Services group. This combined department allows the Company to efficiently deploy its technical resources to meet global customer and market requirements.

The Technical Services group has further streamlined the development and submission of hardware and software products and is based on geographical regions with cross functional support activities. This has enabled the Company to focus on continued improvement in product and approval cycles, resulting in reduced approval costs and assisting with the timely release of product to targeted markets.

Over the last twelve months these departments have gained approval for and released the Company’s latest gaming platform (Ambassador SL) into all major Australian, New Zealand and international markets (including North and South America, Asia and Europe) with ongoing submissions projected for the 2009 year.

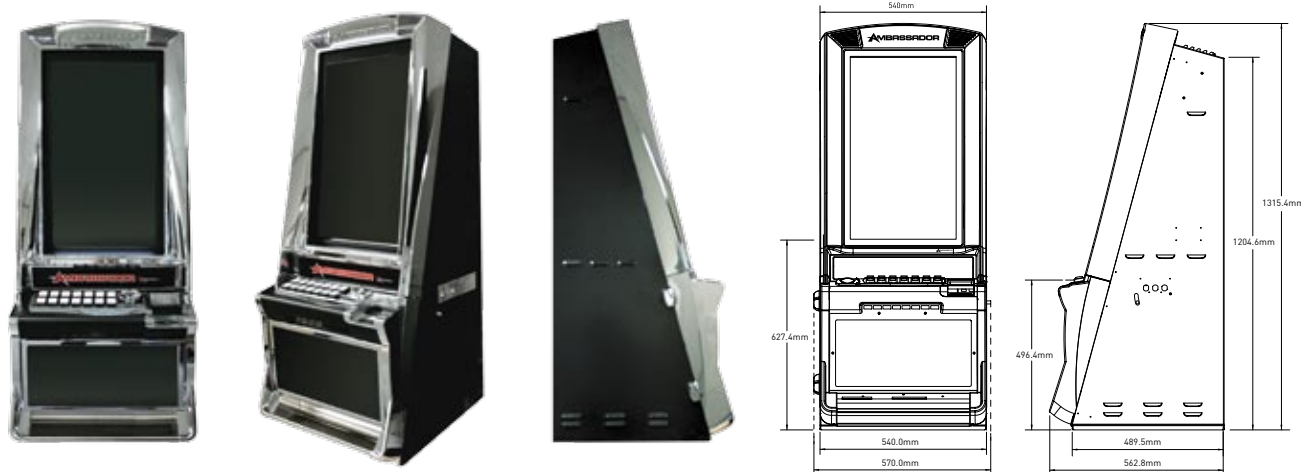
The recruitment of additional experienced industry personnel is facilitating future developments in line with the Company’s planned product releases. The R&D department continues to invest in the development of the Company’s intellectual property which incorporates advanced technological innovations available to the Company. This will ensure the continued development of modular, cost effective, energy efficient, high performance platforms, which will be available to all existing and emerging markets.

## Compliance and Licensing

Over the past year the Company continued to develop its compliance program based on the Australian Standard, AS 3806. Under the Company’s regulatory framework, compliance issues of concern are identified, reported and analysed to determine the root cause and ensure necessary resolution.







Changes within the compliance division included the appointment of an internal auditor, the development and implementation of an internal audit program and the incorporation of the technical compliance function. These changes reinforced the independence of key functions within the business, namely compliance, internal audit, quality and the testing and evaluation of the Company's products.

The Company's quality management system is already fully accredited and complies with the AS/NZ ISO 9001:2000 standard. The Company continues to demonstrate its commitment to continuous improvement by successfully maintaining its quality accreditation through regular independent surveillance audits of its quality management system during the year. The recent appointment of a quality co-ordinator with over 10 years experience in quality assurance will ensure that the Company continues to effectively manage and improve its quality management system.

The North America market remains a key focus for the Company's compliance and licensing strategic plan. As at 30 June 2008, the Company is approved to conduct business in fourteen (14) states which includes approvals over the past year for Indiana, Iowa, New Mexico, North Dakota and Oklahoma. The Ainsworth Group has 53 tribal licences (compared to 26 at the same period last year) across California, Connecticut, Florida, Michigan, New Mexico, North Dakota, Oklahoma, Oregon and Wisconsin. Licence submissions for key provinces within Canada have been submitted and approvals are expected.

The Company's licensing strategy at present is to aggressively target further state and tribal applications in North America and in a number of Canadian provinces. The strategy undertaken initially targets jurisdictions where the necessary product approvals are either available or can be readily utilised. This will reduce delays in achieving revenue due to the approval cycle and ensure the timely penetration into key gaming jurisdictions, as well as building a presence in new territories.

## Manufacturing

The manufacturing operations of the Company have seen improved efficiencies in both material and labour utilisation resulting from the consolidation of product lines as part of the implemented sales strategy.

This included a review of the Company's manufacturing facilities which resulted in building developments to allow the relocation of all operations to the Newington facility. This will result in further efficiency gains being achieved. Enhancements to the Newington facility also provided increased material storage and product flow efficiencies with anticipated reduction in costs.

Completion of the enhancements to the Company's Enterprise Resource Planning (ERP) system will allow the material resource planning functions, in conjunction with improvements in supply chain management, further reducing inventory levels and lead times previously experienced.

The strengthening of quality control procedures within the manufacturing division, combined with operating efficiencies, resulting from ongoing review of production systems and procedures, are expected to reduce operational costs in future periods.

## Finance

As outlined in the Appendix 4E and Annual Financial Report improved trading performance was achieved over the year. The operating loss of \$19.4 million incurred in the financial year ended 30 June 2008 resulted from the previously undertaken review of all aspects of the Company's operations. As a result of this review, initiatives were introduced to ensure a turnaround in trading performance and profitability is achieved.





## Finance (continued)

Operating costs, excluding costs of sales and financing costs, resulted in a 23% reduction on the corresponding period in 2007. This reduction was a result of the review undertaken to ensure cost structures were commercially aligned with realistic revenue expectations whilst the Company progresses its objectives in global markets.

The cash outflow from operations was \$5.1 million compared to an outflow of \$2.8 million in the corresponding period in 2007. The rationalisation previously undertaken has ensured reductions in operational expenditure and current levels of working capital investment which have assisted in offsetting cash used in operations. Continued attention to reduce the extent of credit offered on international sales and the streamlining of supply chain management will further reduce the Company's working capital requirements in 2009.

The Company's capital structure was significantly strengthened as a result of the fully underwritten rights issue completed in December 2007. This issue raised \$27.3 million before issue costs, and resulted in a reduction of debt obligations of \$18.9 million and cash proceeds of \$8.4 million. This capitalisation provided funding to enable the Company to pursue its medium term objectives.

For further commentary on the results for the year refer to the "Operating and Financial Review" within the Directors' Report.

## Human Resources

The restructure previously undertaken, which consolidated the Human Resources department and related administration services within the Finance Division has resulted in significant cost economies and efficiencies being achieved.

During the year the performance management system was assessed and refined so as to provide a framework to manage and develop employees across all operations of the Company. The performance management process provides regular and formal assessment of an employees work performance against agreed Key Performance Indicators (KPI's) and where appropriate allows for access to any necessary training and development.

Significant challenges and opportunities within Human Resources over the ensuing year will focus on talent management encompassing the following:

- Continued recruitment of suitably qualified and experienced candidates;
- Access to training and development opportunities to benchmark the status of improvement;
- Performance management processes that measure individual performance against Company objectives, including the associated actioning of feedback obtained;
- Retention programs that connect critical employees' professional achievements with personal rewards and competitive salaries leading to a reduction in employee turnover; and
- Establishment of internship programs designed to create opportunities for graduates to gain valuable industry experience within the Company.

It is recognised that employees play a vital role in achieving the Company's goals. The Company ensures that its employment policies, procedures and practices are fair and equitable to all employees and at least comparable to the external market.

Ensuring a safe work place for all employees, contractors and visitors through compliance with Occupational Health and Safety (OH&S) legislation continues to be of great importance to the Company.



## INFORMATION ABOUT SHAREHOLDERS AND NOTEHOLDERS

Securityholder information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

### SECURITY HOLDINGS (as at 18 September 2008)

#### Number of securityholders and securities on issue

The issued shares in the Company were 278,942,304 ordinary shares held by 3,620 shareholders.

The issued convertible notes in the Company were 19,714,717 held by 797 noteholders.

#### Substantial shareholders / noteholders

The number of shares and convertible notes held by substantial securityholders and their associates are set out below:

Shareholder / Noteholder	Number of convertible notes	Number of ordinary shares
Mr LH Ainsworth	10,325,382	165,690,998*
Invia Custodian Pty Limited (Votrant-Braesyde Super Fund A/C)	1,840,856	37,048,975

\* Mr LH Ainsworth granted share options over a portion of his personal shareholding to all Australian employees, excluding directors and four key management personnel. Share options outstanding as at 18 September 2008 were 8,250,385 (issued to 142 employees) and remain unexercised.

#### Voting rights

##### Ordinary shares

The voting rights attaching to ordinary shares are that on a show of hands every member present in person or by proxy has one vote and upon a poll, each share shall have one vote.

##### Convertible notes

The convertible notes do not give their holders any voting rights at shareholders' meetings.

##### Options

Option holders have no voting rights.

#### Distribution of securityholders

Category	NUMBER OF CONVERTIBLE NOTE AND EQUITY SECURITYHOLDERS		
	Convertible Notes	Ordinary Shares	Options
1 - 1,000	339	320	-
1,001 - 5,000	281	1,704	-
5,001 - 10,000	72	710	4
10,001 - 100,000	89	795	14
100,001 and over	16	91	4
<b>Total</b>	<b>797</b>	<b>3,620</b>	<b>22</b>

The number of securityholders holding less than a marketable parcel of ordinary shares and convertible notes respectively is 2,095 (5,741,017 ordinary shares) and 229 (86,487 convertible notes).

#### On market buy-back

There is no current on market buy-back.

#### Unquoted equity securities

At 18 September 2008, 1,350,180 unlisted non-transferable options have been issued to 22 option holders and remain unexercised.

#### Regulatory Considerations Affecting Shareholders

The Company is subject to a strict regulatory regime in regard to the gaming licences and operations within the gaming industry. It is necessary for the Company to regulate the holding of shares to protect the businesses of the Company in respect of which a gaming licence is held. By accepting shares, each potential investor acknowledges that having regard to the gaming laws, in order for the Company to maintain a gaming licence, the Company must ensure that certain persons do not become or remain a member of the Company. The Constitution of the Company contains provisions that may require shareholders to provide certain information to the Company and the Company has powers to require divestiture of shares, suspend voting rights and suspend payments of certain amounts to shareholders.



# INFORMATION ABOUT SHAREHOLDERS AND NOTEHOLDERS

(continued)

## SECURITY HOLDINGS (as at 18 September 2008) (continued)

### Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of total
Mr LH Ainsworth	158,798,140	56.93
Invia Custodian Pty Limited (Votrait-Braesyde Super Fund A/C)	37,048,975	13.28
Creative Magic (A/Asia) Pty Ltd	6,892,858	2.47
HSBC Custody Nominees (Australia) Limited	4,415,000	1.58
Serioso Pty Limited (GGHA Trading Account)	3,841,984	1.38
Writeman Pty Limited (PLA Investment Fund A/C)	3,841,984	1.38
Niako Investments Pty Ltd	3,725,440	1.34
Balagiannis Family Company Pty Ltd (Olympic Amusements Super Fund A/C)	2,433,204	0.87
Mr Maiocchi	1,175,949	0.42
New Age Amusements (Aust) Pty Ltd (Olympic Video Gaming Super Fund A/C)	1,032,500	0.37
Coastwide Poker Machine Sales & Services Pty Ltd (R&V Turner Superfund A/C)	1,022,144	0.37
JP Morgan Nominees Australia Ltd	1,010,721	0.36
ANZ nominees Limited (Cash Income A/C)	681,828	0.24
Hotel Bondi Pty Ltd (Bondi Unit A/C)	660,000	0.24
Anvil Properties Pty Ltd	601,100	0.22
Mr & Mrs Piliouras (Energia Super Fund A/C)	600,000	0.22
Andromeda Entertainment Pty Ltd	560,000	0.20
HFT Nominees Pty Ltd (HFT Super Fund A/C)	550,000	0.20
Ms Wai-Chun Chan	500,000	0.18
The Premier Group Pty Ltd (Neway Executive S/Fund A/C)	500,000	0.18
<b>Total</b>	<b>229,891,827</b>	<b>82.43</b>

### Twenty largest noteholders

Name	Number of convertible notes held	Percentage of total
Baclupas Pty Ltd (Valhalla A/C)	8,000,000	40.58
Creative Magic (A/Asia) Pty Ltd	2,252,382	11.42
Invia Custodian Pty Limited (Votrait-Braesyde Super Fund A/C)	1,840,856	9.34
Citadel Investments Ltd (BVI)	800,287	4.06
Anvil Properties Pty Ltd	622,774	3.16
ANZ Nominees Limited (Cash Income A/C)	407,572	2.07
Ms Rae Lowes	354,254	1.80
HSBC Custody Nominees (Australia) Limited	310,000	1.57
CJHA Pty Ltd (CJHA Family A/C)	281,797	1.43
Casola Holdings Pty Ltd (Nordiv Holdings Pty Ltd S/F A/C)	179,000	0.91
Kim Arculli	153,846	0.78
Boardwalk Pty Ltd	151,132	0.77
Tie Fabrications Pty Ltd (Tie Fabrications S/F A/C)	119,430	0.61
UBS Wealth Management Australia Nominees Pty Ltd	110,460	0.56
Mr Ross Yates (Jarsey Super Fund A/C)	110,000	0.56
JP Morgan Nominees Australia Limited	100,000	0.51
Mrs & Mr Murone - (Murone Family Super Fund A/C)	100,000	0.51
Mr Gordon (Gordon Superannuation A/C)	81,000	0.41
Mr Fite	80,000	0.41
Mr & Mrs Thorne (The Thorne Family Super A/C)	74,755	0.38
<b>Total</b>	<b>16,129,545</b>	<b>81.84</b>



# CORPORATE GOVERNANCE STATEMENT

Set out below are the Company's main corporate governance principles and practices which comply with the Australian Securities Exchange (ASX) Corporate Governance Council recommendations, unless otherwise stated.

## Principle 1

### Lay solid foundations for management and oversight

#### Board of Directors

##### Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfill this role, the Board is responsible for the overall corporate governance of the Company, including guiding its strategic direction, approving and monitoring capital expenditure, monitoring financial performance, setting remuneration and reviewing the performance of the Chief Executive Officer. The Board is responsible for ensuring appointments, removals and succession plans for directors and where necessary, seeking shareholder approval. In addition, the Board is responsible for appointing, removing and creating succession policies for the Chief Executive Officer and senior executives. The Board establishes and monitors the achievement of management's goals, ensuring the integrity of internal control and management information systems and approves and monitors financial and other business related reporting.

In his role as Executive Chairman, Mr LH Ainsworth provides input into technical design, strategic guidance and overview of the Company with the responsibility for management of the day to day operations delegated to the Chief Executive Officer. Responsibilities are delineated by formal authority delegations.

##### Board Processes

To assist in the execution of its responsibilities, the Board has established three Board Committees namely the Audit Committee, Remuneration and Nomination Committee, and the Regulatory and Compliance Committee. These Committees have formal charters, which are regularly reviewed and approved by the Board. The Board has also established a framework for the management of the Company including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The Board currently holds monthly scheduled meetings throughout the year and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for the Board meetings is prepared in conjunction with the Chairperson, Chief Executive Officer and the Chief Financial Officer / Company Secretary. Standing items include declaration of interests or conflicts, the Chief Executive Officer's report, financial reports and any issues relating to strategic matters, governance and compliance requirements of the Company. Board papers and submissions are circulated in advance. Executives are regularly involved in Board discussions and directors have the opportunity for contact with a wider group of employees and other stakeholders.

During the year under review, the Board met ten times and the Board members' attendance record is disclosed in the table of directors' meetings on page 20 of this Report.

## Principle 2

### Structure the Board to add value

#### Composition of the Board

The names and details of the directors of the Company in office at the date of signing the Financial Report are set out on page 19 of this Report.

The composition of the Board is evaluated and reviewed to ensure it provides a broad range of skills, personal qualities, expertise, ability to exercise independent judgment and diversity required to discharge its responsibilities. Provision of such skills and experience is aimed to assist the Company to achieve its objectives and continual development. The Remuneration and Nomination Committee assists the Board in selecting and evaluating suitably qualified directors to ensure that its composition best complements and contributes to the effectiveness of the Board.

An objective of the Company is to ensure that the majority of the Board should comprise independent, non-executive directors with no other significant business or other links to the Company. An independent director is a director who is not a member of the management (i.e. a non-executive director) team and who:

- holds less than five percent of the voting shares of the Company and is not an officer of the Company, or otherwise associated, directly or indirectly, with a shareholder of more than five percent of the voting shares of the Company;
- has not within the last three years been employed in an executive capacity by the Company or another group member, or has been a director after ceasing to hold any such employment;
- within the last three years has not been a principal or employee of a material\* professional adviser or a material\* consultant to the Company or another group member;
- is not a material\* supplier or customer of the Company or another group member, or an officer of the company or otherwise associated, directly or indirectly, with a material\* supplier or customer;
- has no material\* contractual relationship with the Company or another group member other than as a director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

\* the Board considers, "material", in this context to be where any director-related business relationship has represented, or is likely in future to represent the lesser of at least 10% of the relevant segment's or the director-related business's revenue. The Board has considered the nature of the relevant industries' competition and the size and nature of each director-related business relationship, in arriving at this threshold.



**Principle 2****Structure the Board to add value**

(continued)

The majority of the Board comprises independent non executive directors with the roles of the Chairperson and Chief Executive Officer not being exercised by the same individual. The Executive Chairman is a substantial shareholder and therefore is not considered to be independent. The Board intends to consider the succession of the Chairperson at such time as improved trading performance of the Company is achieved. Mr SL Wallis has been appointed as the lead independent director to ensure that any conflicts which may arise are dealt with in line with ASX Best Practice Recommendations.

**Sub-Committees of the Board****1. Audit committee**

Details regarding the composition of the Committee, its role and responsibilities are provided under Principle 4 of this statement.

**2. Remuneration and Nomination Committee**

Details regarding the composition of the Committee and its role and responsibilities are provided under Principle 9 of this statement.

**3. Regulatory and Compliance Committee**

The members of the Regulatory and Compliance Committee during the year were:

**Mr SL Wallis AO (Chairman)**

Independent Non-Executive Director  
(appointed Chairman on 20 November 2007);

**Mr GJ Campbell**

Independent Non-Executive Director  
(appointed on 20 November 2007);

**Mr SM Cohn**

Independent Member;

**Mr DE Gladstone**

Chief Executive Officer; and

**Mr AR Amer**

Independent Non-Executive Director  
(Chairman until retirement on 20 November 2007)

The Company's Chief Executive Officer, Mr Danny Gladstone, was appointed a member elect of the Regulatory and Compliance Committee on 5 February 2007 subject to obtaining the necessary regulatory approval. This approval was received on 21 May 2008 resulting in Mr Gladstone becoming a full member of the Committee from that date.

Due to the highly regulated nature of the gaming industry within which the Company operates, the securing of new gaming licences and protection of current licences is an ongoing process which is of great importance to the Company. The Regulatory and Compliance Committee charter, which has been approved by the Board, outlines responsibilities to monitor, review, advise and assist the Board to ensure all compliance related matters and procedures have been established and operating effectively. The charter is available on the website of the Company.

The Regulatory and Compliance Committee monitors probity related matters, technical compliance issues and compliance conduct and issues, systems and procedural requirements to

ensure that the Company attains a high standard of compliance with all of its gaming regulatory and licence obligations. In addition, the Regulatory and Compliance Committee advises and makes recommendations to the Board regarding regulatory compliance matters, including the suitability of key employees and other persons or entities with whom the Company has or intends to have an association or affiliation, in line with gaming regulations.

The Compliance Manager and the Technical Compliance Manager are invited to the Regulatory and Compliance Committee meetings to present and discuss their reports and recommendations. The Regulatory and Compliance Committee met five times during the year and the directors' attendance record is disclosed in the table of directors' meetings on page 20 of this Report. Due to the importance of the regulatory environment within which the Company operates, and to ensure the commitment by the Board within this important area, the Committee is scheduled to meet at least four times each financial year and as required to address any specific issues that may arise.

The main responsibilities of the Regulatory and Compliance Committee are to:

- regularly review the application of compliance to ensure that the Company meets all requirements outlined in its Compliance Policy;
- deal with and investigate any breaches, complaints and derogatory information of which it becomes aware;
- provide assistance and advice to the Board on matters pertaining to the Company's continuing suitability to obtain and maintain gaming licences; and
- review operational policies and recommendations relating to compliance issues.

The Regulatory and Compliance Committee may seek independent professional advice, at the Company's expense, in carrying out these duties, subject to informing the Board. The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and is provided with the right to direct access to any person within the Company.

**Principle 3****Promote ethical and responsible decision-making****Ethical Standards**

All directors, managers and employees are expected to act with complete integrity and objectivity in all their activities related to the Company, striving at all times to enhance the reputation and performance of the Company. Every employee has a nominated supervisor to whom they may refer any issues or complaints arising from their employment. To further promote a culture within the Company where ethical standards are maintained in accordance with Company policy, the Company has established a "Whistleblower" Policy which ensures protection of individuals reporting any incidents of misconduct or unethical behaviour.

**Conflict of Interest**

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has developed procedures to ensure that directors disclose any potential conflicts of interest.

Where the Board believes that a significant conflict exists for a director on a Board matter, the director concerned does not participate in any discussion and voting on the applicable



matter and, if considered appropriate, the director is requested not to be present whilst the matter is considered. Details of director related transactions with the Company are set out in Note 34 in the financial statements.

#### Code of Conduct

The Company has established a Code of Conduct that embraces high standards of personal and corporate conduct. Each director, manager and employee has been advised that they must comply with this Code. The full Code may be viewed on the Company's website and it requires all directors and officers to:

- conduct all dealings with internal and external stakeholders in a truthful, honest and trustworthy manner;
- value and maintain professionalism;
- treat all persons with whom they interact, with respect and dignity;
- respect the rights of individuals;
- act towards others without discrimination;
- comply with the Company's internal policies and procedures;
- report unethical behaviour or wrongdoing;
- use authority in a fair and unbiased way;
- comply with all applicable laws, regulations and licensing conditions; and
- not knowingly make a misleading statement.

A copy of the Code of Conduct is made available to all staff. The Code is reviewed regularly by the Board and processes are in place to communicate any amendments to the Code to all staff. New employees are issued with an employee handbook containing the Code of Conduct and prior to commencing their respective employment, they are required to certify that they have read and understood the requirements contained within it. The Company has established procedures to monitor compliance with the Code of Conduct.

#### Trading in Company Securities by Directors and Employees

The Company has in place a policy which outlines the rules that directors, senior executives and all employees must follow when dealing in the Company's securities. The policy also details the insider trading provision of the *Corporations Act 2001* and is available on the website of the Company.

The key elements of the Company's policy regarding trading in company securities by directors and employees are:

- that directors, senior executives and employees may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options:
  - whilst in possession of information, which if disclosed publicly, would be likely to materially affect the market price or value of those securities; and
  - at any time outside a Window Period\*, unless there are exceptional circumstances and in accordance with the procedure as laid down in the policy;
- to raise the awareness of legal prohibitions on trading, including transactions involving associates, colleagues and external advisers;
- to require details to be provided of any intended trading in the Company's shares as well as subsequent confirmation of the trade; and
- to identify the process for unusual circumstances where discretions may be exercised in cases such as financial hardship.

\* Window Period means the period:

- (a) thirty days after the release of the Company's half- yearly and preliminary final results and dividend announcement;
- (b) thirty days after the AGM; and
- (c) during the offer or application period specified in a prospectus or supplementary prospectus issued for a new share issue.

The policy stipulates a number of notification and approval procedures that must be carried out before any director or employee can deal in securities of the Company. The Company has in place internal mechanisms to review compliance with the policy. There were no breaches of the policy identified during the year and as a result of this review.

#### Principle 4

### Safeguard integrity in financial reporting

#### Audit Committee

The members of the Audit Committee during the year were:

##### Mr GJ Campbell (Chairman)

Independent Non-Executive Director  
(Appointed Chairman on 18 September 2007);

##### Mr SL Wallis AO

Independent Non-Executive Director; and

##### Mr AR Amer

Independent Non-Executive Director (retired as Chairman on 18 September 2007; retired as member on 20 November 2007)

The ASX Best Practice Principles and Recommendations state that the Audit Committee should comprise at least three members. Mr Graeme Campbell, who was appointed a director of the Company, accepted the role as Chairman of the Audit Committee effective 18 September 2007, with Mr Amer becoming a member of this Committee. During the year and currently the Audit Committee comprised of only two members. Due to the size of the Board, the Audit Committee will comprise of only two members until such time as an additional independent non-executive director is appointed.

The Audit Committee has a documented charter, which is regularly reviewed and approved by the Board. All members are currently independent non-executive directors. The Chairman of the Committee is not the Chairman of the Board. The Committee advises on the establishment and maintenance of a framework of internal financial control for the management of the Company.

The external auditors, the Chief Executive Officer and Chief Financial Officer / Company Secretary, are invited to attend Audit Committee meetings at the discretion of the Committee. The Committee met four times during the year and Committee members' attendance record is disclosed in the table of directors' meetings on page 20 of this Report. The external auditor met with the Audit Committee and the Board during the year, without management being present.

The Chief Executive Officer and the Chief Financial Officer / Company Secretary declared in writing to the Board that the Company's financial reports for the year ended 30 June 2008 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required for the full year and half year reporting periods.



**Principle 4****Safeguard integrity in financial reporting** (continued)

The main responsibilities of the Audit Committee are to:

- assist the Board to discharge its fiduciary responsibilities with regard to the Company's accounting, control and reporting practices by monitoring the risk and internal control environment and management over corporate assets;
- review internal controls and any changes thereto approved and submitted by the Company's Chief Financial Officer / Company Secretary;
- provide assurance regarding the quality and reliability of financial information used by the Board;
- oversee the activities of the internal audit function and external audit staff of the Company and to review the Company's risk management policies and internal control processes;
- review and recommend to the Board the adoption of the Company's half year and annual financial statements;
- liaise with and review the performance of the external auditor;
- consider whether non-audit services provided by the external auditor are consistent with maintaining the external auditors' independence ; and
- perform, at least annually, a performance evaluation to ensure delivery on its charter and continually enhance the Committee's contribution to the Board.

The Audit Committee reviews the performance of the external auditors on an annual basis and meets with them during the year to:

- discuss the external audit and internal audit plan;
- identify any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements;
- review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final reports and any significant adjustments required as a result of the auditor's findings prior to lodgment with the ASX;
- review the results and findings of the auditor and monitor the implementation of any recommendations made; and
- organize, review and report as required on any special reviews or investigations deemed necessary by the Board subject to the engagement not impairing audit independence.

The Audit Committee's charter is available on the Company's website. The Audit Committee also considers the selection and appointment of external auditors and the rotation of external audit engagement partners.

**Principle 5****Make timely and balanced disclosure**

The Company is listed on the ASX and is committed to ensuring that information which is expected to have a material effect of the price or value of its shares is notified to the ASX in a timely and balanced manner, with regard to the Corporations Act 2001 and ASX Listing Rules outlining continuous disclosure requirements for listed companies.

All senior executives must follow a process which involves monitoring all areas of the Company's internal and external environment to identify and communicate significant matters in a timely manner to the Chief Financial Officer / Company Secretary. The Chief Executive Officer and Chief Financial Officer / Company Secretary are responsible for determining, whether matters are required to be disclosed in accordance with the above continuous disclosure requirements and for informing the Board accordingly.

The Chief Financial Officer / Company Secretary is responsible for coordinating disclosure to the ASX and for ensuring that such information is not released to any person until the ASX has confirmed its release to the market. Such matters are advised to the ASX on the day they are identified as being material.

**Principle 6****Respect the rights of shareholders**

The Company is committed to keeping shareholders fully informed of significant developments and activities of the Company. This commitment is fulfilled as follows:

- all announcements made to the market and related information (including investor presentations, information provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX;
- the Annual Report (including relevant information about the operations of the Company during the year and changes in the state of affairs) is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document);
- the half yearly report contains summarized financial information and a review of the operations of the Company during the period. The half year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX and sent to any shareholder who requests it;
- the full texts of notices of meetings and associated explanatory material are placed on the Company's website;
- the Board encourages full participation of shareholders at the AGM, to ensure a high level of accountability and identification with the Company's strategy and goals;
- important issues are presented to shareholders as single resolutions;
- shareholders are requested to vote on the appointment and aggregate remuneration of directors as well as changes to the Constitution. The Constitution is available on the website of the Company and copies are also given to shareholders who request for the same; and
- the external auditor is requested to attend the AGM to answer any questions concerning the audit and the content of the Auditor's report.





**Principle 7****Recognise and manage risk****Oversight of the risk management system**

The Board oversees the establishment, implementation and annual review of the Company's risk management system. Management has established and implemented the risk management system for identifying, assessing, monitoring and managing operational, financial reporting, and compliance risks for the Company. The Chief Executive Officer and the Chief Financial Officer / Company Secretary have declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the Company and material associates.

**Risk profile and the Audit Committee**

The Audit Committee reports to the Board on the status of risks through integrated risk management processes and programs aimed at ensuring that risks are identified, assessed and appropriately managed.

Each business operational unit is responsible and accountable for implementing and managing the standards required by the risk management system.

The major risks that the Company faces are allocated to individual executives and are reviewed to determine progress and to provide updates as to the individual status and to ensure the identification of any further risks

**Risk management and compliance and control**

The Company has implemented a compliance program which complies with the Australian Standard for Compliance programs AS 3806. This Standard was prepared by the Standards Australia Committee following a request by the Australian Competition and Consumer Commission and details the essential elements of an effective compliance program. The Standard provides principles for the development, implementation and maintenance of an effective compliance program, whilst emphasizing the need for continuous improvement. The use of these principles will enable the Company to identify risks and to develop processes to ensure compliance with relevant laws and regulations, including gaming regulatory and licence obligations.

The Company received accreditation on 15 June 2007 confirming that the Company's quality management system complies with the AS/NZ ISO 9001:2000 standard. This standard is identical and has been reproduced from the ISO 9001:2000 Quality management systems-Requirements, published by the International Organization for Standardization (ISO). Further to receiving the accreditation, the Company has demonstrated its ongoing commitment to continuous improvement by successfully maintaining its quality accreditation through regular independent surveillance audits of its quality management system during the year.

In addition to the above, the Company continually reviews internal controls and operating procedures, to enable compliance with Gaming Machine National Standards and the Company's Control System Manual.

To ensure that these standards are maintained, there are a number of internal reporting measures including monthly Compliance Reports from all department managers and monthly Continuous Disclosure Reports from all senior executives. The Regulatory and Compliance Committee receives details from the above reports and reviews the Company's reporting and processes on all these matters.

The Board is responsible for the overall internal control framework, but recognizes that no cost effective internal control system will preclude all errors and irregularities. The Board's policy on internal control is continually under review to ensure it keeps pace with internal and external changes. The Board overviews the Company's internal compliance and control systems, including:

- **Operating unit controls** - Operating units confirm compliance with financial controls and procedures, including information systems controls detailed in procedures manuals;
- **Functional specialty reporting** - Key areas subject to regular reporting to the Board include Treasury and Risk Management, Environmental, Legal and Insurance matters; and
- **Investment appraisal** - Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Comprehensive practices have been established to ensure:

- capital expenditure and revenue commitments above a certain size, obtain prior Board approval;
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- business transactions are properly authorized and executed;
- the quality and integrity of personnel is maintained (see below);
- financial reporting accuracy and compliance with the financial reporting regulatory framework (see below); and
- environmental regulation compliance (see below).

**Quality and integrity of personnel**

Written confirmation of compliance with policies of the Company is obtained from all operating units. Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue with employees and senior management. A formal succession plan is currently being established to ensure competent and knowledgeable employees fill senior positions, as and when retirements or resignations occur.

**Financial reporting**

The Chief Executive Officer and the Chief Financial Officer / Company Secretary have declared, in writing to the Board, that the Company's financial reports are founded on a sound system of risk management and internal compliance and control. Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.



**Principle 7****Recognise and manage risk**

(continued)

**Risk management and compliance and control**

(continued)

**Environmental regulation**

The Company's operations are not subject to significant environmental regulations under either Commonwealth or State legislation. The Board believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breaches of those environmental requirements as they apply to the Company.

**Assessment of effectiveness of risk management****Internal Audit**

To further assist the Board in ensuring compliance with these internal controls and risk management programs, the Company allocated the responsibilities of the Internal Audit function to a key employee within the Company's compliance department. This role is to oversee and regularly review the effectiveness of the abovementioned compliance and control systems and conduct regular audits against the International and Australian Standards as well as against all operating policies and procedures. The Audit Committee is responsible for approving the internal audit plan to be undertaken during the year and for the scope of the work to be performed.

**Principle 8****Encourage enhanced performance**

The Chairman of the Board is responsible for evaluating the performance of individual directors and the Board collectively. Performance criteria that is taken into account include each director's contribution to setting the direction, strategy and financial objectives of the group and monitoring compliance with regulatory requirements and ethical standards. Formal performance evaluation criteria for the Board and individual directors are currently under review.

**Director Education**

The Company has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the Company concerning performance of directors. Directors also have the opportunity to meet with management to gain a better understanding of business operations. Directors are able to access continuing education opportunities to update and enhance their skills and knowledge.

**Independent professional advice and access to Company information**

Each director has the right of access to all company information and to the Company's executives. Further, subject to informing the Board, a director may seek independent professional advice from a suitably qualified adviser at the Company's expense. A copy of the advice received by the director is made available to all other members of the Board.

**Principle 9****Remunerate fairly and responsibly****Remuneration and Nomination Committee**

The members of the Remuneration and Nomination Committee during the year were:

**Mr SL Wallis AO (Chairman)**

Independent Non-Executive Director;

**Mr ML Ludski**

Chief Financial Officer / Company Secretary;

**Mr GJ Campbell**

Independent Non-Executive Director (appointed on 18 September 2007); and

**Mr AR Amer**

Independent Non-Executive Director (retired on 18 September 2007)

The Chief Executive Officer and Human Resources and Payroll Manager are invited to attend the Remuneration and Nomination Committee meetings, as required, to discuss senior executives' performance and remuneration packages. The Chief Executive Officer and Chief Financial Officer / Company Secretary are not involved in matters pertaining to their own remuneration. During the year under review, the Committee met three times and the directors' attendance record is disclosed in the table of directors' meetings on page 20 of this Report.

The main responsibilities of the Remuneration and Nomination Committee are to:

- review the composition of the Board and make evaluations and recommendations thereon;
- recommend the selection, appointment, induction process and succession planning process for directors, the Chief Executive Officer, the Chief Financial Officer / Company Secretary and other senior executives;
- recommend to the Board ways in which the skills, experience and expertise levels of existing directors can be enhanced;
- review and make recommendations to the Board on remuneration packages and incentive policies applicable to the Chief Executive Officer, Chief Financial Officer / Company Secretary, senior executives and directors themselves; and
- undertake a performance evaluation of the Committee to ensure delivery on its charter and to continually enhance the Committee's contribution to the Board.



Further details of the Remuneration and Nomination Committee's responsibilities are outlined in its charter, which is available on its website. The policy and procedure for appointment of directors also forms a part of the Committee's charter.

The Remuneration and Nomination Committee conducts an annual review of performance of the Chief Executive Officer, the Chief Financial Officer / Company Secretary and the senior executives reporting directly to them.

#### Remuneration Report

The Remuneration Report is set out on pages 20 to 28 of this Report.

#### Remuneration policies

Remuneration levels for key personnel of the Company are competitively set to attract and retain appropriately qualified and experienced executives and directors. The Remuneration and Nomination Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of key management personnel;
- management performance against key performance indicators (KPIs) and individual contributions to the Company's performance;
- the Company's performance includes:
  - revenue and earnings; and
  - growth in share price and delivering increased returns to shareholders.

Remuneration packages include a mix of fixed and variable remuneration and short-term and long-term performance-based incentives. In addition to salaries, the Company also provides non-cash benefits to its key management personnel and contributes to defined contribution superannuation plans on their behalf.

Senior executives may receive bonuses based on the achievement of specific performance hurdles. The performance hurdles are a blend of the Company's and each relevant segment's result. In the year under review, no incentive payments were made as Company performance did not reach the minimum threshold levels. The Company does not have any profit-share plan.

Total remuneration for all non-executive directors, last voted upon by shareholders is not to exceed \$500,000 per annum. The base fee for individual non-executive directors for the financial year under review was \$70,000 per annum, excluding superannuation and covers all main Board activities. Membership of Committees is remunerated in addition to the base fee as outlined in the Remuneration Report on page 24 of this Report. Non-executive directors do not receive any performance related remuneration or bonuses or retirement benefits other than required superannuation payments.

#### Principle 10

### Recognise the legitimate interests of stakeholders

The Company's objective is to become a leading manufacturer and supplier of innovative gaming machines and game combinations sold in both domestic and international markets, for the purpose of creating wealth for shareholders and adding value for customers and other stakeholders.

Despite unsatisfactory performance to date, the directors and senior management have plans and strategies in place aimed at improving financial performance in the medium term.

The Company maintains and publishes a Code of Conduct to provide all employees with guidance on what is acceptable behavior. Details of the Code are outlined under Principle 3 of this Statement.

In addition to the Code of Conduct and the Whistleblower policy as mentioned in Principle 3 of this Statement, the Company also has policies which govern:

- Occupational Health and Safety;
- Dealing in Company's securities; and
- Equal Employment Opportunity

All employees are required to complete the harassment, discrimination and compliance training conducted by the Company.

The Code of Conduct, the policies and the training listed above ensure that all employees maintain the highest standards of integrity, honesty and fair dealing in their dealings with customers, suppliers, shareholders, regulators, each other and society in general.



# Ainsworth Game Technology Limited

ABN: 37 068 516 665

and its controlled entities

## Annual Financial Report

For the year ended 30 June 2008

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# DIRECTORS' REPORT

For the year ended 30 June 2008

The directors present their report together with the financial report of Ainsworth Game Technology Limited ('the Company') and of the Group ('the Company and its subsidiaries and any interest in associates') for the financial year ended 30 June 2008 and the auditor's report thereon.

## 1. Directors

The directors of the Company at any time during or since the end of the financial year are:

Name and independence status	Age	Experience, special responsibilities and other directorships
<b>Current</b>		
Mr Leonard Hastings Ainsworth Executive Chairman	85 yrs	<ul style="list-style-type: none"> <li>• Fellow of the Institute of Company Directors in Australia and the Australian Institute of Management</li> <li>• Fifty-four years gaming industry experience</li> <li>• Founder of Aristocrat Leisure Limited</li> <li>• Director and Chairperson since 1995 – Executive Chairperson since 2003</li> </ul>
Mr Stewart Laurence Wallis AO, BCE Lead Independent Non-Executive Director	74 yrs	<ul style="list-style-type: none"> <li>• Fellow of the Institute of Engineers, Australia</li> <li>• Advisory Board member of St Hilliers Contracting Pty Limited</li> <li>• Former Chief Executive and Director of Leighton Holdings Limited</li> <li>• Director since 2002</li> <li>• Chairperson of Remuneration and Nomination Committee and member of Audit Committee</li> <li>• Member of Regulatory and Compliance Committee - appointed Chairperson on 20 November 2007</li> </ul>
Mr Graeme John Campbell Independent Non-Executive Director	51 yrs	<ul style="list-style-type: none"> <li>• Graeme has specialised in the area of liquor and hospitality for over 26 years in corporate consultancy services with particular emphasis on hotels and registered clubs</li> <li>• Appointed director on 18 September 2007</li> <li>• Chairperson of Audit Committee and member of Remuneration and Nomination Committee from appointment</li> <li>• Member of Regulatory and Compliance Committee from 20 November 2007</li> </ul>
<b>Former</b>		
Mr Andrew Richard Amer Independent Non-Executive Director	57 yrs	<ul style="list-style-type: none"> <li>• Bachelor of Arts, Master of Science, Master of Business Administration and Diploma from Australian Institute of Company Directors</li> <li>• Fellow and Council member NSW Council of Australian Institute of Company Directors</li> <li>• Member of Professional Conduct Tribunal of Institute of Chartered Accountants in Australia</li> <li>• Director of Mackay Sugar Corporation Association</li> <li>• Over twenty years general management experience in senior executive positions in such diversified industries as chemicals, management consulting, finance and retail</li> <li>• Former Managing Director of Amoco Australia, part of the BP Group worldwide</li> <li>• Chairperson of Audit Committee until 18 September 2007 and member until retirement</li> <li>• Member of Remuneration and Nomination Committee until 18 September 2007</li> <li>• Chairperson of Regulatory and Compliance Committee until retirement</li> <li>• Director since October 2003. Retired as a director on 20 November 2007</li> </ul>



## 2. Company secretary

Mr Mark L Ludski was appointed to the position of Company Secretary in August 2000. Mr ML Ludski previously held the role of Finance Manager with another listed public company for ten years and prior to that held successive positions in two major accounting firms where he was employed in each of their respective audit, taxation and business advisory divisions.

Mr ML Ludski is a Chartered Accountant holding a Bachelor of Business degree, majoring in accountancy and sub-majoring in economics.

## 3. Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

DIRECTOR	Board Meetings		Audit Committee Meetings		Remuneration & Nomination Committee Meetings		Regulatory & Compliance Committee Meetings	
	A	B	A	B	A	B	A	B
<b>Current</b>								
Mr LH Ainsworth	10	10	-	-	-	-	-	-
Mr SL Wallis	10	10	4	4	3	3	5	5
Mr GJ Campbell	9	9	2	2	3	3	4	4
<b>Former</b>								
Mr AR Amer	2	2	2	2	-	-	1	1

A - Number of meetings attended

B - Number of meetings held during the time the director held office during the year

## 4. Remuneration report

### 4.1 Principles of compensation - audited

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and executives for the Company and the Group including the five most highly remunerated Company and Group executives.

Compensation levels for key management personnel and secretaries of the Company, and key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Remuneration and Nomination Committee reviews market surveys on the appropriateness of compensation packages of both the Company and the Group given trends in comparative companies both locally and internationally and the objectives of the Company's compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's performance against key performance indicators (KPI's) and individual contributions to the Group's performance;
- the Group's performance includes:
  - revenue and earnings; and
  - growth in share price and delivering returns on shareholder wealth.

Compensation packages include a mix of fixed and variable compensation and short-term and long-term performance-based incentives.

In addition to their salaries, the Group also provides non-cash benefits to its key management personnel, and contributes to post-employment defined contribution superannuation plans on their behalf.



### **Fixed compensation**

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Remuneration and Nomination Committee through a process that considers individual, segment and overall performance of the Group. In addition market surveys are obtained to provide further analysis so as to ensure the directors' and senior executives' compensation is competitive in the market place. A senior executive's compensation is also reviewed on promotion.

### **Performance-linked compensation**

Performance linked compensation includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash, while the long-term incentive (LTI) is provided as options over ordinary shares of the Company under the rules of the Employee Share Option Plan (see note 24 to financial statements).

In addition to their salaries, selected key sales management personnel receive commission on sales within their specific business segments as part of their service contracts.

### **Short-term incentive bonus**

Each year the Remuneration and Nomination Committee sets the Key Performance Indicators (KPIs) for the key management personnel. The KPIs generally include measures relating to the Group, the relevant segment, and the individual, and include financial, people, customer, strategy and risk measures. The measures are chosen as they directly align the individual's reward to the KPIs of the Group and to its strategy and performance.

The financial performance objective is 'profit after tax' compared to budgeted amounts which is designed to reward key management personnel for the Group's performance and not simply the achievement of individual segment results. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, safety and environmental performance, customer satisfaction and staff development.

At the end of the financial year the Remuneration and Nomination Committee assess the actual performance of the Group, the relevant segment and individual against the KPI's set at the beginning of the financial year.

The Remuneration and Nomination Committee recommends the cash incentive to be paid to the individuals for approval by the board. The method of assessment was chosen as it provides the Committee with an objective assessment of the individual's performance.

### **Long-term incentive**

Options are issued under the Employee Share Option Plan (ESOP) (made in accordance with thresholds set in plans approved by shareholders at the 2001 Annual General Meeting (AGM)) and it provides for key management personnel to receive options over ordinary shares for no consideration. The ability to exercise the options is conditional on the Group achieving certain performance hurdles.

Performance hurdles are based on share price growth and are only exercisable once the Company's share price achieves levels ranging from 100 – 300% of the exercise price established when the share options are granted.

In assessing whether the performance hurdles have been met, the Remuneration and Nomination Committee receives independent data from the Australian Securities Exchange (ASX) which provides information required to assess Volume Weighted Average Price (VWAP).

### **Short-term and long-term incentive structure**

The Remuneration and Nomination Committee considers that the above performance-linked remuneration structure is appropriate because the key management personnel have the ability to reach a level of performance which qualifies them for the maximum bonus and options.

In the current year the Group did not reach its targets and has resulted in no short-term incentives being recommended for payment.

### **Other benefits**

Key management personnel can receive additional benefits such as non-monetary benefits, as part of the terms and conditions of their appointment. Non-cash benefits typically include payment of club memberships and motor vehicles. The Company pays fringe benefits tax on these benefits.



## 4. Remuneration report (continued)

### 4.1 Principles of compensation - audited (continued)

#### Service contracts

It is the Group's policy that service contracts for key management personnel are unlimited in term but capable of termination by either party on 3 months' notice and that the Group retains the right to terminate the contracts immediately, by making payment equal to 3 months' pay in lieu of notice.

The Group has entered into service contracts with each key management person, excluding the Chief Executive Officer (CEO), that provide for the payment of benefits where the contract is terminated by the Group. The key management persons are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The service contract outlines the components of remuneration paid to the key management personnel but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive, retention of key personnel and any changes required to meet the principles of the remuneration policy.

Mr Danny Gladstone, CEO, has a contract of employment dated 5 February 2007 with the Company. The contract specifies the duties and obligations to be fulfilled by the CEO and provides that the board and CEO will early in each financial year, consult and agree objectives for achievement during that year.

The CEO has no entitlement to termination payment in the event of removal for misconduct as specified in his service contract.

Refer to note 28 of the financial statements for details on the financial impact in future periods resulting from the Group's commitments arising from non-cancellable contracts for services with key management personnel.

#### Non-executive directors

The fees paid to non-executive directors reflect the demands and responsibilities associated with their roles and the global nature of the operations within the highly regulated environment within which the Company operates. Fees incorporate an allowance for the onerous probity requirements placed on non-executive directors by regulators of the global jurisdictions in which the Company is or proposes to operate in.

The Company's non-executive directors only receive fees, including superannuation, for their services. In addition to fees is the cost of reasonable expenses which are reimbursed as incurred.

Non-executive directors do not currently receive or participate in any performance related remuneration. The level of fees paid to non-executive directors has been established based on the demands and responsibilities of their positions and have been set with reference to fees paid to other non-executive directors of comparable companies.

Current fees for directors effective 1 July 2006, excluding superannuation, are set out below. The Executive Chairman does not receive any additional fees for undertaking Board and Committee responsibilities. Other non-executive directors who also chair or are a member of a committee receive a supplementary fee in addition to their annual remuneration

<i>POSITION</i>	<i>\$ (per annum)</i>
Australian resident non-executive director	70,000
Chair of Audit Committee	10,000
Chair of Regulatory and Compliance Committee	10,000
Chair of Remuneration and Nomination Committee	6,000
Member of Audit Committee	6,000
Member of Regulatory and Compliance Committee	6,000
Member of Remuneration and Nomination Committee	4,000

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2000 AGM, is not to exceed \$500,000 per annum.





#### 4.2 Directors' and executive officers' remuneration (Company and Group) - audited

Details of the nature and amount of each major element of remuneration of each director of the Company each of the five named Company executives and relevant Group executives who receive the highest remuneration and other key management personnel are:

In AUD	DIRECTORS	Short-term					Post-employment	Termination benefits \$	Share based payments	Total \$	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
		Salary & Fees \$	Sales Commission \$	STI cash bonus (A) \$	Non-monetary benefits \$	Total \$						
	<b>Non-executive directors</b>											
	<b>Current</b>											
	Mr SL Wallis	2008	90,570	-	-	-	8,151	-	-	98,721	-	-
		2007	88,000	-	-	-	7,920	-	-	95,920	-	-
	Mr GJ Campbell	2008	69,698	-	-	-	6,273	-	-	75,971	-	-
	(Appointed 18 September 2007)	2007	-	-	-	-	-	-	-	-	-	-
	<b>Former</b>											
	Mr AR Amer	2008	33,046	-	-	-	2,974	-	-	36,020	-	-
	(Resigned 20 November 2007)	2007	94,000	-	-	-	8,460	-	-	102,460	-	-
	<b>Executive director</b>											
	Mr LH Ainsworth	2008	200,000	-	-	-	-	-	-	230,000	-	-
	(Executive Chairman)	2007	200,000	-	-	-	-	-	-	230,000	-	-





## DIRECTORS' REPORT (continued)

For the year ended 30 June 2008

### 4. Remuneration report (continued)

#### 4.2 Directors' and executive officers' remuneration (Company and Group) - audited (continued)

In AUD		Short-term					Post-employment		Termination benefits \$	Share based payments		Total \$	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
		Salary & Fees \$	Sales Commission \$	STI cash bonus (A) \$	Non-monetary benefits \$	Total \$	Superannuation benefits \$	Options and rights \$						
	<b>EXECUTIVES Current</b>													
2008	Mr DE Gladstone Chief Executive Officer (appointed 05/02/07)	500,768	-	-	83,716	584,484	41,850	-	-	-	626,334	-	-	-
2007		206,666	-	-	30,983	237,649	15,861	-	-	-	253,510	-	-	-
2008	Mr ML Ludski Chief Financial Officer / Company Secretary	273,911	-	-	83,150	357,061	22,542	-	-	-	379,603	-	-	-
2007		261,162	-	-	71,047	332,209	21,564	-	-	1,399	355,172	-	-	-
2008	Mr R Meitzler Senior VP Sales and Operations (North America)	175,454	276,060	-	21,201	472,715	4,969	-	-	5,860	483,544	-	-	1%
2007		-	-	-	-	-	-	-	-	-	-	-	-	-
2008	Mr V Bruzzone General Manager Technical Services	245,612	-	-	-	245,612	20,475	-	-	-	266,087	-	-	-
2007		-	-	-	-	-	-	-	-	-	-	-	-	-
2008	Mr PW Walford Group General Manager, Global Sales	236,923	-	-	18,849	255,772	19,800	-	-	-	275,572	-	-	-
2007		240,307	-	-	57,858	298,165	19,800	-	-	3,590	321,555	-	-	1%
2008	Mr P Curran General Manager, Manufacturing Operations	195,495	-	-	19,084	214,579	16,329	-	-	4,685	235,593	-	-	-
2007		168,861	-	-	24,352	193,213	13,274	-	-	-	206,487	-	-	-
2008	Mr E Eskin General Manager, Engineering	157,020	-	-	32,607	189,627	14,166	-	-	4,212	208,005	-	-	-
2007		151,898	-	-	15,000	166,898	12,516	-	-	-	179,414	-	-	-

4. Remuneration report (continued)  
 4.2 Directors' and executive officers' remuneration (Company and Group) - audited (continued)

In AUD EXECUTIVES (continued) Former		Short-term				Post-employment	Termination benefits \$	Share based payments		Total \$	Proportion of remuneration of performance related %	Value of options as proportion of remuneration %
		Salary & Fees \$	Sales Commission \$	STI cash bonus (A) \$	Non-monetary benefits \$			Total \$	Options and rights \$			
Mr K Orchard	2008	200,851	166,166	-	34,035	401,052	-	4,845	422,332	39%	1%	
Senior VP Sales, South America (resigned 30/06/08)	2007	224,570	-	-	50,494	275,064	-	-	293,767	-	-	
Mr DP Creary	2008	-	-	-	-	-	-	-	-	-	-	
Chief Executive Officer (resigned 27/10/06)	2007	179,486	-	-	14,333	193,819	174,422	-	383,241	-	-	
Mr G Steiner	2008	-	-	-	-	-	-	-	-	-	-	
Managing Director, Europe (resigned 31/01/07)	2007	527,034	-	-	32,546	559,580	22,403	-	649,328	-	-	
Mr R Williams	2008	-	-	-	-	-	-	-	-	-	-	
General Manager, Marketing (resigned 15/12/06)	2007	78,367	-	-	9,180	87,547	10,705	-	104,448	-	-	



## 4. Remuneration report (continued)

### 4.2 Directors' and executive officers' remuneration (Company and Group) - audited (continued)

#### Notes in relation to the table of directors' and executive officers' remuneration - audited

A. The short-term incentive bonus is for performance during the 30 June 2008 financial year using the criteria set out on page 21. The amount was finally determined on 10 June 2008 by the Remuneration and Nomination Committee who recommended no bonuses be paid for the current period.

B. The fair value of the options is calculated at the date of grant using the Black Scholes and binomial lattice option-pricing models and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account.

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
31 August 2004	31 August 2009	\$0.14	\$1.00	\$0.84	60%	5.77%	-
		\$0.21	\$0.50	\$0.84	60%	5.77%	-
1 April 2004	1 April 2009	\$0.11	\$1.00	\$0.50	40%	5.66% - 5.84%	-
		\$0.22	\$0.50	\$0.50	40%	5.66% - 5.84%	-
25 November 2002	25 November 2007	\$0.15	\$1.15	\$0.74	40%	5.41%	-
2 July 2007	2 July 2012	\$0.06	\$0.50	\$0.38	50%	6.35%	-

#### Details of performance related remuneration

Details of the Group's policy in relation to the proportion of remuneration that is performance related is discussed on page 21. No short term incentive bonuses were paid for the year ended 30 June 2008.

### 4.3 Equity instruments

All options refer to options over ordinary shares of Ainsworth Game Technology Limited, unless otherwise stated, which are exercisable on a one-for-one basis under the ESOP.

#### 4.3.1 Options and rights over equity instruments granted as compensation – audited

Details on options over ordinary shares in the Company that were granted as remuneration to each key management person during the reporting period and details on options that vested during the reporting period are as follows:

Note	Number of options granted during 2008	Grant date	Number of options vested during 2008	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date
<b>EXECUTIVES</b>						
<i>Current</i>						
	-	-	25,000	0.21	0.50	31/08/2009
	-	-	35,000	0.14	1.00	31/08/2009
	-	-	35,000	0.21	0.50	31/08/2009
	200,000	02/07/2007	-	0.06	0.50	02/07/2012
(A)	159,908	02/07/2007	-	0.06	0.50	02/07/2012
(A)	143,750	02/07/2007	-	0.06	0.50	02/07/2012
<i>Former</i>						
	165,375	02/07/2007	-	0.06	0.50	02/07/2012
	-	-	37,500	0.11	1.00	01/04/2009
	-	-	37,500	0.22	0.50	01/04/2009

(A) The share options granted to Messrs P Curran and E Eskin were granted over a portion of the personal shareholding of the Company's Executive Chairman and majority shareholder, Mr LH Ainsworth.



All options issued prior to 30 June 2007 expire on the earlier of their expiry date or 30 days after termination of the individual's employment. All options issued from 1 July 2007 expire on the earlier of their expiry date or termination of the individual's employment. The options are exercisable on an annual basis three years from grant date. In addition to a continuing employment service condition, the ability to exercise options is conditional on the Group achieving certain performance hurdles. Details of the performance criteria are included in the long-term incentives discussion on page 21.

Further details, including grant dates and exercise dates regarding options granted to executives under the ESOP are in note 24 to the financial statements.

#### **4.3.2 Modification of terms of equity-settled share-based payment transactions - audited**

No terms of equity-settled share-based payment transactions (including options and rights granted as remuneration to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

#### **4.3.3 Exercise of options granted as compensation - audited**

During the reporting period no shares were issued on the exercise of options previously granted as compensation (2007: Nil).



## 4. Remuneration report (continued)

## 4.3 Equity instruments (continued)

## 4.3.4 Analysis of options and rights over equity instruments granted as compensation - audited

Details of vesting profiles of the options granted as remuneration to each director of the Company and each of the five named Company executives and relevant Group executives and other key management personnel are detailed below.

	Options granted		% Vested in year	% Forfeited in year (A)	Financial years in which grant vests	Value yet to vest \$	
	Number	Date				Min (B)	Max (C)
<b>DIRECTORS</b>							
Mr SL Wallis	300,000	25/11/2002	-	100%	-	Nil	
<b>EXECUTIVES</b>							
<i>Current</i>							
Mr ML Ludski	50,000	31/08/2004	50%	-	31/08/2005 - 31/08/2007	Nil	
Mr PW Walford	70,000	31/08/2004	50%	-	31/08/2005 - 31/08/2007	Nil	
	70,000	31/08/2004	50%	-	31/08/2005 - 31/08/2007	Nil	
Mr R Meitzler	200,000	02/07/2007	-	-	02/07/2008 - 02/07/2010	Nil	
<i>Former</i>							
Mr K Orchard	75,000	01/04/2004	50%	-	01/04/2005 - 01/04/2007	Nil	
	75,000	01/04/2004	50%	-	01/04/2005 - 01/04/2007	Nil	
	165,375	02/07/2007	-	-	02/07/2008 - 02/07/2010	Nil	

A. The % forfeited in the year represents the reduction from the maximum number of options available to vest due to the highest level performance criteria not being achieved.

B. The minimum value of options yet to vest is \$Nil as the performance criteria may not be met and consequently the option may not vest.

C. The maximum value of options yet to vest is not determinable as it depends on the market price of shares of the Company on the ASX at the date the option is exercised. The share price of the Company at 30 June 2008 was \$0.09. This compares to an exercise price of between \$0.50 and \$1.15 in respect of the share options.

## 4.3.5 Analysis of movements in options - audited

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company director and each of the five named Company executives and relevant Group executives is detailed below:

	Granted in year \$	Exercised in year (A) \$	Forfeited in year (B) \$	Total option value in year \$
<b>DIRECTOR</b>				
Mr SL Wallis	-	-	45,000	45,000
<b>EXECUTIVES</b>				
<i>Current</i>				
Mr R Meitzler	11,480	-	-	5,860
<i>Former</i>				
Mr K Orchard	9,493	-	-	4,845

A. No options were exercised during the year.

B. The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using the Black Scholes model with no adjustments for whether the performance criteria have or have not been achieved.



## 5. Principal Activities

The principal activity of the Group during the course of the financial year was the design, development, production, sale and servicing of gaming machines and other related equipment and services.

There were no significant changes in the nature of the activities of the Group during the year.

### Objectives

The Group's objectives are to:

- continue to rationalise operations focusing on geographical markets which are expected to achieve positive contributions to the Group's financial results;
- prudently manage and reduce levels of investment in working capital and achieve positive cash flow from operations in the 2009 financial year;
- pursue investment in new technology and next generation gaming equipment;
- provide a positive return on equity over the next financial year through profitability and share price growth;
- secure new gaming jurisdictional licences through selective entry into new international markets through distributors or direct sales channels within the global gaming industry; and
- provide quality leading edge products that are innovative and entertaining and give increased player satisfaction and greater venue profitability.

In order to meet these objectives the following action priorities continue to apply for the 2009 financial year and beyond:

- grow market share for existing business and increase revenue and operating activities, particularly in the North American market;
- further reduce operating costs and overheads and improve efficiencies of production;
- further improve management of working capital;
- implement best practice compliance policies and procedures and increase stakeholder awareness of the Company's regulatory environment;
- upgrade the performance of the management team by having an effective performance management system and establishing a training and leadership program;
- pursue best practice human resource strategies to ensure retention and development of key employees;
- increase resources within compliance to facilitate the acceleration of licence applications and improvement in the quality of technical submissions; and
- further upgrade the quality and performance of product development and integrate activities within product development, engineering and research and development.

## 6. Operating and financial review

### Overview of the Group

The loss after income tax for the year ended 30 June 2008 was \$19 million compared to a loss in the corresponding 2007 year of \$50 million. The second half loss recorded for the financial year ended 30 June 2008 was \$8.6 million which included \$5.4 million in foreign exchange losses and one off impairment charges and provisions, resulting in an actual operating loss of \$3.2 million. This compares to an actual operating loss, on the same basis, of \$10.3 million in the first half of the 2008 financial year.

Sales revenue increased by 60% to \$50 million compared to \$31 million in the corresponding period in 2007. Previous reliance of the Group on a relatively small number of major markets caused a heavy downturn in sales when a number of those markets experienced a slowdown in activity. Further diversification and less reliance on a relatively small number of markets have ensured revenue growth is sustainable and the Group achieves a profitable turnaround in the medium term.

With difficult domestic market conditions and the slow down in the replacement market in New South Wales due to smoking legislation and the imposition of additional taxes the Group achieved revenue of \$14.9 million, a reduction of 18% on the corresponding period in 2007. Domestic revenue in the period under review represented 30% of total revenue, compared to 59% in the previous corresponding period.

Increased focus within the Americas, primarily the North American market, resulted in revenue of \$22.9 million, an increase of 118% on the previous year.

### Investments for future performance

Further investment during the current period will enable the Group to be at the forefront of technology in gaming related products. Increased efficiencies were introduced in product development and engineering during the period which will enable a greater variety of content to be supplied to diverse markets. Operating system upgrades and the streamlining of product development procedures were introduced to reduce previously encountered lead times to market, including the time for regulatory approvals.

Due to the regulatory nature of the gaming industry significant delays can be experienced between the initial concept development and the translation of these into revenue opportunities. The securing of a licence in any jurisdiction is only the initial step prior to obtaining the product and game approvals necessary before sales can be made to that jurisdiction. The Company has commenced product development in these and other jurisdictions where licences have been secured and will be seeking the necessary product and game approvals to enable commercial realisation of these revenue opportunities.



## 6. Operating and financial review (continued)

### Investments for future performance (continued)

Significant compliance related costs are an inherent part of the supply of equipment to the gaming industry which assists in maintaining a high standard of integrity within the industry. The Company continues to invest in the future and through its licensing strategy has expanded its reach into North America with 53 US tribal licences being secured compared to 26 in 2007. The Group has secured US state licence approvals in New Jersey, Wisconsin, Pennsylvania, California, Oregon, Minnesota, Iowa, Indiana and Florida. In addition to the above, provincial licences for Ontario, Alberta and British Columbia in Canada have been submitted and are awaiting approvals.

This investment is expected to ensure the Group provides innovative and technically advanced quality gaming equipment to existing and new markets during future periods.

### Review of financial condition

#### *Capital structure and treasury policy*

The Company currently has on issue 278,942,304 ordinary shares and 19,714,717 convertible notes. Due to the loss during the 2007 financial year the Company indicated that it was reviewing alternatives to strengthen its capital structure. A fully underwritten rights issue raising \$27.3 million (before issue costs) was completed in December 2007 with the issue of 85.3 million new shares. This capitalisation has ensured an improvement in the Company and in the Group's capital structure to provide funding for the pursuit of the Company's medium term objectives.

The Group is exposed to foreign currency risks on sales and purchases that are denominated in currencies other than AUD. As a result of this foreign currency risk a formalised Treasury Risk Management policy is in place which is subject to monitoring and review by the Audit Committee and the Board. The Group, subject to the limitations of facilities available, looks to establish foreign currency call options to minimise the financial impact of currency variations. These call options expired during the current period and were not replaced due to limited available facilities, the expectation of a reduction in the Group's net asset exposure to fluctuations and reversal of the translational impact in future periods.

#### *Liquidity and funding*

The Company currently has a loan facility in place of \$40 million with an entity controlled by the Executive Chairman, Mr LH Ainsworth, of which \$26 million is unutilised at the reporting date. The maturity date of this facility was formally amended to 4 January 2010 and does not call for repayment of interest until this maturity date.

In addition to the above an additional \$5 million trade finance facility has been established with an entity controlled by the Executive Chairman, Mr LH Ainsworth of which \$2.6 million is unutilised at the reporting date.

#### *Cash flows from operations*

The cash outflow from operations for the period under review was \$5.1 million compared to an outflow of \$2.8 million in the corresponding period in 2007. The Group continues to monitor closely its working capital requirements and has significantly reduced the extent of credit offered on sales made in all jurisdictions.

Continued efforts to reduce the Group's investment in working capital have been made during the current period under review. Reduction in receivables and inventory holdings have occurred which have assisted in offsetting the reduction in cash outflow from operations.

As a result of the rationalisation of product lines and streamlining of supply chain management it is expected that further reductions in inventory will be achieved during the 2009 year. As part of the ongoing strategic review undertaken operational expenditure reductions were achieved which is expected to continue and be reflected in future periods. Procedures implemented will further rationalise and reduce current working capital requirements.

#### *Impact of legislation and other external requirements*

The Group continues to improve its working relationships with regulatory authorities to ensure that the necessary licences to support its operations within Australia and overseas are granted on a timely and cost effective basis. The granting of such licences will allow the Group to expand its operations into new international markets.

The market conditions within Australia continued to present challenges during the year under review. The recent legislative and regulatory environment within New South Wales, specifically in relation to smoking legislation and growing taxes, had a limiting effect within this market.

This may have an impact on future performance, although the Group remains focused on increasing its domestic market share through innovative product development and capitalising on greater opportunities available in international markets.

### Review of principal businesses

#### *Revenue*

Sales revenue of \$50 million was recorded in the period under review compared to \$31 million in the corresponding period in 2007, an increase of 60%.

The principal factors which contributed to the increase in revenue were the improved penetration within the key international markets of the Americas, Europe and Asia which represented 68% of total revenue achieved, an increase of \$19.4 million or 134% on the previous period in 2007.

The revised distribution arrangements initiated within Europe have assisted in minimising the adverse impacts of legislative changes in certain European markets, which previously reduced performance within this region.





The Group's continued growth prospects within the Americas are heavily dependant, to a great extent, on securing the necessary gaming licences and product approvals in the jurisdictions concerned. Approvals obtained in each additional jurisdiction provide further market opportunities. It is expected that further licences and product approvals will be achieved in the short to medium term which should enable additional revenue opportunities to be realised.

As a result of difficult market conditions within Australia domestic revenue was \$15 million compared to \$18 million in the previous period in 2007. Overall Australian revenue fell by 18% compared to the previous period in 2007 and represented 30% of total revenue for the current period under review compared to 59% in 2007.

The impact of delays in completing the required product development and receipt of the necessary approvals under new regulatory requirements added to the slowdown in previously expected growth within Australia. The recent approval within Queensland in the last quarter of the current period realised revenue comparable to the prior period in 2007.

Progress within the Victorian market enabled the delivery of the Group's products to a major operator within the current financial year. This sale represented 8% of total domestic revenue for the period under review and subject to the performance of the Company's products within this jurisdiction further revenue opportunities are expected to be achieved.

The further expansion of the global product strategy and the forthcoming display of regulatory approved product at the Australasian Gaming Exhibition (AGE) to be held in August 2008 coupled with the upcoming G2E in Las Vegas being held in November, are expected to provide revenue growth within all domestic and international markets.

#### *Operating costs*

Cost of sales in the period were \$30 million compared to \$29 million in the corresponding period in 2007.

Operating costs, excluding cost of sales and financing costs, were \$32.0 million compared to \$41.4 million in the corresponding period in 2007, a reduction of 23%. Significant restructuring across the Group was undertaken to ensure the cost structures throughout the business were commercially aligned with realistic revenue expectations and offset the impact of reduced revenues. Restructuring of operations and the associated redundancy costs incurred in the previous period have enhanced operating cost efficiencies in the current period under review.

Increased investment within the key North American market was initiated in the second half of the current period with the appointment of experienced executives in the gaming industry within this jurisdiction. This investment has allowed the Group to sell product under a direct sales model thus increasing revenue contributions. Key changes have also occurred within European sales channels to assist the Company in minimising any delays and risks associated with achieving revenues within these diverse and complex jurisdictions.

Research and development expenditure including recently initiated changes and investment in product development programs have occurred in the period. Further streamlining and rationalisation of the Group's products has resulted in further efficiencies and in excess of 700 jurisdictional game approvals being achieved in the period which are expected to have a positive impact in the 2009 year. Research and development, excluding the impact of capitalisation and impairment losses on capitalised development expenditure, resulted in an increase in expenditure of 31% and represented 20% of revenue compared to 24% in the corresponding period in 2007.

Administration costs include impairment losses in the current period of \$1.6 million on previously acquired goodwill and development costs capitalised. Excluding impairment losses administration costs fell by 5% over the prior corresponding period in 2007.

#### *Financing costs*

Net financing costs were \$6.6 million in the period, a reduction of \$3.5 million on the corresponding period in 2007. This decrease was primarily a result of lower translational foreign exchange losses and reduced interest costs incurred as a result of the reduction in debt levels through the renounceable rights issue completed in December 2007.

#### **Significant changes in the state of affairs**

As a result of the strategic review undertaken across the organisation costs structures throughout the business were commercially aligned with realistic revenue expectations. Significant management restructuring and cost minimisation was undertaken in the current period to assist in offsetting the immediate impact of delays in achieving expected revenues and ensure a reduced cost structure to effect a financial turn around in the medium term.

The immediate benefit of the rationalisation previously undertaken and the continued development in new product should enable the Group to establish a platform to achieve sustainable and profitable trading in the medium term. In conjunction final negotiations are in progress to further diversify the Company's product base by adding multi-terminal gaming offers to selected domestic markets.

Other than the matters noted above, there were no significant changes in the state of affairs of the Group during the financial year.



## 7. Dividends

No dividends were paid or declared by the Company since the end of the previous financial year. The directors do not recommend that any dividends be paid in respect of the 2008 financial year.

## 8. Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## 9. Likely developments

The Group will continue to pursue further gaming licences and commercialisation of current and further new product development to ensure a sustainable and profitable turnaround is affected. This strategy is expected to achieve increased market share in targeted geographical business sectors which will positively contribute to Group results during future financial years. This will require further investment in product development and the securing of additional gaming licenses, which are expected to provide increased revenue and positive results over the medium term.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

## 10. Directors' interests

The relevant interest of each director in the shares, convertible notes and rights or options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ainsworth Game Technology Limited		
	Ordinary shares	Convertible Notes	Options over ordinary shares
<b>Current</b>			
Mr Leonard H Ainsworth	165,690,998	10,325,382	-
Mr Stewart L Wallis	624,280	181,000	-
Mr Graeme J Campbell	87,500	-	-
<b>Former</b>			
Mr Andrew R Amer	69,826	6,534	-

## 11. Share options

### Options granted to directors and officers of the Company

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares in the Company to the following of the five most highly remunerated officers of the Company as part of their remuneration:

Executives	Note	Number of options granted	Exercise price	Expiry date
<b>Current</b>				
Mr R Meitzler		200,000	\$0.50	2 July 2012
Mr P Curran	(B), (C)	159,908	\$0.50	2 July 2012
Mr E Eskin	(B)	143,750	\$0.50	2 July 2012
<b>Former</b>				
Mr K Orchard	(A)	165,375	\$0.50	2 July 2012

Notes:

(A) Mr K Orchard retired effective 30 June 2008. The options granted have expired as at the date of this report.

(B) The share options granted to Messrs P Curran and E Eskin were granted over a portion of the personal shareholding of the Company's Executive Chairman, Mr LH Ainsworth.

(C) Mr P Curran resigned from the Company at balance date and ceases employment effective 22 August 2008.

No options have been granted since the end of the financial year.



**Unissued shares under options**

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise price (\$)	Number of shares
31 August 2009	1.00	205,000
	0.50	385,000
2 July 2012	0.50	760,180
		<b>1,350,180</b>

The Company granted 1,020,555 share options to all American employees on 2 July 2007 under an incentive plan introduced. During or since the end of the financial year 260,375 options expired due to cessation of employment leaving a balance of 760,180 under issue. The share options under this incentive plan included 200,000 options granted to Mr R Meitzler and 165,375 options granted to Mr K Orchard as noted above. The 165,375 options granted to Mr K Orchard expired at the date of this report due to cessation of his employment.

In addition to the share options issued by the Company the Company introduced an incentive plan whereby share options were granted to all Australian employees, excluding directors and four key management personnel. The share options granted to Australian employees totalled 10,994,707 and were granted over a portion of the personal shareholding of the Company's Executive Chairman, Mr LH Ainsworth. During or since the end of the financial year 2,648,314 options expired due to cessation of employment leaving a balance of 8,346,394 under issue. The share options under this incentive plan issued to key management personnel totalled 303,658 share options as noted above.

An exercise price of \$0.50 per Share Option has been established and exercise is subject to vesting and performance conditions being met. The number of Share Options granted to each employee reflects the number of dollars comprising their individual base salary. The vesting of these Share Options is over a three year period with performance hurdles based on the market value of the shares in the Company. The Share Options lapse automatically on cessation of employment for any reason.

The options above have vesting and performance conditions, which must be satisfied prior to any of the options being exercised. The vesting condition is set with reference to the anniversary of the issue date of the option. All options expire on the earlier of their expiry date or termination of the option holders' employment unless otherwise approved by shareholders.

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

**Shares issued on exercise of options**

During or since the end of the financial year, the Company issued no ordinary shares as a result of the exercise of options.

## 12. Indemnification and insurance of officers

**Indemnification**

The Company has agreed to indemnify current and former directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

**Insurance premiums**

Since the end of the previous financial year, the Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses' insurance contracts, for current and former directors and officers, including executive officers of the Company and directors, executive officers and secretaries of its controlled entities.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses contracts, as such disclosure is prohibited under the terms of the contract.



### 13. Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed:

	Consolidated	
	2008	2007
	\$	\$
<b>Audit services:</b>		
<hr/>		
Auditors of the Company		
Audit and review of financial reports (KPMG Australia)	165,000	121,500
Other auditors:		
Audit and review of financial reports (non-KPMG firms)	-	4,588
	<hr/>	<hr/>
	165,000	126,088
<hr/>		
<b>Services other than statutory audit:</b>		
<b>Other services</b>		
Contract employment services (KPMG related practices)	-	80,775
AIFRS accounting services (KPMG Australia)	40,000	53,500
Capital raising services (KPMG Australia)	85,000	-
	<hr/>	<hr/>
	125,000	134,275
<hr/>		

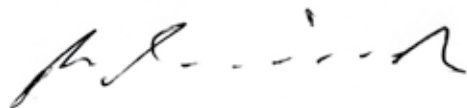
### 14. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 84 and forms part of the directors' report for the financial year ended 30 June 2008.

### 15. Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors.



LH Ainsworth  
*Executive Director*

Dated at Sydney this 27th day of August 2008



# INCOME STATEMENTS

For the year ended 30 June 2008

<i>In thousands of AUD</i>	Note	Consolidated		Company	
		2008	2007	2008	2007
Revenue	7	49,563	30,977	47,476	28,962
Cost of sales		(30,030)	(29,198)	(27,566)	(28,175)
<b>Gross profit</b>		<b>19,533</b>	<b>1,779</b>	<b>19,910</b>	<b>787</b>
Other income	8	187	45	241	45
Sales, service and marketing expenses		(13,257)	(22,913)	(15,261)	(18,714)
Research and development expenses		(9,155)	(9,600)	(9,155)	(9,600)
Administrative expenses		(9,598)	(8,852)	(9,598)	(8,847)
<b>Results from operating activities</b>		<b>(12,290)</b>	<b>(39,541)</b>	<b>(13,863)</b>	<b>(36,329)</b>
Financial income	11	1,330	1,222	1,330	1,222
Financial expenses	11	(7,987)	(11,337)	(7,965)	(11,296)
<b>Net finance expenses</b>		<b>(6,657)</b>	<b>(10,115)</b>	<b>(6,635)</b>	<b>(10,074)</b>
Share of (loss)/profit equity accounted investees	17	(361)	211	-	-
<b>(Loss)/profit before income tax</b>		<b>(19,308)</b>	<b>(49,445)</b>	<b>(20,498)</b>	<b>(46,403)</b>
Income tax expense	12	(49)	(40)	-	-
<b>(Loss)/profit for the period</b>		<b>(19,357)</b>	<b>(49,485)</b>	<b>(20,498)</b>	<b>(46,403)</b>
<b>(Loss)/earnings per share:</b>					
Basic (loss)/earnings per share from continuing operations	13	<b>(\$0.08)</b>	(\$0.26)		
Diluted (loss)/earnings per share from continuing operations	13	<b>(\$0.08)</b>	(\$0.26)		

The notes on pages 40 to 80 are an integral part of these consolidated financial statements.



## STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2008

## Consolidated

<i>In thousands of AUD</i>	Issued capital	Equity compensation reserve	Fair value reserve	Translation reserve	Accumulated losses	Total equity
Opening balance at 1 July 2006	94,517	558	4,014	30	(35,196)	63,923
Foreign exchange translation differences	-	-	-	144	-	144
Equity component of additional related party borrowings	-	-	313	-	-	313
Share-based payments	-	27	-	-	-	27
Total non-profit items recognised directly in equity	94,517	585	4,327	174	(35,196)	64,407
Net (loss) for the period	-	-	-	-	(49,485)	(49,485)
Closing balance at 30 June 2007	<b>94,517</b>	<b>585</b>	<b>4,327</b>	<b>174</b>	<b>(84,681)</b>	<b>14,922</b>
Opening balance at 1 July 2007	94,517	585	4,327	174	(84,681)	14,922
Shares issued	28,142	-	-	-	-	28,142
Transaction costs of shares issued	(286)	-	-	-	-	(286)
Foreign exchange translation differences	-	-	-	171	-	171
Equity component of additional related party borrowings	-	-	654	-	-	654
Share-based payments	-	281	-	-	-	281
Total non-profit items recognised directly in equity	27,856	281	654	171	-	28,962
Net (loss) for the period	-	-	-	-	(19,357)	(19,357)
Closing balance at 30 June 2008	<b>122,373</b>	<b>866</b>	<b>4,981</b>	<b>345</b>	<b>(104,038)</b>	<b>24,527</b>

Amounts are stated net of tax.

The notes on pages 40 to 80 are an integral part of these consolidated financial statements.



**Company**

<i>In thousands of AUD</i>	<b>Issued capital</b>	<b>Equity compensation reserve</b>	<b>Fair value reserve</b>	<b>Accumulated losses</b>	<b>Total equity</b>
Opening balance at 1 July 2006	94,517	558	4,014	(35,779)	63,310
Equity component of additional related party borrowings	-	-	313	-	313
Share-based payments	-	27	-	-	27
Total non-profit items recognised directly in equity	94,517	585	4,327	(35,779)	63,650
Net (loss) for the period	-	-	-	(46,403)	(46,403)
Closing balance at 30 June 2007	<b>94,517</b>	<b>585</b>	<b>4,327</b>	<b>(82,182)</b>	<b>17,247</b>
Opening balance at 1 July 2007	94,517	585	4,327	(82,182)	17,247
Shares issued	28,142	-	-	-	28,142
Transaction costs of shares issued	(286)	-	-	-	(286)
Equity component of additional related party borrowings	-	-	654	-	654
Share-based payments	-	281	-	-	281
Total non-profit items recognised directly in equity	27,856	281	654	-	28,791
Net (loss) for the period	-	-	-	(20,498)	(20,498)
Closing balance at 30 June 2008	<b>122,373</b>	<b>866</b>	<b>4,981</b>	<b>(102,680)</b>	<b>25,540</b>

Amounts are stated net of tax.

The notes on pages 40 to 80 are an integral part of these consolidated financial statements.



<i>In thousands of AUD</i>	Note	Consolidated		Company	
		2008	2007	2008	2007
<b>Assets</b>					
Cash and cash equivalents	14	3,735	1,157	1,033	802
Receivables and other assets	15	22,219	21,960	21,947	21,564
Inventories	16	20,798	28,970	20,798	28,970
Income tax receivable		8	15	-	-
<b>Total current assets</b>		<b>46,760</b>	<b>52,102</b>	<b>43,778</b>	<b>51,336</b>
Receivables and other assets	15	9,112	4,995	15,927	11,442
Investments in equity accounted investees	17	2,171	2,532	-	-
Property, plant and equipment	19	22,881	18,342	22,700	18,173
Intangible assets	20	8,980	9,185	8,109	8,161
<b>Total non-current assets</b>		<b>43,144</b>	<b>35,054</b>	<b>46,736</b>	<b>37,776</b>
<b>Total assets</b>		<b>89,904</b>	<b>87,156</b>	<b>90,514</b>	<b>89,112</b>
<b>Liabilities</b>					
Trade and other payables	21	10,592	8,586	10,105	8,169
Loans and borrowings	22	1,105	688	1,099	683
Employee benefits	23	1,173	1,246	1,043	1,070
Provisions	25	762	117	762	117
<b>Total current liabilities</b>		<b>13,632</b>	<b>10,637</b>	<b>13,009</b>	<b>10,039</b>
Trade and other payables	21	-	-	277	342
Loans and borrowings	22	51,324	61,132	51,324	61,127
Employee benefits	23	421	465	364	357
<b>Total non-current liabilities</b>		<b>51,745</b>	<b>61,597</b>	<b>51,965</b>	<b>61,826</b>
<b>Total liabilities</b>		<b>65,377</b>	<b>72,234</b>	<b>64,974</b>	<b>71,865</b>
<b>Net assets</b>		<b>24,527</b>	<b>14,922</b>	<b>25,540</b>	<b>17,247</b>
<b>Equity</b>					
Issued capital		122,373	94,517	122,373	94,517
Reserves		6,192	5,086	5,847	4,912
Accumulated losses		(104,038)	(84,681)	(102,680)	(82,182)
<b>Total equity attributable to equity holders of the parent</b>		<b>24,527</b>	<b>14,922</b>	<b>25,540</b>	<b>17,247</b>

The notes on pages 40 to 80 are an integral part of these consolidated financial statements.





# STATEMENTS OF CASH FLOWS

For the year ended 30 June 2008

<i>In thousands of AUD</i>	Note	Consolidated		Company	
		2008	2007	2008	2007
<b>Cash flows from operating activities</b>					
Cash receipts from customers		42,497	57,246	24,342	50,248
Cash paid to suppliers and employees		(44,040)	(58,414)	(28,249)	(51,634)
Cash used in operations		(1,543)	(1,168)	(3,907)	(1,386)
Borrowing costs paid		(3,521)	(1,680)	(3,521)	(1,680)
<b>Net cash from operating activities</b>	32	<b>(5,064)</b>	<b>(2,848)</b>	<b>(7,428)</b>	<b>(3,066)</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment		61	74	61	74
Interest received		1,147	1,116	1,147	1,116
Acquisitions of property, plant and equipment		(350)	(398)	(350)	(275)
Acquisition of equity investments		(50)	(50)	(50)	(50)
Development expenditure	20	(3,182)	(3,380)	(3,182)	(3,380)
<b>Net cash from investing activities</b>		<b>(2,374)</b>	<b>(2,638)</b>	<b>(2,374)</b>	<b>(2,515)</b>
<b>Cash flows from financing activities</b>					
Proceeds from the issue of share capital	26	8,362	-	8,362	-
Payment of transaction costs		(281)	-	(281)	-
Proceeds from borrowings		2,800	6,000	2,800	6,000
Repayment of borrowings		-	(91)	-	(91)
Payment of finance lease liabilities		(782)	(705)	(778)	(705)
<b>Net cash from financing activities</b>		<b>10,099</b>	<b>5,204</b>	<b>10,103</b>	<b>5,204</b>
Net increase/(decrease) in cash and cash equivalents		2,661	(282)	301	(377)
Cash and cash equivalents at 1 July		1,157	1,577	802	1,317
Effect of exchange rate fluctuations on cash held		(83)	(138)	(70)	(138)
<b>Cash and cash equivalents at 30 June</b>	14	<b>3,735</b>	<b>1,157</b>	<b>1,033</b>	<b>802</b>

The notes on pages 40 to 80 are an integral part of these consolidated financial statements.



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## 1. Reporting entity

Ainsworth Game Technology Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 10 Holker Street, Newington, NSW, 2127. The consolidated financial statements of the Company as at and for the year ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates. The Group primarily is involved in the design, development, sale and servicing of gaming machines and other related equipment and services.

## 2. Basis of preparation

### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company also comply with the International Financial Reporting Standards (IFRS's) and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 27 August 2008.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for loans and borrowings with a Director related entity.

### (c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ to these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 20 – Intangibles and Note 24 – Share-based payments.

### (e) Going concern

The financial statements have been prepared on the going concern basis of accounting, which assumes that the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

For the year ended 30 June 2008, the Group recorded a loss of \$19.4 million (2007: \$49.5 million). The Group's operations are dependent on established facilities and funding by its major shareholder who has confirmed his ongoing financial support.

In relation to the directors' assessment of the going concern assumption, the directors have considered the following:

- The majority shareholder has provided a loan facility of \$40 million which was extended on 23 May 2008 and matures on 4 January 2010 or such other later date agreed between the parties. Interest on the facility is not payable until this maturity date;
- A \$5 million trade facility has also been established of which \$2.6 million was available at 30 June 2008;
- The Company and Group do not expect to require funding beyond these facilities in the foreseeable future, or at least one year from the signing of these financial statements. Of all available facilities, \$14.1 million was drawn at 30 June 2008, leaving \$25.9 million in unutilised facilities;
- At balance date, the Group had positive net working capital of \$33 million;
- As a result of the restructuring undertaken during the year, operating cost efficiencies were achieved in the current period under review;
- The continued investment within the key North American market is expected to continue to achieve revenue opportunities beyond the 2008 financial year;
- Progression of development strategies within domestic and targeted international markets is expected to create additional revenue opportunities in future periods; and
- The directors have reviewed the cashflow forecasts and believe that these initiatives will enable the company to be able to fund its operations for at least the next 12 months.

The Directors have concluded that it is appropriate to prepare the financial report on a going concern basis, as they are confident the Company and the Group having secured sufficient funding by way of support from its majority shareholder and related entities and can pay its debts as and when they fall due for the foreseeable future, being at least one year from the date of approval of the financial statements.



### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

#### (a) Basis of consolidation

##### *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In the Company's financial statements, investments in subsidiaries are carried at cost.

##### *Associates (equity accounted investees)*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

In the Company's financial statements, investments in associates are carried at cost.

##### *Transactions eliminated on consolidation*

Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investees when the Group's interest in such entities is disposed of.

#### (b) Foreign currency

##### *(i) Foreign currency transactions*

Transactions in foreign currencies are translated at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

##### *(ii) Foreign operations*

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity. Since 1 July 2004, the Group's date of transition to AASBs under AIFRS, such differences have been recognised in the Foreign Currency Translation Reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

#### (c) Financial instruments

##### *Non-derivative financial instruments*

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expense is discussed in note 3(m).

##### *Loans and borrowings*

Loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.



Where the terms and conditions of borrowings are modified, the carrying amount is remeasured to fair value. Any difference between the carrying amount and fair value is recognised in equity.

#### **Other**

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

#### **Compound financial instruments**

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

#### **Share capital**

##### *Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

#### **(d) Property, plant and equipment**

##### **Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit and loss.

##### **Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of an item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

#### **Depreciation**

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

• buildings	40 years
• leasehold improvements	10 years
• plant and equipment	2.5 – 20 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

#### **(e) Intangible assets**

##### **Goodwill**

Goodwill (negative goodwill) arises on the acquisition of subsidiaries and associates.

##### **Acquisitions prior to 1 July 2004**

As part of its transition to AASBs, the Group elected to restate only those business combinations that occurred on or after 1 July 2004. In respect of acquisitions prior to 1 July 2004, goodwill represents the amount recognised under the Group's previous accounting framework, Australian GAAP.

##### **Acquisitions on or after 1 July 2004**

For acquisitions on or after 1 July 2004, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

##### **Subsequent measurement**

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

##### **Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in profit or loss as incurred. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.



**3. Significant accounting policies** (continued)**(e) Intangible assets** (continued)**Other intangible assets**

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

**Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

**Amortisation**

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- capitalised development costs 2 – 5 years
- service contracts 8 years
- intellectual property 10 years

**(f) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

**(g) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(h) Impairment****Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired.

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

**Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit"). The goodwill acquired in a business combination for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.



**(i) Employee benefits*****Defined contribution superannuation funds***

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

***Other long term employee benefits***

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield rate at the reporting date on AA credit rated or government bonds that have maturity dates approximating the terms of the Group's obligations.

***Termination benefits***

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

***Short-term benefits***

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers remuneration insurance and payroll tax. Non-accumulating non-monetary benefits, such as cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

***Share-based payment transactions***

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

**(j) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

***Warranties***

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

***Restructuring***

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

**(k) Revenue*****Goods sold***

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, allowances and trade discounts. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

***Services***

Revenue from services rendered is recognised in profit or loss when the services are performed.

**(l) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**(m) Finance income and expense**

Finance income comprises interest income and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, foreign currency losses and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective calculated using the effective interest method.

Foreign currency gains and losses are reported on a net basis.



**3. Significant accounting policies** (continued)**(n) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(o) Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**(p) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

**(q) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on geographical segments.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, loans and borrowings and related expenses, corporate assets and head office expenses.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

**(r) New standards and interpretations not yet adopted**

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report.

- Revised AASB 3 Business Combinations changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 6).





- Revised AASB 101 Presentation of Financial Statements introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.
- Revised AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 30 June 2010 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provision the Group will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The Group has not yet determined the potential effect of the revised standard on future earnings.
- Revised AASB 127 Consolidated and Separate Financial Statements changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial report.
- AI 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. AI 12, which becomes mandatory for the Group's 30 June 2009 financial statements, is not expected to have any effect on the financial report.
- AI 13 Customer Loyalty Programs addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programs for their customers. It relates to customer loyalty programs under which the customer can redeem credits for awards such as free or discounted goods or services. AI 13, which becomes mandatory for the Group's 30 June 2009 financial statements, is not expected to have any impact on the financial report.
- AI 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies when refunds or reductions in future contributions in relation

to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. AI 14 will become mandatory for the Group's 30 June 2009 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

#### 4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

##### *Intangible assets*

The fair value of customer contracts acquired in a business combination is based on the discounted cash flows expected to be derived from the use or eventual sale of these contracts. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

##### *Trade and other receivables / payables*

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. The fair value of all other receivables / payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

##### *Non-derivative financial instruments*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

##### *Loans and borrowings*

Fair value is calculated based on discounted expected future principal and interest cash flows.

##### *Finance lease liabilities*

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect changes in interest rates.

##### *Share-based payment transactions*

The fair value of employee stock options is measured using the Black Scholes and binomial lattice models. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.



## 5. Financial risk management

### Overview

The Company and Group have exposure to the following risks from their use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established processes through the Group Audit Committee, which is responsible for developing and monitoring risk management policies. The Committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities. The Company and Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Company's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's and Company's receivables from customers.

#### *Trade and other receivables*

The Company's and Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer, including the default risk of the industry and country in which customers operate. Approximately 22 percent (2007: 17 percent) of the Group's revenue is attributable to sales transactions in a geographical region with a single distributor. This distributor has been transacting with the Group for over five years and losses have occurred infrequently.

Credit policy guidelines have been introduced under which each new customer is assessed by the compliance division as to suitability and analysed for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes investigations, external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Board. Customers that fail to meet the Group's creditworthiness criteria may only transact with the Group within established limits unless Board approval is received or otherwise only on a prepayment basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a distributor, operator or customer, geographic location, aging profile, maturity and existence of previous financial difficulties. The Group's trade and other receivables relate mainly to the Group's direct customers, operators and established distributors. Customers that are graded as "high risk" require future sales to be made on a prepayment basis with approval of the Chief Executive Officer and Chief Financial Officer up to approved limits and thereafter only with Board approval.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

The Company and Group have established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

### *Investments*

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have established credit ratings. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has access to sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains the following lines of credit:

- \$40 million facility that can be drawn down to meet short-term financing needs; and
- \$5 million trade facility.



**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

*Currency risk*

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar (AUD), but also the euro and NZD. The currencies in which these transactions primarily are denominated are AUD, euro and USD.

The Group regularly monitors and reviews, dependant on available facilities, the hedging of net assets denominated in a foreign currency. The group utilises currency call options to hedge its currency risk, most with a maturity of less than six months. No currency call options were utilised throughout the reporting period.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group monitors its net exposure to address short-term imbalances.

*Interest rate risk*

The Group's borrowing rates are fixed and no interest rate risk exists.

**Capital management**

Capital is defined as the total equity of the Group.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board continues to monitor group performance so as to ensure a turnaround is effected, an acceptable return on capital is achieved and that dividends will be provided to ordinary shareholders in the medium term.

The Board continues to review alternatives to ensure present employees will hold at least 5% of the Company's ordinary shares. This is expected to be achieved assuming all outstanding share options issued during the current reporting period vest and/or are exercised. These share options were issued to all Australian employees over a portion of the Executive Chairman's shareholding under a share option incentive plan provided on 2 July 2007. Refer Note 24.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

**6. Segment reporting**

Segment information is presented in respect of the Group's business and geographical segments. The primary format, geographical segments, is based on the Group's management and internal reporting structure.

*Geographical segments*

The geographical segments are Australia, Americas and Asia. In Australia, manufacturing facilities and sales offices are operated. Sales offices are operated in the Americas (Florida) and Europe (Austria) for a portion of the year prior to closure.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

*Business segments*

The Group operates in one business segment, which is the design, development, manufacture, distribution and service of gaming machines and related equipment.





6. Segment reporting (continued)

Geographical segments

In thousands of AUD

	Australia		Americas		Asia		Other		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Total revenue	14,898	18,277	22,894	10,486	6,375	1,909	5,396	305	49,563	30,977
Segment result	(3,280)	(12,762)	(8,419)	(14,556)	665	(1,032)	(1,256)	(11,191)	(12,290)	(39,541)
Net financing costs	-	-	-	-	-	-	-	-	(6,657)	(10,115)
Share of (losses)/profit equity accounted investees	(361)	211	-	-	-	-	-	-	(361)	211
Income tax expense	-	-	-	-	-	-	-	-	(49)	(40)
(Loss)/profit for the period									(19,357)	(49,485)
Segment assets	84,872	84,070	2,819	271	-	-	42	283	87,733	84,624
Investment in associates	2,171	2,532	-	-	-	-	-	-	2,171	2,532
Total assets	87,043	86,602	2,819	271	-	-	42	283	89,904	87,156
Segment liabilities	65,000	71,947	377	52	-	235	-	-	65,377	72,234
Total liabilities	65,000	71,947	377	52	-	235	-	-	65,377	72,234
Cash flows from operating activities	(20,622)	(4,815)	8,862	1,147	5,500	-	1,196	820	(5,064)	(2,848)
Cash flows from investing activities	(2,374)	(2,516)	-	(122)	-	-	-	-	(2,374)	(2,638)
Cash flows from financing activities	17,806	6,905	(6,351)	(884)	-	-	(1,356)	(817)	10,099	5,204
Capital expenditure	5,841	773	258	116	-	-	-	1	6,099	890
Impairment losses	522	3,594	469	-	-	-	663	-	1,654	3,594

## 7. Revenue

*In thousands of AUD*

	Note	Consolidated		Company	
		2008	2007	2008	2007
Sales		47,458	28,951	47,476	28,950
Services		2,105	2,026	-	12
		<u>49,563</u>	<u>30,977</u>	<u>47,476</u>	<u>28,962</u>

## 8. Other income

*In thousands of AUD*

Net gain on disposal of property, plant and equipment		17	2	17	2
Dividends received and income from subsidiaries		-	-	54	-
Other		170	43	170	43
		<u>187</u>	<u>45</u>	<u>241</u>	<u>45</u>

## 9. Personnel expenses

*In thousands of AUD*

Wages and salaries		16,239	21,412	13,231	16,783
Contributions to defined contribution superannuation funds		1,113	1,326	1,022	1,174
(Decrease) in liability for annual leave	23	(103)	(337)	(55)	(260)
Increase/(Decrease) in liability for long service leave	23	(44)	107	7	117
Termination benefits		674	1,605	616	1,440
Equity settled share-based payment transactions		281	27	281	27
		<u>18,160</u>	<u>24,140</u>	<u>15,102</u>	<u>19,281</u>

## 10. Auditors' remuneration

*In AUD*

Audit services:					
Auditors of the Company					
<i>KPMG Australia</i>					
Audit and review of financial reports		165,000	121,500	165,000	121,500
		<u>165,000</u>	<u>121,500</u>	<u>165,000</u>	<u>121,500</u>
Other auditors					
Audit and review of financial reports		-	4,588	-	-
		<u>165,000</u>	<u>126,088</u>	<u>165,000</u>	<u>121,500</u>
Other services:					
Auditors of the Company					
<i>KPMG Australia</i>					
Other services		125,000	53,500	125,000	53,500
<i>KPMG related practices</i>					
Contract employment services		-	80,775	-	80,775
		<u>125,000</u>	<u>134,275</u>	<u>125,000</u>	<u>134,275</u>

All amounts payable to the Auditors of the Group were paid by the parent of the Group.



**11. Finance income and expense**

<i>In thousands of AUD</i>	Consolidated		Company	
	2008	2007	2008	2007
Interest income on trade receivables	1,180	1,222	1,180	1,222
Interest income on bank deposits	150	-	150	-
Financial income	1,330	1,222	1,330	1,222
Interest expense on financial liabilities	(5,806)	(6,536)	(5,784)	(6,495)
Net foreign exchange loss	(2,181)	(4,801)	(2,181)	(4,801)
Financial expenses	(7,987)	(11,337)	(7,965)	(11,296)
Net financing costs (expense)	(6,657)	(10,115)	(6,635)	(10,074)

**12. Income tax expense***In thousands of AUD***Recognised in the income statement****Current tax expense**

Current period	49	40	-	-
Effect of tax losses recognised	-	-	-	-
	49	40	-	-

**Deferred tax expense**

Origination and reversal of temporary differences	-	-	-	-
Effect of tax losses recognised	-	-	-	-
	-	-	-	-
Total income tax expense	49	40	-	-

**Numerical reconciliation between tax expense and pre-tax net (loss)/profit**

(Loss)/profit for the period	(19,357)	(49,485)	(20,498)	(46,403)
Total income tax expense	49	40	-	-
(Loss)/profit excluding income tax	(19,308)	(49,445)	(20,498)	(46,403)

Income tax using the Company's domestic tax rate of 30%  
(2007: 30%)

	(5,792)	(14,834)	(6,149)	(13,921)
Non-deductible expenses	3,152	2,709	3,152	1,762
Effect of tax rates in foreign jurisdictions	7	6	-	-
Research & development claim	(484)	(401)	(484)	(401)
Effect of tax losses recognised	3,166	12,560	3,481	12,560
	49	40	-	-



### 13. Earnings per share

#### *Basic earnings per share*

The calculation of basic earnings per share at 30 June 2008 was based on the loss attributable to ordinary shareholders of \$19,357,000 (2007: loss of \$49,485,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2008 of 238,492,000 (2007: 191,411,000), calculated as follows:

*(Loss)/profit attributable to ordinary shareholders*

*In thousands of AUD*

	Note	Consolidated	
		2008	2007
(Loss)/profit for the period		(19,357)	(49,485)
(Loss)/profit attributable to ordinary shareholders		(19,357)	(49,485)

*Weighted average number of ordinary shares*

*In thousands of shares*

Issued ordinary shares at 1 July	26	191,411	191,411
Effect of shares issued in July 2007	26	2,194	-
Effect of shares issued in December 2007	26	44,887	-
Weighted average number of ordinary shares at 30 June		238,492	191,411

#### *Diluted earnings per share*

The calculation of diluted earnings per share at 30 June 2008 was based on the loss attributable to ordinary shareholders of \$19,357,000 (2007: loss of \$49,485,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2008 of 238,492,000 (2007: 191,411,000), calculated as follows:

*(Loss)/profit attributable to ordinary shareholders (diluted)*

*In thousands of AUD*

		2008	2007
(Loss)/profit attributable to ordinary shareholders		(19,357)	(49,485)
Interest expense on convertible notes, net of tax	(a)	-	-
(Loss)/profit attributable to ordinary shareholders (diluted)		(19,357)	(49,485)

*Weighted average number of ordinary shares (diluted)*

*In thousands of shares*

Weighted average number of ordinary shares at 30 June		238,492	191,411
Effect of conversion of convertible notes	(a)	-	-
Effect of share options on issue	(a)	-	-
Weighted average number of ordinary shares (diluted) at 30 June		238,492	191,411

- (a) For the year ended 30 June 2008 the effect of the convertible notes was anti-dilutive as the Group recorded a loss for the period.

For the year ended 30 June 2007, the calculation of loss attributable to ordinary shareholders (diluted) and weighted average number of ordinary shares (diluted) also excludes the after-tax effect of interest on convertible notes (see note 23) and the effect of conversion of convertible notes, respectively, as the effect would be anti-dilutive.

The outstanding share options on issue were not considered to be potential ordinary shares for the year ended 30 June 2008 or 30 June 2007 as they were anti-dilutive.



**14. Cash and cash equivalents**

<i>In thousands of AUD</i>	Note	Consolidated		Company	
		2008	2007	2008	2007
Bank balances		3,735	1,157	1,033	802
Cash and cash equivalents in the statements of cash flows		3,735	1,157	1,033	802

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 33.

**15. Receivables and other assets**

*In thousands of AUD*

*Current*

Trade receivables		25,998	24,688	25,765	24,323
Less impairment losses		(4,086)	(3,309)	(4,065)	(3,281)
		21,912	21,379	21,700	21,042
Other assets		307	581	247	522
		22,219	21,960	21,947	21,564

*Non-current*

Term receivables		8,663	4,968	8,663	4,968
Amount receivable from equity accounted investees		449	6	-	6
Receivables due from subsidiaries	34	-	-	7,264	6,448
Other assets		-	21	-	20
		9,112	4,995	15,927	11,442

Impairment losses on trade receivables realised by the Company for the year ended 30 June 2008 were \$Nil (2007: \$11,000). The Group realised impairment losses of \$49,000 (2007: \$14,000) for the year ended 30 June 2008.

Receivables denominated in currencies other than the functional currency comprise \$25,424 thousand of trade receivables denominated in US dollars (2007: \$20,170 thousand), \$Nil thousand in Pounds Sterling (2007: \$20 thousand), \$2,986 thousand in Euro (2007: \$3,801 thousand) and \$610 thousand in New Zealand Dollars (2007: \$Nil).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 33.

**16. Inventories**

<i>In thousands of AUD</i>	Consolidated		Company	
	2008	2007	2008	2007
Raw materials and consumables	14,554	18,719	14,554	18,719
Finished goods	5,502	6,897	5,502	6,897
Work in progress	487	3,297	487	3,297
Stock in transit	255	57	255	57
Inventories stated at the lower of cost and net realisable value	20,798	28,970	20,798	28,970

During the year ended 30 June 2008 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to \$27,631 thousand (2007: \$16,990 thousand). During the year ended 30 June 2008 the write-down of inventories to net realisable value amounted to \$1,351 thousand (2007: \$Nil). The write-down is included in cost of sales.





## 17. Equity accounted investees

The Group's share of (losses)/profit in its equity accounted investees for the year was (\$361,000) (2007: \$211,000).

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

	Ownership	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit/(loss)
<i>In thousands of AUD</i>										
<b>2007</b>										
J&A Machines Pty Ltd (associate)	49%	847	1,043	1,890	913	-	913	3,232	(3,021)	211
RE&R Baker & Associates Pty Ltd (associate)	49%	180	269	449	76	-	76	-	-	-
		1,027	1,312	2,339	989	-	989	3,232	(3,021)	211
<b>2008</b>										
J&A Machines Pty Ltd (associate)	49%	845	1,092	1,937	625	820	1,445	3,018	(3,379)	(361)
RE&R Baker & Associates Pty Ltd (associate)	49%	-	130	130	-	-	-	-	-	-
		845	1,222	2,067	625	820	1,445	3,018	(3,379)	(361)



**18. Tax assets and liabilities****Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items:

<i>In thousands of AUD</i>	Consolidated		Company	
	2008	2007	2008	2007
Deductible temporary differences	2,391	1,495	2,391	1,495
Tax losses	28,814	24,701	28,487	24,701
	<u>31,205</u>	<u>26,196</u>	<u>30,878</u>	<u>26,196</u>

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits from.

**19. Property, plant and equipment**

<i>In thousands of AUD</i>	Consolidated				Company			
	Land and buildings	Plant and equipment	Leasehold Improvements	Total	Land and buildings	Plant and equipment	Leasehold Improvements	Total
<b>Cost</b>								
Balance at 1 July 2006	14,844	10,824	24	25,692	14,844	10,693	24	25,561
Additions	-	824	66	890	-	762	-	762
Disposals	-	(461)	-	(461)	-	(461)	-	(461)
Effect of movements in foreign exchange	-	(7)	-	(7)	-	-	-	-
Balance at 30 June 2007	<u>14,844</u>	<u>11,180</u>	<u>90</u>	<u>26,114</u>	<u>14,844</u>	<u>10,994</u>	<u>24</u>	<u>25,862</u>
Balance at 1 July 2007	14,844	11,180	90	26,114	14,844	10,994	24	25,862
Additions (refer Note below)	4,387	1,710	2	6,099	4,387	1,648	-	6,035
Disposals	-	(346)	(8)	(354)	-	(456)	-	(456)
Effect of movements in foreign exchange	-	(2)	(8)	(10)	-	-	-	-
Balance at 30 June 2008	<u>19,231</u>	<u>12,542</u>	<u>76</u>	<u>31,849</u>	<u>19,231</u>	<u>12,186</u>	<u>24</u>	<u>31,441</u>

Note:

The additions to land and buildings include \$4,098,000 provided and paid by an entity controlled by a director/majority shareholder through an additional unsecured loan under similar terms and conditions to the current facility in place – refer note 22.



## 19. Property, plant and equipment (continued)

<i>In thousands of AUD</i>	Consolidated				Company			
	Land and buildings	Plant and equipment	Leasehold Improvements	Total	Land and buildings	Plant and equipment	Leasehold Improvements	Total
<b>Depreciation and impairment losses</b>								
Balance at 1 July 2006	854	5,652	8	6,514	854	5,590	8	6,452
Depreciation charge for the year	224	1,321	6	1,551	224	1,296	6	1,526
Disposals	-	(289)	-	(289)	-	(289)	-	(289)
Effect of movements in foreign exchange	-	(4)	-	(4)	-	-	-	-
Balance at 30 June 2007	1,078	6,680	14	7,772	1,078	6,597	14	7,689
Balance at 1 July 2007	1,078	6,680	14	7,772	1,078	6,597	14	7,689
Depreciation charge for the year	224	1,242	10	1,476	224	1,208	1	1,433
Disposals	-	(283)	-	(283)	-	(381)	-	(381)
Effect of movements in foreign exchange	-	3	-	3	-	-	-	-
Balance at 30 June 2008	1,302	7,642	24	8,968	1,302	7,424	15	8,741
<b>Carrying amounts</b>								
At 1 July 2006	13,990	5,172	16	19,178	13,990	5,103	16	19,109
At 30 June 2007	13,766	4,500	76	18,342	13,766	4,397	10	18,173
At 1 July 2007	13,766	4,500	76	18,342	13,766	4,397	10	18,173
At 30 June 2008	17,929	4,900	52	22,881	17,929	4,762	9	22,700

### *Leased plant and equipment*

The Group leases plant and equipment and motor vehicles under hire purchase agreements. At the end of each of these agreements the Group has the option to purchase the equipment at a beneficial price. The leased equipment and guarantees established secure lease obligations. At 30 June 2008, the net carrying amount of leased plant and equipment was \$1,822,000 (2007: \$1,590,000).

### *Security*

At 30 June 2008 a property with a carrying amount of \$17,929,000 (2007: \$13,766,000) is subject to a debenture mortgage to secure loans and borrowings.





**20. Intangible assets**

<i>In thousands of AUD</i>	Consolidated				Company				
	Goodwill	Development costs*	Intellectual property	Service Contracts	Total	Goodwill	Development costs*	Intellectual property	Total
<b>Cost</b>									
Balance at 1 July 2006	1,348	24,943	1,029	1,223	28,543	1,165	24,943	1,029	27,137
Write back fully written down development costs	-	(13,024)	-	-	(13,024)	-	(13,024)	-	(13,024)
Development costs capitalised during the year	-	3,380	-	-	3,380	-	3,380	-	3,380
Balance at 30 June 2007	1,348	15,299	1,029	1,223	18,899	1,165	15,299	1,029	17,493
Balance at 1 July 2007	1,348	15,299	1,029	1,223	18,899	1,165	15,299	1,029	17,493
Write back fully written down costs	-	(4,822)	(1,029)	-	(5,851)	-	(4,822)	(1,029)	(5,851)
Acquisition – at cost	-	-	836	-	836	-	-	836	836
Development costs capitalised during the year	-	3,182	-	-	3,182	-	3,182	-	3,182
Balance at 30 June 2008	1,348	13,659	836	1,223	17,066	1,165	13,659	836	15,660

\* These relate to development of research findings.

	Consolidated				Company				
	Goodwill	Development costs*	Intellectual property	Service Contracts	Total	Goodwill	Development costs*	Intellectual property	Total
<i>In thousands of AUD</i>									
<b>Amortisation and impairment losses</b>									
Balance at 1 July 2006	-	16,301	452	229	16,982	-	16,301	452	16,753
Write back amortisation on fully written down development costs	-	(13,024)	-	-	(13,024)	-	(13,024)	-	(13,024)
Amortisation for the year	-	1,895	128	153	2,176	-	1,895	128	2,023
Impairment losses	-	3,131	449	-	3,580	-	3,131	449	3,580
Balance at 30 June 2007	-	8,303	1,029	382	9,714	-	8,303	1,029	9,332
Balance at 1 July 2007	-	8,303	1,029	382	9,714	-	8,303	1,029	9,332
Write back amortisation on fully written down costs	-	(4,822)	(1,029)	-	(5,851)	-	(4,822)	(1,029)	(5,851)
Amortisation for the year	-	2,381	84	153	2,618	-	2,381	84	2,465
Impairment losses	823	782	-	-	1,605	823	782	-	1,605
Balance at 30 June 2008	823	6,644	84	535	8,086	823	6,644	84	7,551
<b>Carrying amounts</b>									
At 1 July 2006	1,348	8,642	577	994	11,561	1,165	8,642	577	10,384
At 30 June 2007	1,348	6,996	-	841	9,185	1,165	6,996	-	8,161
At 1 July 2007	1,348	6,996	-	841	9,185	1,165	6,996	-	8,161
At 30 June 2008	525	7,015	752	688	8,980	342	7,015	752	8,109

\* These relate to development of research findings.



**20. Intangible assets** (continued)**Amortisation charge and impairment loss**

The amortisation charge is recognised in the following line items in the income statement:

<i>In thousands of AUD</i>	Consolidated		Company	
	2008	2007	2008	2007
Cost of sales	84	128	84	128
Other operating expenses	2,534	2,048	2,381	1,895
	<u>2,618</u>	<u>2,176</u>	<u>2,465</u>	<u>2,023</u>

The impairment losses of \$1,605,000 (2007: \$3,580,000) are recognised in other operating expenses (Research and development and Administrative expenses) in the income statement.

**Recoverability of development costs**

The carrying amount of the Group's development expenditure amounts to \$7,015,000. An impairment test was triggered in the year due to the loss experienced by the Group for the year ended 30 June 2008. The recoverable amount of each cash generating unit was estimated based on its value in use, and using a pre-tax discount rate of 20%. Based on individual market assessments of development carried out and where the recoverable amount of the cash generating unit was estimated to be lower than the carrying amount of the development, and an impairment of \$782,000 was required. No impairment was recognised on other assets allocated to the cash generating unit, as it was determined that their fair value less costs to sell, exceeded their carrying value.

Value in use was determined by discounting the future cash flows generated from the continuing use of the development and based on the following key assumptions:

- Cash inflows of \$75 million in the 2009 year from the sale of the Group's products and services;
- Revenue growth of 3-10% throughout the life of the development;
- The development will generate cash flows for 5 years; and
- Discount rate of 20%

Development costs were segregated into their respective cash generating units, on a geographical or customer specific basis, where possible. The remainder of development costs were allocated based on the jurisdictional/customer specific revenue they are expected to generate. Impairment losses were recognised where the recoverable amount of the cash generating unit was estimated to be lower than the carrying amount of the cash generating unit, or where development was no longer being pursued.

The value in use will be re-assessed at each reporting date that there is an indicator of impairment. Should the above assumptions not remain valid, then further write-downs may be required.

Despite the impairment charges recorded expectations are that there is potential to exceed the revenues used in assessing the recoverability of development costs and that the assumptions used will be achieved.

**Impairment testing for goodwill**

Goodwill relates to acquired business and entities. The recoverable amount is assessed using calculation methodologies based on value-in-use calculations which utilise projected cashflows from financial budgets approved by the Board of Directors. The cashflow models consider growth over the medium term, being five years, discounted to present value using a discount rate determined by reference to its weighted average cost of capital (WACC) adjusted if necessary to reflect the specific characteristics of each entity. A capitalisation multiple is then applied to this medium term cumulative discounted cashflow and an acceptable valuation range is formulated and tested against the carrying value of goodwill associated with each business and entity.

The recoverable amount was estimated to be lower than the carrying amount of the goodwill on a previous acquisition due to product transition to new generation gaming machines, and an impairment of \$823,000 was required in the current period.

Key assumptions used in the approach to test for impairment relate to the WACC and the capitalisation factor applied to projected cashflows.



## 21. Trade and other payables

*In thousands of AUD*

	Note	Consolidated		Company	
		2008	2007	2008	2007
<i>Current</i>					
Trade payables		7,529	4,631	7,424	4,563
Other payables and accrued expenses		2,788	3,064	2,406	2,822
Amount payable to director/shareholder controlled entities		275	891	275	784
		<u>10,592</u>	<u>8,586</u>	<u>10,105</u>	<u>8,169</u>
<i>Non Current</i>					
Amount payable to equity accounted investees		-	-	37	-
Payables due to subsidiaries	34	-	-	240	342
		<u>-</u>	<u>-</u>	<u>277</u>	<u>342</u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 34.

Payables denominated in currencies other than the functional currency comprise \$3,827 thousand of payables denominated in US Dollars (2007: \$1,659 thousand), \$5 thousand of payables denominated in Pounds Sterling (2007: \$37 thousand), \$48 thousand of payables denominated in Euro (2007: \$82 thousand) and \$2 thousand of payables denominated in NZD (2007: \$31 thousand).

## 22. Loans and borrowings

This note provides information about the contractual terms of the Company's and Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's and Group's exposure to interest rate, foreign currency and liquidity risk, see note 33.

*In thousands of AUD*

	Consolidated		Company	
	2008	2007	2008	2007
<i>Current</i>				
Current portion of finance lease liabilities	842	688	836	683
Loan from director / shareholder controlled entity – unsecured	263	-	263	-
	<u>1,105</u>	<u>688</u>	<u>1,099</u>	<u>683</u>
<i>Non Current</i>				
Finance lease liabilities	761	801	761	796
Amount payable to director / shareholder controlled entity	8,880	6,701	8,880	6,701
Loan from director / shareholder controlled entity - unsecured	3,835	-	3,835	-
Loan from director / shareholder controlled entity - secured	13,513	30,026	13,513	30,026
Convertible notes	24,335	23,604	24,335	23,604
	<u>51,324</u>	<u>61,132</u>	<u>51,324</u>	<u>61,127</u>



**22. Loans and borrowings** (continued)*Terms and debt repayment schedule*

Terms and conditions of outstanding loans were as follows:

<i>In thousands of AUD</i>	Consolidated						
	Currency	Nominal interest rate	Year of maturity	30 June 2008		30 June 2007	
				Face value	Carrying amount	Face value	Carrying amount
Amount payable to director / shareholder	AUD	8%	2010	8,880	8,880	6,701	6,701
Loans from director / shareholder controlled entity	AUD	8%	2010	18,220	17,611	30,266	30,026
Convertible notes	AUD	8%	2009	25,629	24,335	25,629	23,604
Finance lease liabilities	AUD	6.7-14.7%	2008 - 2011	1,603	1,603	1,489	1,489
Total interest-bearing liabilities				54,332	52,429	64,075	61,810

<i>In thousands of AUD</i>	Company						
	Currency	Nominal interest rate	Year of maturity	30 June 2008		30 June 2007	
				Face value	Carrying amount	Face value	Carrying amount
Amount payable to director / shareholder	AUD	8%	2010	8,880	8,880	6,701	6,701
Loans from director / shareholder controlled entity	AUD	8%	2010	18,220	17,611	30,266	30,026
Convertible notes	AUD	8%	2009	25,629	24,335	25,629	23,604
Finance lease liabilities	AUD	6.7-14.7%	2008 - 2011	1,597	1,597	1,479	1,479
Total interest-bearing liabilities				54,326	52,423	64,075	61,810





**Financing facilities**

<i>In thousands of AUD</i>	Consolidated		Company	
	2008	2007	2008	2007
Guarantee facility	-	135	-	135
Trade/credit facility	5,000	-	5,000	-
Loan from director / shareholder controlled entity	40,000	40,000	40,000	40,000
	<u>45,000</u>	<u>40,135</u>	<u>45,000</u>	<u>40,135</u>

**Facilities utilised at reporting date**

Guarantee facility	-	135	-	135
Trade/credit facility	2,435	-	2,435	-
Loan from director / shareholder controlled entity	14,122	30,266	14,122	30,266
	<u>16,557</u>	<u>30,401</u>	<u>16,557</u>	<u>30,401</u>

**Facilities not utilised at reporting date**

Guarantee facility	-	-	-	-
Trade/credit facility	2,565	-	2,565	-
Loan from director / shareholder controlled entity	25,878	9,734	25,878	9,734
	<u>28,443</u>	<u>9,734</u>	<u>28,443</u>	<u>9,734</u>

**Guarantee facility**

The guarantee facility relates to a bank guarantee established for previously leased premises by the Company which was released on 14 March 2008 at the expiration of the lease which was not renewed.

**Trade/credit facility**

A trade facility of \$5 million has been established from a director / shareholder controlled entity under more favourable terms than those that could be achieved from the Company's bankers and at arms length in the open market. Refer note 34.

**Loan from director/shareholder controlled entity**

The loan facility is provided by an entity controlled by Mr LH Ainsworth, a director and shareholder of the Company. This facility is secured by a debenture mortgage over the Group's freehold land and buildings at 10 Holker Street, Newington, NSW and a fixed and floating charge over the Company. The facilities of \$14,122,000 utilised at the reporting date exclude interest payable of \$8,880,000. The obligation for repayment of interest has been deferred until 4 January 2010 or as mutually agreed.

In December 2007 debt obligations to an entity controlled by Mr LH Ainsworth were reduced by \$18,943,000 through satisfaction of subscription monies and underwriting commitments as outlined in the Prospectus dated 21 November 2007. A further legally enforceable undertaking of financial support from a company controlled by the Executive Chairman, Mr LH Ainsworth for an amount up to \$15 million to be made available should it be required in addition to the established \$40 million facility noted above expired on 21 August 2008 and was not renewed.

A further unsecured loan of \$4,098,000 was provided during the period to expand the Company's Sydney facility and relocate all manufacturing operations from leased premises in Melbourne. This loan is under similar terms and conditions to the above facility with interest accruing from an agreed date at the rate of 8.0% per annum. The proposed terms of reimbursement are that an annual principal amount of \$350,000 will be repaid monthly in arrears upon completion of the building improvements with the full repayment of the remaining balance and interest not required to be paid until the Company has sufficient operating cashflows to do so and until amounts owing on the \$40 million facility has been repaid.



**22. Loans and borrowings** (continued)**Convertible notes***In thousands of AUD*

	Consolidated		Company	
	2008	2007	2008	2007
Proceeds from issue of 19,714,717 convertible notes on 20 December 2004	25,629	25,629	25,629	25,629
Transaction costs	(1,085)	(1,085)	(1,085)	(1,085)
Net proceeds	24,544	24,544	24,544	24,544
Amount classified as equity	(2,842)	(2,842)	(2,842)	(2,842)
Transaction costs classified as equity	121	121	121	121
Accreted interest capitalised	2,512	1,781	2,512	1,781
Carrying amount of liability at 30 June	24,335	23,604	24,335	23,604

In December 2007 and December 2009, note holders have the option to receive one ordinary share for every note held. Notes that are not converted to ordinary shares will be redeemed at face value on 31 December 2009.

**Loans – secured**

This loan was recorded at fair value at 1 July 2005, given that the interest rate applied to the facility is lower than that which could be obtained commercially and was subsequently carried at amortised cost. The maturity date of the loan was extended during the current period and as such the loan was restated to its fair value, based on the extended terms. Subsequent to the restatement on 23 May 2008, the loan will be carried at amortised cost (refer note 3(c)).

	Consolidated		Company	
	2008	2007	2008	2007
Fair value of the loan at 1 July	30,026	27,512	30,026	27,512
Additional borrowings	2,800	6,000	2,800	6,000
Set-off arrangement	(18,944)	(3,644)	(18,944)	(3,644)
Net proceeds	13,882	29,868	13,882	29,868
Amount classified as equity (a)	(654)	(313)	(654)	(313)
Accreted interest capitalised	285	471	285	471
Carrying amount of liability at 30 June	13,513	30,026	13,513	30,026

(a) Amount classified as equity relates to the restatement of borrowings to fair value resulting from the maturity date being extended to 4 January 2010.



**Finance lease liabilities**

Finance lease liabilities of the Group entity are payable as follows:

<i>In thousands of AUD</i>	Consolidated					
	Future minimum lease payments 2008	Interest 2008	Present value of minimum lease payments 2008	Future minimum lease payments 2007	Interest 2007	Present value of minimum lease payments 2007
Less than one year	948	106	842	785	97	688
Between one and five years	811	50	761	865	64	801
	1,759	156	1,603	1,650	161	1,489

<i>In thousands of AUD</i>	Company					
	Future minimum lease payments 2008	Interest 2008	Present value of minimum lease payments 2008	Future minimum lease payments 2007	Interest 2007	Present value of minimum lease payments 2007
Less than one year	941	105	836	779	96	683
Between one and five years	811	50	761	858	62	796
	1,752	155	1,597	1,637	158	1,479

The Company and Group lease plant and equipment under finance leases expiring from three to five years. At the end of the lease term, there is the option to purchase the equipment at a discount of market value, a price deemed to be a bargain purchase option. The terms of the leases require that additional debt and further leases are not undertaken without prior approval of the lessor.

**23. Employee benefits**

<i>In thousands of AUD</i>	Consolidated		Company	
	2008	2007	2008	2007
<i>Current</i>				
Salaries and wages accrued	90	60	88	60
Liability for annual leave	1,083	1,186	955	1,010
	1,173	1,246	1,043	1,070
<i>Non Current</i>				
Liability for long service leave	421	465	364	357
	421	465	364	357



**24. Share-based payments**

The Company has in place an ESOP approved on 30 July 2001.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date / employee entitled	Number of instruments	Vesting conditions	Contractual life of options
Option grant to key management at 1 April 2004	150,000	Three years of service as per ESOP below	5 years
Option grant to key management at 31 August 2004	190,000	Three years of service as per ESOP below	5 years
Option grant to senior employees at 31 August 2004	470,000	Three years of service as per ESOP below	5 years
Option grant to key management at 2 July 2007	365,375	Three years of service as per ESOP below	5 years
Option grant to senior employees at 2 July 2007	560,180	Three years of service as per ESOP below	5 years
<b>Total share options</b>	<b>1,735,555</b>		

To be eligible to participate in the ESOP the employee must be selected by the directors and reviewed by the Remuneration and Nomination Committee. Options may be exercised within a five-year period, starting on the first anniversary of the issue of the options (subject to earlier exercise where a takeover offer or takeover announcement is made, or a person becomes the holder of a relevant interest in 50% or more of the Company's voting shares).

The ESOP provides for employees to receive options for no consideration. Each option is convertible to one ordinary share. There are no voting or dividend rights attached to the unissued ordinary shares. Voting and dividend rights will be attached to the unissued ordinary shares when the options have been exercised. The exercise price of the options is determined in accordance with the rules of the ESOP. The ability to exercise the options is conditional on the achievement of performance hurdles. Accordingly, the plan does not represent remuneration for past services.

The vesting and performance conditions of the share options issued on 1 April, 31 August 2004 and 2 July 2007 are as follows:

Date	Vesting Condition [% of Options vesting]	Performance Condition (VWAP* must equal or exceed) % of Exercise Price
<b>Options issued on 1 April and 31 August 2004</b>		
First Anniversary of Grant Date	25%	100%
Second Anniversary of Grant Date	25%	120%
Third Anniversary of Grant Date	50%	140%
<b>Options issued on 2 July 2007</b>		
First Anniversary of Grant Date	20%	200%
Second Anniversary of Grant Date	20%	250%
Third Anniversary of Grant Date	60%	300%

\* The performance conditions measure the volume weighted average price at which Shares traded on the ASX for the most recent 20 Business Days upon each of which any shares were traded on ASX within 60 business days immediately preceding the relevant vesting date of those Options.



In addition to the share options issued by the Company an incentive plan was introduced whereby share options were granted to all Australian employees, excluding directors and four key management personnel. The share options granted to Australian employees totalled 10,994,707 and were granted over a portion of the personal shareholding of the Company's Executive Chairman, Mr LH Ainsworth. During the year 2,341,307 share options expired as a result of cessation of employment with the Company and Group leaving 8,653,400 share options outstanding as at 30 June 2008.

The number and weighted average exercise prices of share options is as follows:

<i>In thousands of options</i>	Weighted average exercise price 2008	Number of options 2008	Weighted average exercise price 2007	Number of options 2007
Outstanding at the beginning of the period	\$0.92	1,765	\$0.96	7,540
Forfeited during the period	\$1.02	(1,050)	\$0.97	(5,775)
Exercised during the period	-	-	-	-
Granted during the period	\$0.50	1,021	-	-
Outstanding at the end of the period	\$0.59	1,736	\$0.92	1,765
Exercisable at the end of the period	-	-	-	-

The options outstanding at 30 June 2008 have an exercise price in the range of \$0.50 to \$1.00 and a weighted average contractual life of 5.0 years.

During the 2008 financial year, no share options were exercised.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black Scholes and binomial lattice models. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into these models.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition and, for grants to key management personnel, market and non-market performance conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

## 25. Provisions

<i>In thousands of AUD</i>	Consolidated		Company	
	2008	2007	2008	2007
Restructuring	403	-	403	-
Service/warranties	359	117	359	117
	762	117	762	117

Movements during the year

### Restructuring

Balance at 1 July	-	-	-	-
Provisions made during the year	403	-	403	-
Provisions used during the year	-	-	-	-
Balance at 30 June	403	-	403	-

### Restructuring

The provision for restructuring expenses were paid in July 2008 and relate to costs, including employee costs, associated with the restructuring and relocation of manufacturing operations from leased premises in Melbourne to the Company's Sydney facility.



**25. Provisions** (continued)

<i>In thousands of AUD</i>	Consolidated		Company	
	2008	2007	2008	2007
<b>Service / Warranties</b>				
Balance at 1 July	117	100	117	100
Provisions made during the year	538	17	538	17
Provisions used during the year	(296)	-	(296)	-
Balance at 30 June	359	117	359	117

*Service / warranties*

The provision for service / warranties relates to gaming machines sold during the financial year ended 30 June 2007 and 2008. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to incur the liability over the next financial year.

**26. Capital and reserves***Share capital**In thousands of shares*

	Company	
	2008	2007
On issue at 1 July	191,411	191,411
Issued as consideration for intellectual property	2,200	-
Issued for cash	85,331	-
On issue at 30 June – fully paid	278,942	191,411

The Group has also issued share options (see note 24).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

**Equity compensation reserve**

The equity compensation reserve represents the cost of share options issued to employees that the Group is required to include in the consolidated financial statements.

**Fair value reserve**

The fair value reserve comprises the cumulative net change in fair value of related party loans and borrowings where interest is charged below market value.

**Translation reserve**

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

**Dividends**

No dividends were recommended or paid during or since the end of the financial year (2007: Nil).

**27. Operating leases***Leases as lessee*

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	Consolidated		Company	
	2008	2007	2008	2007
Less than one year	283	549	96	305
Between one and five years	203	516	-	68
	486	1,065	96	373

The Group leases a number of warehouse and office facilities under operating leases. The leases typically run for a period of 2-3 years, with an option to renew the lease after that date. Lease payments are increased every five years to reflect market rentals. None of the leases includes contingent rentals.

During the financial year ended 30 June 2008, \$554,000 was recognised as an operating expense in the income statement in respect of operating leases (2007: \$642,000).



The warehouse and office leases are combined leases of land and buildings. When the Group adopted AASBs at 1 July 2004, it was not possible to obtain a reliable estimate of the split of the fair values of the lease interest between land and buildings at inception of the leases. Therefore, in determining lease classification, the Group evaluated whether both parts were clearly operating leases or finance leases. Firstly, land title does not pass. Secondly, because the rent paid to the landlord for the building is increased to market rent at regular intervals, and the Group does not participate in the residual value of the building, it was judged that substantially all the risks and rewards of the building are with the landlord. Based on these qualitative factors it was concluded that the leases are operating leases.

## 28. Other commitments

<i>In thousands of AUD</i>	<b>Consolidated</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Employee compensation commitments</b>				
<i>Key management personnel</i>				
Commitments under non-cancellable employment contracts not provided for in the financial statements and payable:				
Within one year	395	468	379	401
	395	468	379	401

## 29. Legal matters

A creditor's statutory demand issued in December 2007 to the Company by a former distributor was withdrawn on 28 February 2008. This statutory demand alleged that approximately \$2.1 million previously paid as a deposit on a subsequently dishonoured sales contract was refundable. The Company disputed that this amount was refundable and counter claimed that approximately \$1.7 million was owed from this distributor in relation to breaches of a sales contract. Negotiations between the Company and the distributor have resulted in a successful resolution of these matters and all associated legal proceedings have been dismissed.

## 30. Regulatory matters

The manufacture and distribution of gaming machines and associated products are subject to extensive local and foreign laws, regulations and taxes. Many of these jurisdictions require licences, registrations, findings of suitability, permits, documentation and qualification and other forms of approval for manufacturers of gaming machines.

No matter is currently the subject of investigation by any regulatory authorities.

## 31. Group Entities

	<b>Country of Incorporation</b>	<b>Ownership interest</b>	
		<b>2008</b>	<b>2007</b>
<b>Parent entity</b>			
Ainsworth Game Technology Limited	Australia	-	-
<b>Subsidiaries</b>			
AGT Pty Ltd	Australia	100%	100%
Ainsworth Game Technology International GmbH	Austria	100%	100%
Ainsworth Game Technology NZ Ltd	NZ	-	100%
Ainsworth Game Technology Inc	USA	100%	100%
Ainsworth Game Technology UK Ltd	UK	-	100%
Ainsworth Game Technology (Asia) Ltd	Macau	-	96%
AGT Service Pty Ltd	Australia	100%	100%
AGT Service (NSW) Pty Ltd	Australia	100%	100%
Bull Club Services Pty Ltd	Australia	100%	100%

In the financial statements of the Company, investments in subsidiaries are measured at cost. The Company's investment in controlled entities amounted to \$2. This investment is included in other assets. Investments in associates are also accounted for at cost value. The Company has no jointly controlled entities.



**32. Reconciliation of cash flows from operating activities**

<i>In thousands of AUD</i>	Note	Consolidated		Company	
		2008	2007	2008	2007
<b>Cash flows from operating activities</b>					
(Loss)/profit for the period		(19,357)	(49,485)	(20,498)	(46,403)
<i>Adjustments for:</i>					
Depreciation	19	1,476	1,551	1,433	1,526
Amortisation of intangible assets	20	2,618	2,176	2,465	2,023
Impairment losses on intangible assets	20	1,605	3,580	1,605	3,580
Net finance costs	11	6,657	10,115	6,635	10,074
Share of profit of equity accounted investees	17	361	(211)	-	-
Gain on sale of property, plant and equipment	8	(17)	(2)	(17)	(2)
Equity-settled share-based payment transactions	9	281	27	281	27
Income tax expense	12	49	40	-	-
<b>Operating (loss)/profit before changes in working capital and provisions</b>		<b>(6,327)</b>	<b>(32,209)</b>	<b>(8,096)</b>	<b>(29,175)</b>
Change in trade and other receivables		(7,277)	45,899	(8,176)	43,096
Change in inventories		9,495	(905)	9,495	(905)
Change in other assets		368	-	320	22
Change in trade and other payables		2,214	(13,514)	2,462	(14,097)
Change in provisions and employee benefits		(16)	(439)	88	(327)
		(1,543)	(1,168)	(3,907)	(1,386)
Interest paid		(3,521)	(1,680)	(3,521)	(1,680)
<b>Net cash from operating activities</b>		<b>(5,064)</b>	<b>(2,848)</b>	<b>(7,428)</b>	<b>(3,066)</b>

**33. Financial instruments****Credit risk***Exposure to credit risk*

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

<i>In thousands of AUD</i>	Note	Carrying amount	
		2008	2007
Receivables	15	30,575	26,347
Receivables from equity accounted investees	15	449	6
		31,024	26,353

The Company's maximum exposure to credit risk at the reporting date was \$31,024 thousand (2007: \$26,353 thousand) for receivables.

The Group's gross maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

<i>In thousands of AUD</i>	Carrying amount	
	2008	2007
Australia	3,229	1,852
Americas	24,634	21,784
Europe	3,260	3,757
New Zealand	617	9
Asia	2,011	1,062
Africa	910	1,192
	34,661	29,656





The Company's gross maximum exposure to credit risk for receivables at the reporting date by geographic region was \$24,634 thousand (2007: \$21,784 thousand) for Americas, \$2,996 thousand (2007: \$1,487 thousand) for Australia, \$3,260 thousand (2007: \$3,757 thousand) for Europe, \$2,011 thousand (2007: \$1,062 thousand) for Asia and \$1,527 thousand (2007: \$1,201 thousand) for other regions, totalling \$34,428 thousand (2007: \$29,291 thousand).

The Group's most significant customer, a distributor within South America, accounts for \$12,135 thousand of the trade receivables carrying amount at 30 June 2008 (2007: \$8,104 thousand). Two subsidiaries account for \$4,162 thousand and \$2,949 thousand (2007: \$3,962 thousand and \$2,591 thousand) of the Company's receivables carrying amount.

#### *Impairment losses*

The aging of the Group's trade receivables at the reporting date was:

<i>In thousands of AUD</i>	<b>Gross 2008</b>	<b>Impairment 2008</b>	<b>Gross 2007</b>	<b>Impairment 2007</b>
Not past due	25,471	-	18,853	-
Past due 0-30 days	1,211	127	1,939	-
Past due 31-120 days	1,233	36	1,056	1
Past due 121 days to one year	2,070	1,416	1,703	110
More than one year	4,676	2,507	6,105	3,198
	<b>34,661</b>	<b>4,086</b>	<b>29,656</b>	<b>3,309</b>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

<i>In thousands of AUD</i>	<b>2008</b>	<b>2007</b>
Balance at 1 July	3,309	977
Impairment loss	730	2,332
Effect of exchange rate fluctuations	47	-
Balance at 30 June	<b>4,086</b>	<b>3,309</b>

The impairment loss of \$730,000 (2007: \$2,332 thousand) was recognised in sales, service and marketing expenses in the income statement.

Based on historic default rates, the Group believes that no impairment is necessary in respect of trade receivables not past due. Impairment allowances of \$163,000 on amounts past due up to 120 days relate to known circumstances that could impact collectibility.

Included in past due 121 days to one year is an impairment allowance of \$1.4 million relating to an overdue amount owing from a customer within South America who previously transacted business with the Group. The impairment allowance was considered necessary due to further delays in receiving monies owing and the commencement of legal action by the Group to recover all amounts owing.

An impairment allowance of \$2.5 million has been provided for past due amounts more than one year and relates to customers and distributors where the Group has either commenced legal action or has assessed potential collectability issues. The remaining balance where no impairment allowance has been provided relate to negotiated repayment plans from long standing customers and distributors who have met their obligations during the period. An additional amount relates to a settlement agreement established with a former distributor with repayments over an eleven month period. All payments are being received in line with this settlement agreement established and repayment plans and no impairment allowance is considered appropriate.



**33. Financial instruments** (continued)**Liquidity risk**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

**Consolidated  
30 June 2008**

<i>In thousands of AUD</i>	<b>Carrying Amount</b>	<b>Contractual Cash flows</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
<b>Non-derivative financial liabilities</b>							
Convertible notes							
Payable to director/shareholder controlled entities	12,654	14,927	(533)	(533)	(13,861)	-	-
Other note holders	11,681	13,777	(492)	(492)	(12,793)	-	-
Finance lease liabilities	1,603	1,759	(601)	(347)	(588)	(223)	-
Amounts payable to director/shareholder controlled entities	9,152	9,152	-	-	(9,152)	-	-
Loans from director/shareholder controlled entity	17,611	18,220	(87)	(176)	(17,957)	-	-
Trade and other payables	10,810	10,810	(10,810)	-	-	-	-
	<b>63,511</b>	<b>68,645</b>	<b>(12,523)</b>	<b>(1,548)</b>	<b>(54,351)</b>	<b>(223)</b>	<b>-</b>

**30 June 2007**

<i>In thousands of AUD</i>	<b>Carrying Amount</b>	<b>Contractual Cash flows</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
<b>Non-derivative financial liabilities</b>							
Convertible notes							
Payable to director/shareholder controlled entities	12,274	16,524	(1,066)	(531)	(1,066)	(13,861)	-
Other note holders	11,330	15,243	(975)	(491)	(984)	(12,793)	-
Finance lease liabilities	1,489	1,650	(421)	(371)	(501)	(357)	-
Amounts payable to director/shareholder controlled entities	7,064	7,064	(363)	-	(6,701)	-	-
Loans from director/shareholder controlled entity	30,026	30,266	-	-	(30,266)	-	-
Trade and other payables	7,755	7,755	(7,755)	-	-	-	-
	<b>69,938</b>	<b>78,502</b>	<b>(10,580)</b>	<b>(1,393)</b>	<b>(39,518)</b>	<b>(27,011)</b>	<b>-</b>



**Company**  
**30 June 2008**

*In thousands of AUD*

	Carrying Amount	Contractual Cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Convertible notes							
Payable to director/shareholder controlled entities	12,654	14,927	(533)	(533)	(13,861)	-	-
Other note holders	11,681	13,777	(492)	(492)	(12,793)	-	-
Finance lease liabilities	1,597	1,752	(598)	(343)	(588)	(223)	-
Amounts payable to director/ shareholder controlled entities	9,152	9,152	-	-	(9,152)	-	-
Loans from director/shareholder controlled entity	17,611	18,220	(87)	(176)	(17,957)	-	-
Trade and other payables	10,321	10,321	(10,321)	-	-	-	-
	63,016	68,149	(12,031)	(1,544)	(54,351)	(223)	-

**30 June 2007**

*In thousands of AUD*

	Carrying Amount	Contractual Cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Convertible notes							
Payable to director/shareholder controlled entities	12,274	16,524	(1,066)	(531)	(1,066)	(13,861)	-
Other note holders	11,330	15,243	(975)	(491)	(984)	(12,793)	-
Finance lease liabilities	1,479	1,637	(408)	(371)	(501)	(357)	-
Amounts payable to director/ shareholder controlled entities	7,064	7,064	(363)	-	(6,701)	-	-
Loans from director/shareholder controlled entity	30,026	30,266	-	-	(30,266)	-	-
Trade and other payables	7,445	7,445	(7,445)	-	-	-	-
	69,618	78,179	(10,257)	(1,393)	(39,518)	(27,011)	-



**33. Financial instruments** (continued)**Currency risk**

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the AUD.

The Group monitors and assesses under its Treasury Risk policy and facilities available whether hedging of all trade receivables and trade payables denominated in a foreign currency from time to time is considered appropriate. The Group uses foreign currency call options to hedge its foreign currency risk. Most of the foreign currency call options have maturities of less than one year after the balance sheet date. No foreign currency call options were in place at the reporting date due to expiry in the current period.

*Exposure to currency risk*

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

<i>In thousands of AUD</i>	USD				Euro				NZD				GBP			
	30 June 2008								30 June 2007							
Trade receivables	25,424	2,986	610	-	20,170	3,801	-	20								
Trade payables	(3,827)	(48)	(2)	(5)	(1,659)	(82)	(31)	(37)								
Net balance sheet exposure	21,597	2,938	608	(5)	18,511	3,719	(31)	(17)								

The Company's exposure to foreign currency risk was as follows, based on notional amounts:

<i>In thousands of AUD</i>	USD				Euro				NZD				GBP			
	30 June 2008								30 June 2007							
Trade receivables	28,364	2,986	610	-	22,761	3,801	-	20								
Trade payables	(3,827)	(288)	(2)	(5)	(1,659)	(364)	(31)	(97)								
Net balance sheet exposure	24,537	2,698	608	(5)	21,102	3,437	(31)	(77)								

The following significant exchange rates applied during the year:

<i>AUD</i>	Average Rate		Reporting date spot rate	
	2008	2007	2008	2007
USD	0.9056	0.7929	0.9635	0.8482
Euro	0.6142	0.6079	0.6141	0.6345
NZD	1.1829	1.1516	1.2834	1.1063
GBP	0.4528	0.4097	0.4851	0.4250



*Sensitivity analysis*

In managing currency risks the Group aims to reduce the impact of short-term fluctuations on the Group earnings. Over the longer-term, however, permanent changes in foreign exchange will have an impact on profit/(loss).

A 10 percent strengthening of the Australian dollar against the following currencies at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007.

<i>Effect in thousands of AUD</i>	<b>Consolidated</b>		<b>Company</b>	
	<b>Equity</b>	<b>Profit or (loss)</b>	<b>Equity</b>	<b>Profit or (loss)</b>
<b>30 June 2008</b>				
USD	(1,919)	(1,964)	(2,232)	(2,232)
Euro	(267)	(267)	(245)	(245)
NZD	(55)	(55)	(55)	(55)
GBP	-	-	-	-
<b>30 June 2007</b>				
USD	(1,466)	(1,682)	(1,918)	(1,918)
Euro	(363)	(338)	(313)	(313)
NZD	3	3	3	3
GBP	(2)	3	7	7

A 10 percent weakening of the Australian dollar against the following currencies at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007.

<i>Effect in thousands of AUD</i>	<b>Consolidated</b>		<b>Company</b>	
	<b>Equity</b>	<b>Profit or (loss)</b>	<b>Equity</b>	<b>Profit or (loss)</b>
<b>30 June 2008</b>				
USD	2,110	2,160	2,454	2,454
Euro	322	294	270	270
NZD	61	61	61	61
GBP	-	-	-	-
<b>30 June 2007</b>				
USD	1,614	1,851	2,110	2,110
Euro	400	372	344	344
NZD	(3)	(3)	(3)	(3)
GBP	2	(4)	(8)	(8)



**33. Financial instruments** (continued)**Fair values**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

<b>Consolidated</b>	<b>Carrying amount 2008</b>	<b>Fair value 2008</b>	<b>Carrying amount 2007</b>	<b>Fair value 2007</b>
<i>In thousands of AUD</i>				
Trade and other receivables	31,331	31,331	26,955	26,955
Cash and cash equivalents	3,735	3,735	1,157	1,157
Convertible notes	(24,335)	(24,335)	(23,604)	(23,604)
Finance lease liabilities	(1,603)	(1,603)	(1,489)	(1,489)
Amount payable to director/shareholder controlled entity	(9,152)	(9,152)	(7,064)	(7,064)
Loans from director / shareholder controlled entity	(17,611)	(17,611)	(30,026)	(30,026)
Trade and other payables	(10,810)	(10,810)	(7,755)	(7,755)
	<u>(28,445)</u>	<u>(28,445)</u>	<u>(41,826)</u>	<u>(41,826)</u>
Unrecognised (losses) / gains	-	-	-	-

<b>Company</b>	<b>Carrying amount 2008</b>	<b>Fair value 2008</b>	<b>Carrying amount 2007</b>	<b>Fair value 2007</b>
<i>In thousands of AUD</i>				
Trade and other receivables	37,874	37,874	33,006	33,006
Cash and cash equivalents	1,033	1,033	802	802
Convertible notes	(24,335)	(24,335)	(23,604)	(23,604)
Finance lease liabilities	(1,597)	(1,597)	(1,479)	(1,479)
Amount payable to director/shareholder controlled entity	(9,152)	(9,152)	(7,064)	(7,064)
Loans from director / shareholder controlled entity	(17,611)	(17,611)	(30,026)	(30,026)
Trade and other payables	(10,321)	(10,321)	(7,445)	(7,445)
	<u>(24,109)</u>	<u>(24,109)</u>	<u>(35,810)</u>	<u>(35,810)</u>
Unrecognised (losses) / gains	-	-	-	-

**Estimates of fair values**

The methods used in determining the fair values of financial instruments are discussed in note 4.

**Interest rates used for determining fair value**

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve as of 30 June 2008 plus an adequate constant credit spread and are as follows:

	<b>2008</b>	<b>2007</b>
Loans and borrowings	9.4% - 11.0%	9.4% - 11.0%
Receivables	5.8%	6.1%
Leases	6.7% - 10.4%	6.7% - 14.7%



### 34. Related parties

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

<b>Non-executive directors</b>	<b>Executives</b>
Mr SL Wallis	Mr DE Gladstone (Chief Executive Officer, Ainsworth Game Technology Limited)
Mr GJ Campbell (Appointed 18 September 2007)	Mr ML Ludski (Chief Financial Officer and Company Secretary, Ainsworth Game Technology Limited)
Mr AR Amer (Retired 20 November 2007)	Mr V Bruzzese (General Manager Technical Services, Ainsworth Game Technology Limited, appointed to role on 14 March 2008)
	Mr R Meitzler (Senior VP Sales and Operations, Ainsworth Game Technology Inc.)
<b>Executive directors</b>	
Mr LH Ainsworth (Executive Chairperson)	Mr P Curran (General Manager, Manufacturing Operations, Ainsworth Game Technology Limited)
	Mr E Eskin (General Manager, Engineering, Ainsworth Game Technology Limited, ceased to be classified as a key management personnel on 14 March 2008)

#### **Key management personnel compensation**

The key management personnel compensation included in 'personnel expenses' (see note 8) is as follows:

<i>In AUD</i>	<b>Consolidated</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Short-term employee benefits	3,144,216	2,756,144	2,270,448	2,196,564
Post-employment benefits	173,964	206,639	152,560	139,294
Termination benefits	-	207,530	-	185,127
Share based payments	19,602	4,989	8,897	4,989
	<b>3,337,782</b>	<b>3,175,302</b>	<b>2,413,905</b>	<b>2,525,974</b>

The key management personnel receive no compensation in relation to the management of the Company. The compensation disclosed above represents an allocation of the key management personnel's estimated compensation from the Group in relation to their services rendered to the Company.

#### **Individual directors and executives compensation disclosures**

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report section of the Directors' report on pages 20 to 28.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.



**34. Related parties** (continued)**Other key management personnel transactions**

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. Other than as described below the terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

<i>In AUD</i>	<i>Note</i>	<b>Transactions value year ended 30 June</b>		<b>Balance outstanding as at 30 June</b>		
		<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	
<b>Key management persons</b>	<b>Transaction</b>					
Mr LH Ainsworth	Leased property and equipment	(i)	134,404	116,070	-	-
Mr LH Ainsworth	Sales revenue	(ii)	3,293,240	16,275	2,322,659	16,275
Mr LH Ainsworth	Consultancy services	(iii)	230,000	230,000	-	-
Mr LH Ainsworth	Interest paid/payable on financing facilities	(iv)	2,178,913	2,500,311	8,880,130	6,701,217
Mr LH Ainsworth	Convertible note interest	(v)	1,069,169	1,066,297	2,921	528,766
Mr LH Ainsworth	Consultancy services to Ainsworth (UK) Ltd	(vi)	125,594	107,044	-	107,044
Mr LH Ainsworth	Sale of European assets on closure to Ainsworth (UK) Ltd	(vii)	59,567	-	-	-
Mr LH Ainsworth	Loan from director / shareholder controlled entity	(viii)	-	-	4,097,539	-

- (i) The Company leased premises in Queensland and associated plant and equipment from an entity controlled by Mr LH Ainsworth on normal commercial terms and conditions.
- (ii) Transaction was by Ainsworth (UK) Ltd, an entity controlled by Mr LH Ainsworth. These sales were on normal commercial terms and conditions.
- (iii) Mr LH Ainsworth received fees during the financial year for the provision of services under a consultancy agreement in relation to his role as Executive Chairman.
- (iv) As disclosed in note 22 a company controlled by Mr LH Ainsworth has extended a loan to the company. The maturity date of this loan was extended on 23 May 2008 until 4 January 2010. The terms of this loan are more favourable than could be obtained from the Group's bankers and at arms length in the open market.
- (v) Interest paid/payable during the financial year to Mr LH Ainsworth and entities controlled by him for Convertible Notes held. This interest was under the same terms and conditions as all Convertible Note holders.
- (vi) During the 2008 period consultancy services by Ainsworth (UK) Ltd were provided by the managing director (Mr B Marchini) of this entity to Ainsworth Game Technology International GmbH which facilitated closure of the Group's European operations. These services were on normal commercial terms and conditions.
- (vii) Asset sales were made to Ainsworth (UK) Ltd in the period on normal commercial terms and conditions following cessation of trading of Ainsworth Game Technology International GmbH.
- (viii) An additional, unsecured loan was provided during the period by a company controlled by Mr LH Ainsworth. This loan was unsecured and is under similar terms and conditions to the loan identified in (iv) above. Agreement has been reached that \$350,000 per annum is to be repaid monthly in arrears. The full repayment of the remaining balance and interest is not required to be paid until such time as the Company or Group has sufficient operating cash flows to do so, and until the \$40 million facility has been repaid.





Amounts receivable from and payable to key management personnel at reporting date arising from these transactions were as follows:

<i>In AUD</i>	Consolidated		Company	
	2008	2007	2008	2007
<b>Assets and liabilities arising from the above transactions</b>				
Current receivables				
Trade debtors	2,322,659	16,275	2,322,659	16,275
Current trade and other payables				
Amount payable to director/shareholder controlled entity	274,944	891,548	274,944	784,491
Current loans and borrowings				
Loan from director / shareholder controlled entity - unsecured	263,000	-	263,000	-
Non-current loans and borrowings				
Amount payable to director/shareholder controlled entity	8,880,130	6,701,217	8,880,130	6,701,217
Loan from director/shareholder controlled entity - unsecured	3,834,539	-	3,834,539	-
Loan from director/shareholder controlled entity - secured	13,513,412	30,026,000	13,513,412	30,026,000
Convertible notes	12,654,200	12,274,080	12,654,200	12,274,080

#### **Options and rights over equity instruments**

The movement during the reporting period in the number of options over ordinary shares in Ainsworth Game Technology Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2007	Granted as remuneration	Exercised	Other changes*	Held at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
<b>Directors</b>							
Mr SL Wallis	300,000	-	-	(300,000)	-	-	-
<b>Executives</b>							
<b>Current</b>							
Mr ML Ludski	50,000	-	-	-	50,000	25,000	-
Mr PW Walford	140,000	-	-	-	140,000	70,000	-
Mr R Meitzler	-	200,000	-	-	200,000	-	-
<b>Former</b>							
Mr K Orchard <i>(retired 30/06/08)</i>	150,000	165,375	-	-	315,375	75,000	-

	Held at 1 July 2006	Granted as remuneration	Exercised	Other changes*	Held at 30 June 2007	Vested during the year	Vested and exercisable at 30 June 2007
<b>Directors</b>							
Mr SL Wallis	300,000	-	-	-	300,000	-	-
<b>Executives</b>							
<b>Current</b>							
Mr ML Ludski	300,000	-	-	(250,000)	50,000	12,500	-
Mr PW Walford	140,000	-	-	-	140,000	35,000	-
Mr K Orchard	150,000	-	-	-	150,000	37,500	-
<b>Former</b>							
Mr G Steiner	300,000	-	-	(300,000)	-	-	-

\* Other changes represent options that expired or were forfeited during the year.

No options held by key management personnel are exercisable at 30 June 2007 or 2008 as performance hurdles have not been achieved. No options were held by key management person related parties.



**34. Related parties** (continued)**Movements in shares**

The movement during the reporting period in the number of ordinary shares in Ainsworth Game Technology Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2007	Purchases (Note A)	Received on exercise of options	Sales	Held at 30 June 2008
<b>Directors</b>					
<b>Current</b>					
Mr LH Ainsworth	118,318,816	96,780,126	-	(3,670,331)	211,428,611
Mr SL Wallis	463,128	166,852	-	-	629,980
Mr GJ Campbell	62,500	25,000	-	-	87,500
<b>Former</b>					
Mr AR Amer	69,826	-	-	-	69,826
<b>Executives</b>					
<b>Former</b>					
Mr K Orchard	17,527	-	-	-	17,527

	Held at 1 July 2006	Purchases	Received on exercise of options	Sales	Held at 30 June 2007
<b>Directors</b>					
<b>Current</b>					
Mr LH Ainsworth	117,318,816	1,000,000	-	-	118,318,816
Mr SL Wallis	463,128	-	-	-	463,128
Mr AR Amer	69,826	-	-	-	69,826
<b>Executives</b>					
<b>Current</b>					
Mr K Orchard	17,527	-	-	-	17,527
<b>Former</b>					
Mr DP Creary	20,000	-	-	-	20,000

## NOTE

(A) Purchases include 78,012,650 ordinary shares acquired pursuant to the renounceable rights issue prospectus date 21 November 2007.

No shares were granted to key management personnel during the reporting period as compensation in 2007 or 2008.

The following changes in key management in the period after the reporting date and prior to the date when the Financial Report is authorised for issue occurred:

- Mr K Orchard (Senior VP Sales, South America) retired on 30 June 2008; and
- Mr P Curran (General Manager, Manufacturing Operations) ceased employment effective 22 August 2008.

**Non-key management personnel disclosures***Subsidiaries*

Loans operate between the company and wholly owned subsidiaries for trading purposes. At 30 June 2008, the amount owed to the Company from controlled entities was \$7,264,000 (2007: \$6,445,000). At 30 June 2008, the amount owed by the Company to controlled entities was \$240,000 (2007: \$282,000). Loans outstanding between the Company and its controlled entities are interest free and repayable on demand.

During the year ended 30 June 2008 the Company was provided management services from controlled entities. Management fees charged during the year by controlled entities were \$8,170,929 (2007: \$2,220,688). The Company provided management services to a controlled entity of \$20,000 (2007: \$Nil). The Company utilised the services of controlled entities in the amount of \$112,095 (2007: \$220,946). Transactions with these controlled entities were priced on an arm's length basis and were related to service and installation of machines at gaming venues.

*Equity accounted investees*

During the financial year ended 30 June 2008, equity accounted investees purchased goods from the Group in the amount of \$9,626 (2007: \$22,504) and provided services to the Group in the amount of \$183,587 (2007: \$313,416). At 30 June 2008 equity accounted investees owed the Group \$448,943 (2007: \$6,393). Transactions with equity accounted investees are priced on an arm's length basis. No dividends were received from equity accounted investees in the 2008 or 2007 financial year.

**35. Subsequent events**

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

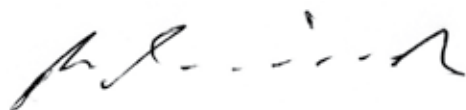


## DIRECTORS' DECLARATION

1. In the opinion of the directors of Ainsworth Game Technology Limited 'the Company':
  - (a) the financial statements and notes and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, set out on pages 35 to 80, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2008 and of their performance, for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a);
  - (c) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*, the Corporations Act 2001 and the Corporations Regulations 2001; and
  - (d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2008.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 27th day of August 2008.



LH Ainsworth  
*Executive Director*



## Independent auditor's report to the members of Ainsworth Game Technology Limited

### Report on the financial report

We have audited the accompanying financial report of Ainsworth Game Technology Limited (the Company), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 35 and the directors' declaration set out on page 81 of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Account Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, 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 report 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 directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

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

#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

#### *Auditor's opinion*

In our opinion:

- (a) the financial report of Ainsworth Game Technology Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).



### Report on the remuneration report

We have audited the Remuneration Report included in pages 20 to 28 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

#### *Auditor's opinion*

In our opinion, the remuneration report of Ainsworth Game Technology Limited for the year ended 30 June 2008, complies with Section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink, appearing to read 'C. Pasqualini'.

KPMG

A handwritten signature in black ink, appearing to read 'C. Pasqualini'.

**Carlo Pasqualini**  
*Partner*

Sydney, 27 August 2008





## Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To: the directors of Ainsworth Game Technology Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to read 'Carlo Pasqualini'.

**Carlo Pasqualini**  
*Partner*

Sydney, 27 August 2008

## CORPORATE DIRECTORY

### Directors

#### Executive Chairman

Mr LH Ainsworth

#### Non-Executive Directors

Mr SL Wallis AO

Mr GJ Campbell

#### Chief Executive Officer

Mr DE Gladstone

#### Company Secretary and Chief Financial Officer

Mr ML Ludski

### Stock Exchange Listing

The Company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.

**CODE: AGI**

### Website

[www.ainsworth.com.au](http://www.ainsworth.com.au)

### Share Registry

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Fax: +61 3 9473 2500

### Auditor

#### KPMG

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### Other Information

Ainsworth Game Technology Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

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