ANNUAL REPORT 2020

AINSWORTH GAME TECHNOLOGY

AINSWORTH

Ainsworth 2020 Annual Report

Contents

Notice of Annual General Meeting

Ainsworth Game Technology Limited
ABN 37 068 516 665

Notice is hereby given that the 2020 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 Thursday 26th November 2020 at 10:00am

RESULTS ANNOUNCEMENT FOR SIX MONTHS ENDING 31ST DECEMBER 2020:

Tuesday 23rd February 2021

Dates may be subject to change

RESULTS ANNOUNCEMENT FOR YEAR ENDING 30TH JUNE 2021:

Tuesday 24th August 2021

Dates may be subject to change

In accordance with ASX Listing Rule 4.10.3, Ainsworth Game Technology's Corporate Governance Statement can be found on its website at: *https://www.agtslots.com/investor/corporate-governance*

Performance Overview

North America

- COVID-19 pandemic imposed challenging times for AGT, revenue -37%, profit -46%.
- Revenue decline was predominately due to reduced outright unit sales expected following the intended launch of the new AStar® Curve cabinet at the National Indian Gaming Association (NIGA) Trade Show in April 2020, which was cancelled due to the pandemic.
- Operating leverage margin reduced to 35% (41% in the pcp).
- The number of machines on participation was 2,327 (Class II: 1,412 and Class III: 915), +6%.
- Participation revenue fell by A$5 million due to the closure of venues in quarter 4 of FY2020.

Australia

- Profit was down to $0.4 million given reduced fixed overhead recovery due to low sales.
- Decrease in revenue of 26%, impacted by closures of customer venues due to COVID-19.

Latin America

- Delivered profit of $2.3m in challenging market conditions.
- Decline in revenue to $42.0 due to closures across the primary markets of Mexico, Argentina, and Peru.
- An impairment review of this Cash Generating Unit (CGU) has resulted in a one-off (non-cash) impairment charge of $12 million.
- Units under gaming operations declined due to difficult conditions in this region, - 10% to 4,137.
- Reduced participation revenue and the delayed launch of new AStar® hardware have impacted operators across the region which is expected to continue into H1FY21 with progressive recovery in H2FY21.

Rest of the World

- Revenues, -39%, profit -59%, due to the reduced contribution from Novomatic compared to the pcp and challenging market conditions in Asia and New Zealand.
- Profit was down by 59% to $2.8 million.
- Online contributed $4.6 million of revenues, up 10% compared to pcp.

Online Gaming

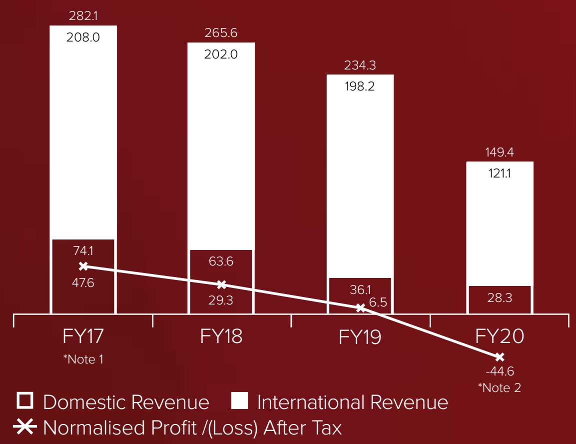
- Further progress in accelerating monetisation of on-line real money and social gaming was achieved in the period.
- The Group has now gone live with several leading operators in New Jersey to leverage proven and recognised game titles within their database of players.
- An extension to established agreements with Zynga is expected to at least maintain current royalty levels in FY2021.

Financial Highlights

- Positive underlying EBITDA of A$5.8 million (excludes one-off items).
- Strong balance sheet to self-fund growth strategies.
- Net debt of $17.5 m compared to net cash of $36.2 m at pcp.
- H2 FY20 revenues impacted, $42 million compared to $116 million in the prior comparative period; a decline of 63%.
- Strategic redundancies across the Group, at an annualised cost saving of A$10.2 million.
- R&D as a percentage of revenue at 28% (2019: 17%).

Historical Performance - AUD (M)

(Fiscal years ended June 30)

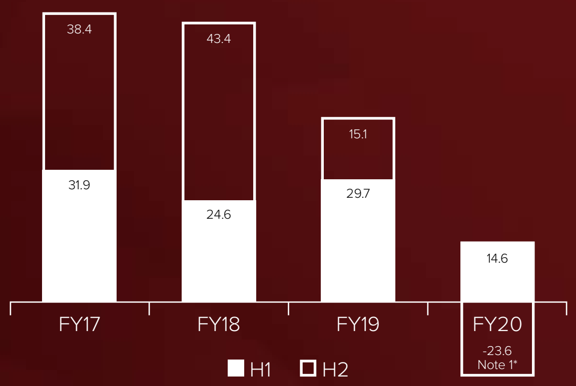


*Note 1: NPAT H1 FY17 includes $8M reversal of prior year DTL recognition

*Note 2: H2 FY20 results impacted due to COVID-19

EBITDA - AUD (M)

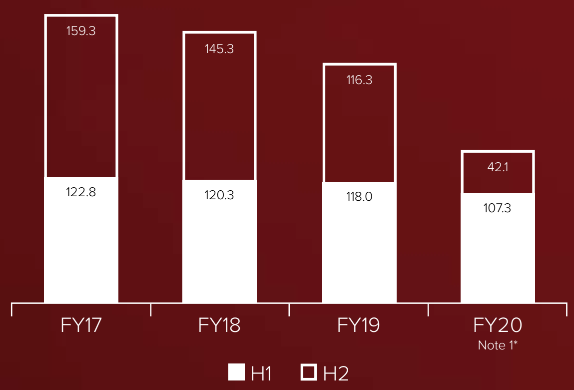
(Fiscal years ended June 30)



*Note 1: H2 FY20 results impacted due to COVID-19

Revenues - AUD (M)

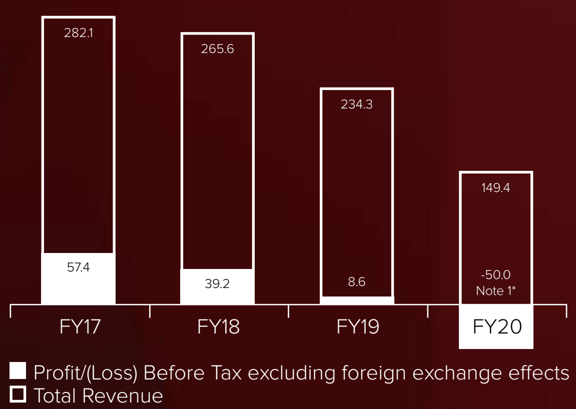
(Fiscal years ended June 30)



*Note 1: H2 FY20 results impacted due to COVID-19

Revenue/Profitability - AUD (M)

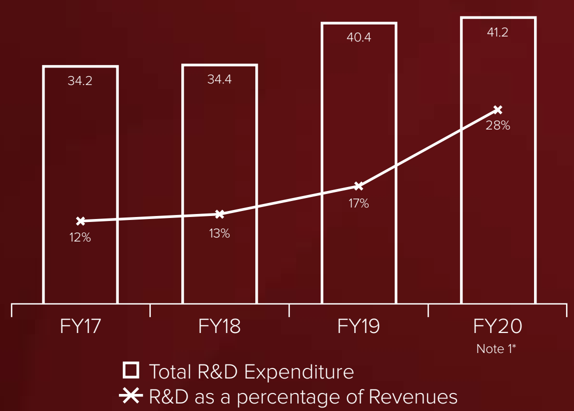
(Fiscal years ended June 30)



*Note 1: H2 FY20 results impacted due to COVID-19 and includes a $12 million non-cash impairment charge

R&D Expenditure - AUD (M)

(Fiscal years ended June 30)



*Note 1: Increase in R&D as a percentage of revenue is due lower revenues as a result of COVID-19

New Products

A-Star™

In February 2020, Ainsworth Game Technology ("Ainsworth") introduced its impressive new A-Star™ cabinet to the global gaming market which incorporates the Company's experience and extensive knowledge of the industry, into an exciting new product for its customers.

The A-Star™ takes Ainsworth to the next level with a meticulously crafted cabinet that encompasses a sleek modular design, spectacular new curved and dual screen format, dynamic LED lighting, and a state-of-the-art LCD touchscreen button deck.

Whilst focus for the development of this cabinet was on supreme engineering and best-in-class reliability, the A-Star™ launched with a comprehensive library of new game titles – including the proven Multi Games brand that continues to evolve internationally, displaying exceptional performance throughout gaming venues. The A-Star™ game portfolio includes a wide variety of core and Standalone Progressive titles, as well as an exceptional line of new Link Progressives designed with the player in mind; demonstrating the company's commitment to the market through our vast, specially developed product range and successful long-term content.

The new A-Star™ cabinet configurations, the Dual Screen featuring 2 x 27" full HD monitors and the Curve, with its 43" curved monitor, flaunt a unique and elegant design that integrates effortlessly with any casino décor. This all-new, minimalist line of cabinets takes design to a whole new level with an ultra-thin form factor, providing genuine space integration and an element of futuristic luxury, elevating their surroundings with stellar picture quality and newly added gaming features.

Online

B2B Real Money Gaming (RMG) - Ainsworth Interactive developed and certified 20 new online games for RMG European operators and certified 40 online games in New Jersey for the US RMG market in FY20. The US based remote gaming server (RGS) was launched and approved by the New Jersey Division of Gaming Enforcement (DGE) in April 2020 which went live on Golden Nugget casino.

B2B Social Casino Business - Ainsworth has licensed land-based slot content to 2 of the top 10 performing social casino apps in the world, Zynga's "Hit It Rich" & Playstudio's "MyVegas.com". Ainsworth and Zynga have extended the partnership for an additional 4 years with 6 new exclusive titles per year and has developed and launched 40 slot games on the Greentube Pro social casino gaming platform targeting Australian and US casino customers.

Mustang Money, Online Casino Operator, Mexico - Mustang Money has accumulated a player database of 151,331 registered players, with a monthly average active player database of 62,358. The platform offers over 600 unique games, 75 Ainsworth games and a diverse variety of gaming options such as Slots, Bingo, Live Casino Tables, Virtual Sports and Slot Jackpots. Mustang Money.mx also offers a wide variety of sports betting options including NFL, NBA, MLB, NHL, MLS, Liga MX, English Premiere League, La Liga, Bundesliga and Serie A.

Historical Horse Racing (HHR)

Ainsworth's award-winning Historical Horse Racing System offers a proven blend of content for operators across the country. Most recently, the Company deployed more than 400 units to Kentucky Downs Gaming near Nashville to add ito its more than 1,000 units installed in the U.S. Today Ainsworth offers more than 100 unique games on its full suite of gaming cabinets including the new A-Star™ Curve.

Rise Up™

Rise Up™ is Australia's latest game series in the Multi-denomination segment encapsulating a multi-ladder feature with two Jackpot Progressive levels and two scalable bonus prizes. The Rise Up™ feature includes multiple awards during the ladder feature with chances to win the Progressive Jackpots. Additional free games feature provide an attractive feature hit rate desirable to players. Rise Up™ is a stand-alone progressive that has been launched with two game titles, Born Free and Wizards Wand both of which are performing above average in all venues.

Rio Grande Los Toritos™

Rio Grande Los Toritos ™ This new progressive Link type is a continuation of the incredible success of Ainsworth's traditional Rio Grande Rapids ™, which has performed tremendously in casinos over the years. The iconic Bull character is one of the most recognizable figures in gaming and was the basis for the development of the 3-level progressive concept, offering Jackpots with multiple configurations that adapt to different locations. Rio Grande Los Toritos ™ includes titles such as Rio Nights ™, Rio Fiesta ™, Rio Fortune ™, and Rio Treasures ™, all with remarkably varied bonus selections, re spins, and wild bonusing, making Rio Grande Los Toritos ™ the leading product for the Latin American division of Ainsworth which will also be introduced to the Australian market for the first time in FY21.

Lucky Empress™

Lucky Empress offers players a never-ending chase experience as they aim to gather Multipliers and capitalize with huge wins throughout a persistent state gaming experience. This 243-ways game is built for the big player. It can be extremely volatile as players collect Multipliers that lead to massive opportunities.

Mega Choice Quad Shot™

Mega Choice takes the multi-game market segment to a higher level, with flexible operator and player-selectable options such as: multi lines, multi denomination, multi RTP, and multi-language. Mega Choice includes the new multi-game package, Mega Choice Quad Shot ™, which is filled with the most successful games in Ainsworth's history. Games like Diamond Dreams, Dragon Climber, Golden Zone 2, Golden Lion 2, Heart Queen, Jungle Princess, Mayan Beauty, Mystique Queen & Run with the Wolves are part of the game selection. Mega Choice Quad Shot breaks the standard by offering numerous options for operator settings, allowing casinos to maintain custom, successful math that entertains players of all levels.

Super Charged 7s Classic™/ Reel Hot 7s Classic™

The three-reel versions of Ainsworth's popular QuickSpin fits perfectly in High or Mid Denom areas. These three-reel titles offer five or-nine-line play at denoms of 25c and up. Each game can be set as multidenom or single denom. Just like every other QuickSpin title, players will win a Wheel Spin about every 56 plays.

Chairman's Report

Dear Shareholders,

Since assuming the role of chair at the conclusion of last year's Annual General Meeting, the unforeseen consequences of the COVID-19 pandemic have clearly had a significant impact on the global economy, the gaming industry in general, and your Company.

I am proud of the way Ainsworth reacted quickly to the pandemic, protecting the safety and well-being of our employees whilst initiating the necessary actions to preserve shareholders' funds.

I acknowledge the commitment of the Board and senior executive team who have personally sacrificed and overseen the actions required to ensure that Ainsworth was able to endure the downturn.

We also recognise and appreciate the assistance we have been provided by all of our stakeholders in these challenging times, including suppliers, customers and most importantly, our employees. Their dedication to serving our customers and driving innovative new products never wavered and bodes well for our future recovery.

We express our thanks to our founder Mr Len Ainsworth. Len did not hesitate to support the Company with significant rental concessions on the Newington facility. This generosity assisted our ability to withstand the financial downturn as our customers were severely restricted by Governments around the world imposing mandatory closures.

We remained focussed and productive during this period. Our goals to expand our international footprint, invest in technology to enhance the product suite, and build our participation fleet to improve the quality of earnings, have not changed.

We pursued development plans to enhance the new A-Star™ hardware released prior to the emergence of the pandemic. We strongly believe that this new hardware and more competitive game content will enable us to return to profitability and deliver better results over time.

We also took the necessary steps to rationalise our operations across all areas of the Company. Ainsworth is now well positioned to capitalise on emerging opportunities as the global gaming market progressively recovers and deliver long term positive results for shareholders.

Ainsworth's FY20 results reflect the financial consequences experienced from COVID-19. For FY20, sales revenue was $149 million, a decline of 36% compared to $234 million in FY19. With reduced trading in quarter four, the second half of the year contributed approximately 87% of this decline, which is traditionally the strongest period. Our opportunities to operate and sell new machines were inhibited as customers temporarily closed venues and cut capital expenditure programs.

The Loss after Tax for the year was $43 million. On a pre currency basis and excluding one-off items, the Loss before Tax was $35 million.

We closed the year with cash on hand of $26.5 million and a net debt position of $17.5 million. This followed the payment for the acquisition of MTD assets announced in early March 2020. MTD has performed resiliently and we remain confident that this acquisition will provide good returns over coming periods.

Our balance sheet and liquidity are also in a strong position. The current financing facilities have been re-negotiated with the previous financial covenants being replaced for the remaining term to de-risk the potential for breach. Given the effects of the pandemic, the Board has prudently decided to place the dividend policy on hold. We will retain this position until the current uncertainties in our markets become more predictable.

Combined with the actions we took to minimise capital expenditure and operational overheads; we are able to continue development activities as the industry returns to traditional activity levels.

While the FY20 results were significantly affected by COVID-19, AGT has ensured it is positioned to deliver improved performance. We have a professional workforce, an excellent industry reputation and a well-established footprint across our markets. A renewed focus of our R&D investment continues to be a primary objective allowing the efficient production of innovative products.

Acknowledgements

I would like to thank my fellow board members for their continued support which has assisted us to navigate through this period. We would like to recognise the leadership of our CEO, Mr Lawrence Levy. Since his appointment on 1st July 2019, his commitment to execute our strategies and position the Group for improved performance, have been impressive. We also acknowledge our CFO, Mr Mark Ludski, the rest of the highly capable executive team in both Australia and the Americas, as well as our dedicated and loyal employees, my fellow shareholders and of course, our customers.

Danny Gladstone
Chairman

Chief Executive Officer's Report

Dear Shareholders,

I am pleased to provide this report after completing my first full year as CEO. This was a year that none of us could have imagined; a year that has tested all of our resolve, both professionally and personally.

We are clearly living and operating in extraordinary times with Covid-19. The majority of customers across AGT's major markets suspended operations from mid-March onwards. As you would expect, the pandemic severely impacted our results, primarily in Q4 FY20, which is usually our busiest period.

Throughout the pandemic, AGT's priorities have been the health and wellbeing of its employees and the preservation of shareholders' funds.

The forced break in our normal activities due to Covid-19 compelled us to restructure the workforce, re-evaluate our processes and review our objectives. I believe we did this in a timely and forward-thinking manner. This has resulted in Ainsworth being able to maintain a positive cash balance, even reporting a positive underlying EBITDA for FY20.

During this down time, we focused on our game development strategies. We set up our entire workforce to work remotely, maintaining daily contact with management, establishing new game feature parameters and creating a pipeline of new, innovative and intuitive core products.

Looking to FY21 and beyond, I consider that the Company is in a strong position to recover. We had just launched our new A-Star™ cabinets in February 2020, prior to the global lockdown. We are now starting to roll out this hardware regionally, with Australia, North and Latin America already receiving positive feedback and strong performance numbers from our initial installations.

FY20 Results

The adverse impacts COVID-19 had on our business with closure of gaming venues and borders is reflected in our FY20 results. On a pre-currency basis, we reported a Loss before Tax of $50.0 million compared to a Profit of $8.7 million in FY19. Sales revenue for the year was $149.4 million, a decrease of 36%. International revenues were $121.1 million, a decline of $77.1 million compared to FY19 predominately from the Americas. Gross profit was down by 35% to $90.4 million with gross margins maintained at 60%. Group EBITDA was negative $9.0 million compared to $44.8 million in FY19. Underlying EBIDTA, adjusted for currency and out of ordinary items including $12.0 million non-cash impairment charge recognised, was $5.8 million.

North America, our largest segment, delivered revenue of $72.1 million, a decline of 37%. Consequently, profitability was down by 46% to $25.3 million. The pandemic delayed the planned launch of the A-Star™ cabinet at the NIGA show in April 2020, where we were expecting to see some uplift in sales during the last quarter of FY20. I remain confident that this segment will return to a higher profit level with the progressive reopening of gaming venues and the continued success of our Class II Historical Horse Racing (HHR) products.

Unit sales closed at 1,430 compared to 2,952 in FY19. Last year, in Q4 alone, we delivered 1,364 units. This demonstrates that the pandemic has had a significant impact on this market with just over 100 units being delivered in this period.

The number of machines under gaming operations in North America increased by 6% to 2,327. The increase in the gaming operations installed base is a result of additional HHR units installed at Red

Mile and Ellis Park. Yield per day was maintained at US$26 despite the competitive nature of the market.

The acquisition of the assets of MTD in March 2020 has so far provided positive results, contributing positive EBITDA to our overall group results. This acquisition is expected to complement our current product lines with MTD's top performing Poker, Keno and Video Reel content and is expected to further grow AGT's footprint in North America.

Latin America revenue was $42.0 million, a reduction of 42% compared to FY19. The segment profit was $2.3 million, down from the $24.0 million that was delivered in the previous year. We sold 1,404 units in FY20, compared to 2,931 units in FY19. This region continues to be severely impacted by closures across the primary markets in Mexico, Argentina and Peru.

Given the uncertainty on the timing of recovery in the Latin America region and the increasing pressure on this region's working capital, we have prudently recorded a non- cash impairment charge of $12.0 million against the leased assets within this region.

In our **Rest of the World** segment, revenues fell by 39% to $7.0 million. We had a reduced contribution from Novomatic compared to last year. The Asia market has been adversely impacted by COVID-19 with some closures and travel restrictions still in place. To mitigate the declining profits within this region, we have signed agreements with several new, third-party distributors in both Asia and Europe. Additionally, we have collaborated with Novomatic to act as its sales and service unit in the Asia Pacific regions and this is expected to create new revenue streams for AGT.

Online gaming contributed $4.6 million, an increase of 10% compared to last year. With the launch of US based RGS (remote gaming server), which was approved by the New Jersey Division of Gaming Enforcement in April 2020, and an extension of partnerships with top performing social gaming providers, we are expecting to increase our online revenue contribution in coming periods.

Turning to **Australia,** the revenue dropped by 22% to $28.3 million. Segment profit was low at $0.4 million, due to the fixed overheads within this segment. Although the closures of venues in March 2020 has affected our domestic sales in the last quarter of FY20, encouragingly with the lower cases of COVID-19 compared to other regions, we are expecting a positive progressive recovery in FY21 with market reopening's, as well as the release of the A-Star™ cabinet and refocus game development to deliver an improved game library for this region.

Total operating costs have decreased by 6% although the true underlying rate for the year was much lower at 10%.

Sales service and marketing expenses decreased by $5.6 million. Excluding the adverse current impact of $3.1 million, the decrease was $8.7 million. The decrease in costs is a direct result of reductions in direct variable selling costs associated with sales and COVID-19 restrictions.

R&D expenses were at $41.2 million, similar to FY19. The higher amortisation costs due to the commercialisation of previously capitalised projects and third-party contractor costs offset the reductions in personnel costs resulting from stand downs, furloughs and JobKeeper subsidies. Despite the initial reduced working hours in the R&D workforce, a gradual re-introduction of normal working hours has occurred to ensure that timely approval of new games is achieved in preparation for when markets fully recover from the pandemic.

Chief Executive Officer's Report (Continued)

Administrative expenses of $22.2 million was 11% lower than FY19, predominately due to a decline in personnel costs resulting from a reduction in working hours, voluntary pay reductions and contribution of JobKeeper subsidies. These cost disciplines are expected to continue for at least the first half of FY21.

We repaid $27.3 million of debt during the year and had a net debt balance of $17.5 million with a closing cash balance of $26.5 million. To support our customers during the mandatory closure periods, we suspended our recurring fees and extended payment terms to our customers. This has contributed to the decline in our net cash from operating activities, with some offset in the reduction of operating cash outflows.

Our facility with the ANZ Bank has now reduced to $60 million and has been restructured, with previous covenants being replaced with maintenance of minimum liquidity levels and quarterly sales targets. We remain focused on ensuring that our liquidity and balance sheet strengthen during this challenging time.

Outlook

AGT has the liquidity required to sustain the Company through the current recovery period. I anticipate that FY21 will be a year of two distinct halves. Half 1 will be about safety and security through the reopening phase; Half 2 will be about recuperation and development as we enter the "new normal" phase.

I am confident AGT can drive improved long-term growth by first focusing on our customers; working closely with the operators to ensure maximum returns on potentially rationalized resources. We will also focus on strengthening our R&D/game development and consolidating business practices across all regions.

Our execution priorities to deliver improved performance are clear:

1. Our proprietary HHR product is performing exceptionally well in North America and we see excellent opportunities to leverage our expertise in this area and expand our footprint.
2. Continue to grow unit sales in the key Class II and Class III North American markets.
3. Increase the number of units in gaming operations by developing specific game content to generate high quality recurring revenues.
4. Continue with the restructuring of our R&D department, launching new, innovative and intuitive games to reenergise and improve our performance in the domestic and international markets.
5. Increased strategic cooperation with Novomatic through new distribution channels, shared technical expertise and online interactive synergies with Greentube, Novomatic's online interactive division.
6. Further expand our online capabilities with a focus on content distribution and interactive product innovation for online markets in Europe and the Americas.
7. Maintain strong capital disciplines and cost controls to enhance our financial strength, provide flexibility, and self-fund our organic growth strategies.

I wish to express my appreciation to Danny Gladstone as the Chairman for his ongoing commitment to the Company. Danny, along with the other Board directors have offered significant guidance and support through these complicated times brought on by Covid-19.

I would also like to thank the executive teams from North America, Latin America and Australia for their hard work and dedication throughout the year. Finally, thanks to our talented employees, our supportive shareholders and, importantly, our customers who are at the centre of everything we do.

Lawrence Levy
Chief Executive Officer

Board of Directors

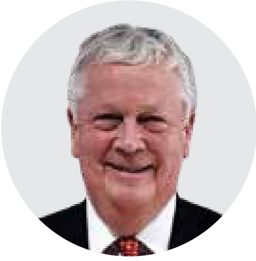
Danny Gladstone

Chairman and Non-Executive Director

Former Chief Executive Officer and Executive Director until 30 June 2019

Appointed Non-Executive Director 1 July 2019

Chairman since 26 November 2019



Graeme Campbell

OAM

Lead Independent Non-Executive Director

Chairman - Audit Committee

Member - Remuneration and Nomination Committee

Appointed 18 September 2007

Michael Yates

B.Com (with merit), LLB

Independent Non-Executive Director

Chairman – Regulatory and Compliance Committee

Member - Remuneration and Nomination Committee

Member – Audit Committee

Appointed 15 December 2009

Colin Henson

Dip-Law BAB, FCPA, FCG (CS, CGP) FAICD

Independent Non-Executive Director

Chairman – Remuneration and Nomination Committee

Member – Regulatory and Compliance Committee

Member – Audit Committee

Appointed 3 April 2013

Harald Neumann

Non-Executive Director

Former Chief Executive Officer and Chairman of the Executive Board of Novomatic until February 2020

Currently Senior Advisor to Novomatic AG

Appointed 21 February 2017

Shareholder Information

INFORMATION ABOUT SHAREHOLDERS

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

SHARE HOLDINGS (AS AT 30 SEPTEMBER 2020)

Number of shareholders and shares on issue

The issued shares in the Company were 336,793,929 ordinary shares held by 4,538 shareholders.

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number of Ordinary Shares
Novomatic AG	178,150,817
Votraint No. 1019 Pty Ltd (MCA Private Investment A/C)	30,133,804
Allan Gray Investment Management	28,342,992
Spheria Asset Management	21,111,725

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.

Options and Performance Rights

Option and performance right holders have no voting rights.

Distribution of shareholders

	NUMBER OF EQUITY SHAREHOLDERS		
Category	Ordinary Shares	Performance Rights	Options
1 – 1,000	1,053	–	1
1,001 – 5,000	1,949	143	23
5,001 – 10,000	642	79	25
10,001 – 100,000	819	62	335
100,001 and over	75	1	5
Total	**4,538**	**285**	**389**

The number of shareholders holding less than a marketable parcel of ordinary shares is 1,428 (948,008 ordinary shares).

On market buy-back

There is no current on market buy-back of ordinary shares.

Unquoted equity securities

At 30 September 2020, 2,622,010 performance rights and 9,635,402 unlisted non-transferable options have been issued to 285 and 389 employees, respectively. These performance rights and options 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 divesture of shares, suspend voting rights and suspend payments of certain amounts to shareholders.

Shareholder Information (continued)

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of total
NOVOMATIC AG	178,150,817	52.90
VOTRAINT NO 1019 PTY LIMITED <MCA PRIVATE INVESTMENT A/C>	30,133,804	8.95
CITICORP NOMINEES PTY LIMITED	22,633,016	6.72
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	20,953,175	6.22
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	12,292,590	3.65
ASSOCIATED WORLD INVESTMENTS PTY LTD	10,616,580	3.15
NATIONAL NOMINEES LIMITED	5,228,460	1.55
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,788,035	0.53
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	1,736,693	0.52
THE PAVILION MOTOR INN OF WAGGA WAGGA PTY LTD	1,500,000	0.45
BNP PARIBAS NOMS (NZ) LTD <DRP>	1,338,190	0.40
WRITEMAN PTY LIMITED <P L H A INVESTMENT A/C>	1,291,200	0.38
CASOLA HOLDINGS PTY LTD <NORDIV HOLDINGS S/FUND A/C>	1,070,000	0.32
BNP PARIBAS NOMS PTY LTD <DRP>	1,032,004	0.31
MR CHRISTIAN JOHN HASTINGS AINSWORTH	770,650	0.23
MR SASHA ALEXANDER CAJKOVAC	692,819	0.21
MISS PATTARAWADEE SMARNKEO	684,999	0.20
MR RICHARD JAMES GOLDSACK + MS AMANDA JANE HAY <GOLDSACK & HAY FAMILY A/C>	546,273	0.16
RATCLIFFE SMSF PTY LTD <RATCLIFFE SUPERFUND A/C>	533,451	0.16
MS AMY WAI-CHUN CHAN	490,000	0.15
Total	**293,482,756**	**87.16**

Directors' Report

for the year ended 30 June 2020

The directors present their report together with the consolidated financial statements of the Group comprising of Ainsworth Game Technology Limited (the Company) and its subsidiaries for the financial year ended 30 June 2020 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, qualifications and independence status	Age	Experience, special responsibilities and other directorships
CURRENT		
Mr Daniel Eric Gladstone Chairman and Non-Executive Director	65 yrs	— Danny has held senior positions within the gaming industry over a successful career spanning 40 years. — Former Chairman of Gaming Technologies Association. — Inducted into the Club Managers Association Australia Hall of Fame in 2000. — Member of Regulatory and Compliance Committee since 2010 until 30 June 2019. — Chief Executive Officer since 2007 (Executive Director since 2010) until 30 June 2019. — Non-Executive Director since 1 July 2019, appointed Chairman on 26 November 2019.
Mr Graeme John Campbell OAM Lead Independent Non-Executive Director	63 yrs	— Graeme has specialised in the area of liquor and hospitality for over 30 years in corporate consultancy services with particular emphasis on hotels and registered clubs. — Former Chairman of Harness Racing NSW, Former Director of Central Coast Stadium and Blue Pyrenees Wines. — Former Director and Chairman of Lantern Hotels Group. — Recipient of J.P. Stratton award and Ern Manea Gold Medal. Inducted into the Inter Dominion Hall of Fame in February 2014. Awarded Order of Australia medal in January 2018 for services to harness racing. — Director of Liquor Marketing Group Limited (Bottle Mart) since 2013. — Director of NSW Harness Racing Club since October 2016. — Chairman of Audit Committee of Illawarra Catholic Club Group. — Member of Audit Committee since 2017 until 26 November 2019 - appointed Chairman from 26 November 2019, member of Regulatory and Compliance Committee until 1 July 2017, member of Remuneration and Nomination Committee since 2015. — Lead Independent Non-Executive Director since 2013 until appointed Chairman in 2016 until 26 November 2019. Lead independent Non-Executive Director since 26 November 2019.
Mr Michael Bruce Yates B.Com (with merit), LLB Independent Non-Executive Director	66 yrs	— Michael has extensive commercial and corporate law experience in a career spanning over 35 years. — He is a former senior corporate partner of Sydney Law practices Holding Redlich and Dunhill Madden Butler and has acted for a number of clients involved in the gaming industry. — Director since 2009. — Chairman of Regulatory and Compliance Committee since 2013, member of Audit Committee since 2015 and member of Remuneration and Nomination Committee since 26 November 2019.

Name, qualifications and independence status	Age	Experience, special responsibilities and other directorships
CURRENT		
Mr Colin John Henson, Dip-Law BAB; FCPA; FCG (CS, CGP) FAICD Independent Non-Executive Director	72 yrs	– Colin has had a lengthy career in senior corporate positions and as a director of private and publicly listed companies across a broad range of industries. – Former directorships include; Executive Chairman of Redcape Property Fund Limited, an ASX Listed Property Trust; Chairman and non-executive director of Videlli Limited. – Fellow of the Australian Institute of Company Directors, Fellow of CPA (Certified Practising Accountants) Australia and Fellow of the Governance Institute of Australia. Colin is also a non-practising member of the Law Society of NSW. – Director since 2013. – Member of Audit Committee since 2017 and Chairman from 1 April 2017 until 26 November 2019. Member of Audit Committee from 26 November 2019. – Chairman of Remuneration and Nomination Committee since 2015. – Member of Regulatory and Compliance Committee since 26 November 2019.
Mr Harald Michael Karl Neumann Non-Executive Director	58 yrs	– Harald has extensive leadership experience in senior executive positions in a career spanning over 20 years mainly within technology companies. – Former Regional Chief Executive Officer at Alcatel AG (now Alcatel–Lucent) a global tele-communications equipment Company. – Former Managing Director at Bundesrechenzentrum GmbH, the Austrian government's information technology service provider, until 2006. – Former CEO of G4S Security Services Austria AG, the Austrian subsidiary of one of the world's leading integrated security companies before joining Novomatic in 2011. – Chief Executive Officer and Chairman of the Executive Board of Novomatic from 2014 until 29 February 2020. From February 2020 undertakes role as Senior Advisor to Novomatic AG. – Graduate of the Vienna University of Economics and Business, Board Member of the American Chamber of Commerce. Member of the Rotary Club Klosterneuburg and Member of the Supervisory Board of Casinos Austria AG since 2017. – Non-Executive Director since 2017.
FORMER		
Ms Heather Alice Scheibenstock GAICD, FGIA Independent Non-Executive Director	52 yrs	– Heather has extensive leadership experience within the gaming and hospitality industries specialising in strategic planning and offshore growth spanning over 30 years. – She has previously held senior executive roles at Echo Entertainment and Solaire Group. – Former director of Southern Metropolitan Cemeteries Trust. – Director of Ability Options since 2017 and SenSen Networks Ltd from 7 September 2018. – Chair of Audit and Risk Committee at SenSen Networks Ltd. – Member of Australian Institute of Company Directors and Women on Boards. – Fellow of Governance Institute of Australia. – Member of Remuneration and Nomination Committee since 2016. – Member of Regulatory and Compliance Committee since 2017 – Director since 2016, resigned on 26 November 2019.

2. COMPANY SECRETARY

Mr Mark L Ludski has held the position of Company Secretary since 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 leading accounting firms where he had experience in providing audit, taxation and business advisory services.

Mr ML Ludski is a Chartered Accountant holding a Bachelor of Business degree, majoring in accounting 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:

	Board Meetings		Audit Committee Meetings		Remuneration & Nomination Committee Meetings		Regulatory & Compliance Committee Meetings	
Director	A	B	A	B	A	B	A	B
GJ Campbell	14	14	2	2	3	3	–	–
MB Yates	14	14	2	2	2	2	4	4
DE Gladstone	14	14	–	–	–	–	–	–
CJ Henson(1)	14	14	2	2	3	3	2	2
HK Neumann(2)	8	8	–	–	–	–	–	–
HA Scheibenstock(3)	4	4	–	–	1	1	1	1

A - Number of meetings attended

B - Number of meetings held during the year (excluding approved leave of absence and meetings held whilst not a director/member)

(1) Mr CJ Henson was appointed a member of the Regulatory & Compliance Committee on 26 November 2019 and had approved leave of absence for one meeting during the year due to international travel commitments.

(2) Mr HK Neumann had approved leave of absence for six Board meetings during the financial year due to time difference difficulties and his international country of residence.

(3) Ms HA Scheibenstock resigned on 26 November 2019 and meetings held are recorded during her tenure as a director.

All associated Board documentation and discussions held during these meetings were provided to ensure their knowledge of any Company business was appropriately made available.

4. PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial year were the design, development, production, lease, sale and servicing of gaming machines and other related equipment and services. The Group continues to execute strategies to expand and diversify its product offerings within both land-based and online gaming markets, including social gaming and licensed "Real Money" gambling markets.

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

Objectives

Ainsworth is a well-established and recognised gaming machine developer, designer and manufacturer operating in local and global markets. Our strategy is to profitably and sustainably expand this footprint by leveraging off our deep expertise and substantial experiences for the benefit of all shareholders.

The Group's objectives are to:

- reduce operating expenditure and maintain liquidity whilst the economic effects of COVID-19 continue;
- focus on regaining market share decline in domestic market and growing international revenue;
- improve profitability within geographical markets that are expected to achieve the greatest contributions to the Group's financial results, and creation of growth;
- diversify and expand on contributions from recurring revenue through units under gaming operation;

- prudently invest in product research and development in order to provide quality market leading products that are innovative and entertaining, and result in increased player satisfaction and therefore greater venue profitability;
- expand presence within online gaming markets, including social gaming and licensed "Real Money" gambling markets;
- prudently manage levels of investment in working capital and further improve cash flow from operations to facilitate investment in growth opportunities; and
- provide an improved return on shareholder equity through profitability, payment of dividends and share price growth.

In order to meet these objectives, the following priority actions will continue to apply in future financial years:

- grow the Group's footprint and operating activities in domestic and international markets;
- continual investment in research and development to produce innovative products with leading edge technology;
- manage product and overhead costs through improved efficiencies in supply chain and inventory management;
- actively pursue initiatives to improve and reduce investment in working capital;
- maintain best practice compliance policies and procedures and increase stakeholder awareness of the Group's regulatory environment; and
- ensure retention and development of the Group's talent base.

5. OPERATING AND FINANCIAL REVIEW

Overview of the Group

The Group recorded a statutory net loss after tax of $43.4 million for the year ended 30 June 2020, compared to the $10.9 million profit recorded in 2019. The loss after tax, excluding the effect of net foreign currency movement was $44.2 million which is a decrease of 780% compared to $6.5 million profit in 2019. The current year loss before tax result, excluding the effect of net foreign currency gains, was $50.0 million.

The Group recorded a statutory net loss before tax of $48.8 million which includes a non-cash impairment charge of $12.0 million relating to the write down of assets within the Latin America Cash Generating Unit ("CGU"), other one-off non-recurring costs of $7.0 million and $3.8 million of other benefits received as a result of COVID-19, including JobKeeper subsidies. Excluding these out of ordinary items and currency, the Group reported an underlying net loss before tax of $34.8 million.

The following table summarises the results for the year:

In millions of AUD	12 months to 30 June 2020 Statutory	AASB 16 Leases	12 months to 30 June 2020 Underlying	12 months to 30 June 2019	Variance %
Total Revenue	**149.4**	**–**	**149.4**	**234.3**	**(36.2%)**
Underlying EBITDA	5.8	(2.2)	3.6	43.0	(91.6%)
Reported EBITDA	(9.0)	(2.7)	(11.7)	44.8	(126.1%)
EBIT	**(49.0)**	**(0.3)**	**(49.3)**	**11.4**	**(532.5%)**
(Loss)/profit before tax	(48.8)	0.6	(48.2)	14.7	(427.9%)
(Loss)/profit for the year	**(43.4)**	**0.4**	**(43.0)**	**10.9**	**(494.5%)**
Total assets	**465.5**	**(15.8)**	**449.7**	**483.3**	**(7.0%)**
Net assets	**354.6**	**(0.7)**	**353.9**	**393.5**	**(10.1%)**
Earnings per share (fully diluted)	(13.0 cents)	–	(13.0 cents)	3.0 cents	(533.3%)

5. OPERATING AND FINANCIAL REVIEW (continued)

A reconciliation of the reported EBITDA to the underlying EBITDA is shown in the following table:

In millions of AUD	12 months to 30 June 2020 Statutory	AASB 16 Leases	12 months to 30 June 2020 Underlying	12 months to 30 June 2019	Variance %
Reconciliation:					
(Loss)/profit before tax	**(48.8)**	**0.6**	**(48.2)**	**14.7**	**(427.9%)**
Net interest income	(0.2)	(0.9)	(1.1)	(3.3)	(66.7%)
Depreciation and amortisation	40.0	(2.4)	37.6	33.4	12.6%
Reported EBITDA	**(9.0)**	**(2.7)**	**(11.7)**	**44.8**	**(126.1%)**
Foreign currency gains	(1.2)	–	(1.2)	(6.0)	(80.0%)
Impairment losses (LATAM CGU)	12.0	–	12.0	–	N/A
Impairment losses (616 Digital LLC)	0.7	–	0.7	1.9	(63.2%)
Impairment losses (Receivables)	3.4	–	3.4	0.9	277.8%
Impairment losses (NSW Service Goodwill)	–	–	–	2.4	N/A
Bad debt recoveries	(0.2)	–	(0.2)	(1.0)	(80.0%)
Legal costs and settlement claims	2.7	–	2.7	–	N/A
Redundancy costs	1.2	–	1.2	–	N/A
JobKeeper subsidies	(2.8)	–	(2.8)	–	N/A
US payroll tax refund	(0.5)	–	(0.5)	–	N/A
Rent concessions	(0.5)	0.5	–	–	N/A
Underlying EBITDA	**5.8**	**(2.2)**	**3.6**	**43.0**	**(91.6%)**

The information presented in this review of operations has not been audited in accordance with the Australian Auditing Standards.

Shareholder returns

$'000	2020	2019	2018	2017	2016
(Loss)/profit attributed to owners of the company	($43,433)	$10,895	$31,936	$37,930	$55,703
Basic EPS ($A)	($0.13)	$0.03	$0.10	$0.12	$0.17
Dividends paid	–	$8,313	$4,966	$16,386	$32,245
Change in share price ($A)	($0.26)	($0.37)	($1.12)	No Change	($0.41)

Net profit amounts for 2016 to 2020 have been calculated in accordance with Australian Accounting Standards (AASBs).

Investments for future performance

As a result of the COVID-19 pandemic a re-evaluation of business operations was required to reduce all operational expenditure across the Group to protect liquidity and mitigate financial results whilst revenue declines are experienced. The Group has conducted a comprehensive review to evaluate opportunities within domestic and international gaming sectors during the period. Further investments in research and development have been evaluated to ensure previously implemented changes in game development are pursued to complement the release of the new A-Star™ hardware in February 2020. This investment is expected to assist the ongoing expansion and breadth of innovative, technically advanced and consistently high performing products.

During the year, the Group continued to execute previously identified strategies and plans across its global product development operations, which most notably includes game development, software and hardware activities. The Group has significantly bolstered its ability to develop highly competitive game content as a consequence of expanding its internal studios through the appointment of additional experienced game developers to its internal studios in Australia and Las Vegas. Furthermore, the Group has in place agreements with third-party game development studios located in Australia and overseas to further diversify the Group's game content and complement the innovation capabilities of the Group's internal studios.

The Group has now started to secure key regulatory approvals for a new EGM software platform that will power the Group's future range of games. This software platform provides a more "off-the-shelf" development environment that allows the Group to deliver a broader and more complex range of gaming content as well as to benefit from the efficiencies provided by modern software development methodologies and tools. This has also enabled the Group to attract new software development talent from a larger pool of highly skilled software developers.

Ainsworth Interactive is now a self-contained division that is engaged in the design, development and distribution of digital gaming solutions for regulated online real-money gaming, social casino and mobile gaming worldwide. This strategy is to focus on expanding our game content distribution network throughout the online markets of Europe, Latin America ("LATAM") and the USA, continuing to invest in interactive product innovation.

We have extended our game content development and licensing agreement with the NASDAQ listed Zynga Inc that will extend and deepen Ainsworth and Zynga's existing strategic relationship through the addition of new Ainsworth interactive content to Zynga's "Hit It Rich" social casino app.

Our B2C casino, Mustang Money, continues to grow its player database and its revenues in line with expectations. We have launched strategic advertising campaigns with Facebook, Instagram and Twitter geared at positioning Ainsworth's iconic brands as a premiere online wagering offering in Mexico.

Ainsworth's recent acquisition of MTD, a Montana-based game development company that specializes in video poker and keno products, is focused on expanding delivery of these products into more traditional Class III markets, such as Nevada and California.

The Group's Class II Historical Horse Racing (HHR) products are experiencing more placements into existing and new markets, with Ainsworth already integrating products from other manufactures such as IGT, SciGames and Konami. This niche product is a top performer in its class.

The synergies with Group's majority shareholder, Novomatic AG (NAG), continue to expand. Ainsworth has been appointed non-exclusive distributor for NAG's products across Asia Pacific. Improved cooperation for technical, commercial and content sharing will benefit both companies moving forward.

Significant changes in the state of affairs

Other than matters arising from the impacts of the COVID-19 pandemic discussed in the operating and financial review in the Directors' report and elsewhere in this financial report, there were no significant changes in the state of affairs of the Group during the financial year.

5. OPERATING AND FINANCIAL REVIEW (continued)

Review of principal businesses

Results in the current period and prior corresponding period are summarised as follows:

In millions of AUD	12 months to 30 June 2020	12 months to 30 June 2019	Variance Favourable/ (Unfavourable)	Variance % Favourable/ (Unfavourable)
Segment revenue				
Australia and the Rest of the World				
Australia	28.3	36.1	(7.8)	(21.6%)
Rest of the World	7.0	11.5	(4.5)	(39.1%)
Total Australia and the Rest of the World	**35.3**	**47.6**	**(12.3)**	**(25.8%)**
Americas				
North America	72.1	114.0	(41.9)	(36.8%)
Latin America	42.0	72.7	(30.7)	(42.2%)
Total Americas	**114.1**	**186.7**	**(72.6)**	**(38.9%)**
Total segment revenue	**149.4**	**234.3**	**(84.9)**	**(36.2%)**
Segment result				
Australia and the Rest of the World				
Australia	0.4	2.8	(2.4)	(85.7%)
Rest of the World	2.8	6.8	(4.0)	(58.8%)
Total Australia and the Rest of the World	**3.2**	**9.6**	**(6.4)**	**(66.7%)**
Americas				
North America	25.3	47.1	(21.8)	(46.3%)
Latin America	2.3	24.0	(21.7)	(90.4%)
Total Americas	**27.6**	**71.1**	**(43.5)**	**(61.2%)**
Total segment result	**30.8**	**80.7**	**(49.9)**	**(61.8%)**
Unallocated expenses				
Net foreign currency gains	1.2	6.0	(4.8)	(80.0%)
R&D expenses	(41.2)	(40.4)	(0.8)	(2.0%)
Corporate expenses	(22.2)	(25.0)	2.8	11.2%
Other expenses	(15.4)	(4.3)	(11.1)	(258.1%)
Share of loss of equity-accounted investee	–	(0.1)	0.1	N/A
Total unallocated expenses	**(77.6)**	**(63.8)**	**(13.8)**	**(21.6%)**
Less : interest included in segment result	(2.2)	(5.5)	3.3	(60.0%)
EBIT	**(49.0)**	**11.4**	**(60.4)**	**(529.8%)**
Net interest income	0.2	3.3	(3.1)	(93.9%)
(Loss)/profit before income tax	**(48.8)**	**14.7**	**(63.5)**	**(432.0%)**
Income tax benefit/(expense)	5.4	(3.8)	9.2	242.1%
(Loss)/profit after income tax	**(43.4)**	**10.9**	**(54.3)**	**(498.2%)**

Directors' Report (continued)

for the year ended 30 June 2020

Key performance metrics	% of revenue 12 months to 30 June 2020	12 months to 30 June 2019	Variance Points
Segment result margin			
Australia and the Rest of the World			
Australia	1.4	7.8	(6.4)
Rest of the World	40.0	59.1	(19.1)
Total Australia and the Rest of the World	**9.1**	**20.2**	**(11.1)**
Americas			
North America	35.1	41.3	(6.2)
Latin America	5.5	33.0	(27.5)
Total Americas	**24.2**	**38.1**	**(13.9)**
Segment result margin	**20.6**	**34.4**	**(13.8)**
R&D expense	27.6	17.2	10.4
Adjusted EBIT[1]	(33.6)	2.3	(35.9)
Adjusted (loss)/profit before income tax[1]	(33.5)	3.7	(37.2)
Adjusted (loss)/profit after income tax[1]	(29.9)	2.1	(32.0)

	%		Variance
Effective tax rate	11.1	25.9	(14.8)

[1] Excludes net foreign currency gain of $1,245 thousand (2019: $6,045 thousand)

The COVID-19 pandemic has created a very challenging period for AGT's people, the gaming industry it operates in, particularly the land-based sector and customers. The pandemic has materially impacted our FY20 results. COVID-19 restrictions mean that customers across all AGT's markets had to suspend their operations from mid-March 2020. Some reopening of customers' facilities have occurred since that time, although venues have reduced capital expenditure due to visitations being well below pre-pandemic levels.

During this period, AGT's priorities are the health and wellbeing of its employees and the preservation of shareholders' funds. The Group is providing flexibility for staff to work safely and remotely.

Revenue

Revenue for the period was $149.4 million, compared to $234.3 million in 2019, a decrease of 36%. International revenue contributed 81% of total revenue, compared to 85% in prior corresponding period.

Revenue across all land-based business was adversely impacted by closures of customer venues due to COVID-19, resulting in an overall decline in the Group's primary markets, North America, Latin America and Australia. The closure in March 2020 impacted the Group's revenue in quarter 4, which typically is the Group's strongest quarter. Revenue from the Group's online market reported an increase of 10% compared to prior corresponding period.

International revenue was $121.1 million compared to $198.2 million in 2019, a decrease of 39%, mainly driven by the decrease in sales in the Americas. The Americas contributed 94% of total international revenue, with North America and Latin America representing 59% and 35% respectively.

The North American region reported revenue of $72.1 million, compared to $114.0 million the previous corresponding period in 2019, a decline of 37%. Participation revenue fell by $4.8 million due to the closure of venues in quarter 4 of FY20. The overall revenue decline was predominately due to reduced outright unit sales expected following the intended launch of the new A-Star™ Curve cabinet at the National Indian Gaming Association (NIGA) Trade Show in April 2020, which was cancelled due to the pandemic.

5. OPERATING AND FINANCIAL REVIEW (continued)

Revenue from Latin America was $42.0 million, compared to $72.7 million in the previous corresponding period in 2019, a reduction of 42%. This region continues to be severely impacted by closures across the primary markets of Mexico, Argentina and Peru. Reduced participation revenue and the delayed launch of new A-Star™ hardware have impacted operators across the region which is expected to continue into H1FY21 with progressive recovery in H2FY21.

Australia and Rest of the World revenue was $35.3 million in FY20 compared to $47.6 million in the prior corresponding period, a decline of 26%. The core markets of New South Wales, Asia and Europe/Other regions contributed 50% and 31% of the overall decline respectively.

Further progress in accelerating monetisation of online real money and social gaming was achieved in the period. Online revenue included under Rest of World (Europe/Other) was $4.6 million compared to $4.2 million in the prior corresponding period. The Group has now gone live with several leading operators in New Jersey to leverage proven and recognised game titles within their database of players. An extension to established agreements with Zynga is expected to at least maintain current royalty levels in FY21.

Operating costs

Despite challenging conditions for the Group, gross margin of 61% was achieved for the full year FY20, which was broadly consistent with prior corresponding period of 60%. North America, the largest contributor to the overall gross margin for the Group, increased its margin by 3%. This increase was however offset by the drop in margin in the Australia segment due to higher production overhead recovery costs as a result of lower unit sales.

Operating costs, excluding cost of sales, other expenses and financing costs were $122.7 million, a decrease of 6% over 2019. This decrease was primarily due to reduced sales, service & marketing (SSM) expense as a result of low sales due to COVID-19.

Sales, service and marketing expenses were $59.3 million, a decrease of $5.6 million compared to 2019. This decrease is associated with lower sales and COVID-19 restrictions e.g. warranty expenses, commissions, travel expenses and trade show expenses.

Research and development (R&D) expense was $41.2 million, an increase of $0.8 million over 2019, and now represents 28% of revenue (2019: 17%). This increase is due to higher amortisation costs because of the commercialisation of previously capitalised projects as well as an increase in third party contractors and license fees.

Administration costs were $22.2 million, a decrease of $2.8 million compared to 2019. This decrease was because of a reduction in personnel costs as a result of JobKeeper subsidies and reduced working hours due to the COVID-19 pandemic.

To assist with the impact of the pandemic and restrictions established in global markets, various cost minimisation measures were implemented in quarter 4 of FY20 which includes but not limited to the following:

- the executive management and other paid directors voluntarily took 20% reductions in base salaries for the June 2020 quarter. This has now been extended for the September 2020 quarter. In addition, the Chairman waived his fees for the June 2020 quarter;
- rent concessions for the Newington, Australia facility were provided. The June 2020 quarter rent was waived and 50% reduction in rent for 6 months to 31st December 2020. Other rental concessions were provided for service premises occupied;
- stand downs were initiated across the Australian operations as well as reduced working days to 2-3 days across operational departments. In the USA, 111 employees and 15 contractors were placed on furlough with a freeze on all new hires; and
- included in FY20 are 67 redundancies (23 in Australia and 44 in Americas) at an annualised cost reduction of $6.4 million. In addition, 40 roles have been eliminated at a further cost reduction of $3.8 million per annum.

Financing income and costs

Net financing income was $1.4 million in the current period, compared to a net financing income of $9.3 million in 2019. This adverse movement of $7.9 million was a result of foreign exchange gain of $1.2 million in the current period compared to a foreign currency gain of $6.0 million in 2019, an unfavourable change of $4.8 million and an interest income on trade receivables of $2.2 million in the current period compared to an interest income on trade receivable of $5.5 million in 2019, an unfavourable change of $3.3 million.

Review of financial condition

Capital structure and treasury policy

The Company currently has on issue 336,793,929 ordinary shares. The Board continues to ensure a strong capital base is maintained to enable investment in the development of the business. Group performance is monitored to oversee an acceptable return on capital is achieved and dividends are able to be provided to ordinary shareholders in future periods. There were no changes in the Group's approach to capital management.

The Group is exposed to foreign currency risks on sales and purchases that are denominated in currencies other than AUD. The Group continually monitors and reviews the financial impact of currency variations to determine strategies to minimise the volatility of changes and adverse financial effects in foreign currency exchange rates.

Cash flows from operations

The Group continues to generate positive cash flows from operating activities. Net cash inflows from operations for the year ended 30 June 2020 was $16.7 million, a decrease of $44.5 million compared to the corresponding period in 2019. This was mainly attributable to the reduction in debtors' collections as a result of the closure of venues in quarter 4 in FY20.

Liquidity and funding

AGT had cash balances at 30 June 2020 of $26.5 million, compared to $61.7 million at 30 June 2019. Net debt of ($17.5 million) compared to net cash of $6.2 million.

In H2FY20 the completion of the MTD acquisition in March 2020 required US$18.0 million of consideration including US$5.0 million to be held subject to re-signing of a key contract in Montana or attaining set financial targets. US$10.0 million was drawn down to facilitate this acquisition. In H1FY20, $26.8 million of loans were repaid, resulting in an overall reduction of $11.5 million in loans during the year.

The Group has a secured bank loan with a carrying amount of $43.9 million as at 30 June 2020 with ANZ bank. On 24 August 2020, the Group signed a deed of amendment for the ANZ loan facility and renegotiated the terms of the facility with amendments to the facility limit and financial covenants as at 30 June 2020. The facility limit has been reduced to $60.0 million with progressive reductions of $10.0 million in each of December 2020, March 2021, and April 2021, which will result in a reduced facility of $30.0 million by end of April 2021. The amended covenants will be in place for the remaining term of the loan, which expires on 30 September 2021 and relate to maintenance of minimum liquidity levels, monthly reporting obligations and achievement of quarterly sales targets for the Group, based on the Group's 18 month forecasted cash flows.

Impact of legislation and other external requirements

The Group continues to work with regulatory authorities to ensure that the necessary product approvals to support its operations within global markets are granted on a timely and cost-effective basis. The granting of such licenses will allow the Group to expand its operations. The Group aims to conduct its business worldwide in jurisdictions where gaming is legal and commercially viable. Accordingly, the Group is subject to licensing and other regulatory requirements of those jurisdictions.

The Group's ability to operate in existing and new jurisdictions could be adversely impacted by new or changing laws or regulations and delays or difficulties in obtaining or maintaining approvals and licenses.

6. DIVIDENDS

No dividends were declared and paid by the company for the year ended 30 June 2020.

7. EVENTS SUBSEQUENT TO REPORTING DATE

On 24 August 2020, the Group signed a deed of amendment for the ANZ loan facility and renegotiated the terms of the facility with amendments to the facility limit and financial covenants as at 30 June 2020. The facility limit has reduced to $60.0 million with progressive reductions of $10.0 million in each of December 2020, March 2021, and April 2021, which will result in a reduced facility of $30.0 million by end of April 2021.

The amended covenants will be in place for the remaining term of the loan, which expires on 30 September 2021 and relate to maintenance of minimum liquidity levels, monthly reporting obligations and achievement of quarterly sales targets for the Group, based on the Group's 18 month forecasted cash flows.

Other than the matter discussed above, 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.

8. LIKELY DEVELOPMENTS

The Group continues to navigate through government restrictions imposed by COVID-19 across global markets. Development initiatives previously implemented have been progressed to ensure the necessary product approvals, helping to achieve improved product performance and financial improvement in future periods as markets recover.

Further execution of strategies in online gaming markets with extensions of partnerships with top performing social game providers and the launch of our US based remote gaming server in North America are expected to provide complementary revenue gains within online social and "Real Money" gaming segments in future periods. This strategy is aimed at achieving increased market share in selected geographical business sectors to positively contribute to Group results in future financial years.

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.

9. DIRECTORS' INTERESTS

The relevant interest of each director in the shares and rights 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	Performance rights over ordinary shares
Mr GJ Campbell	389,241	–
Mr MB Yates	43,600	–
Mr CJ Henson	135,189	–
Ms HA Scheibenstock	15,344	–
Mr DE Gladstone	174,765	–
Mr HK Neumann	–	–

10. SHARE OPTIONS/PERFORMANCE RIGHTS

Unissued shares under share options/performance rights

At the date of this report unissued ordinary shares of the Group under performance right are:

Expiry date	Instrument	Exercise price	Number of shares
01 March 2022	Performance Rights	$nil	2,716,877
30 August 2024	Share Options	$0.73	9,898,621
			12,615,498

There are no other shares of the Group under performance rights/share options.

All performance rights outstanding were granted in FY17 (i.e. 1 March 2017) and are subject to achievement of share price compounded growth of at least 15% per annum measured at each vesting period. Further details about share based payments to directors and KMP's are included in the Remuneration Report in section 15. These rights do not entitle the holder to participate in any share issue of the Company or any other body corporate.

All share options outstanding were granted in FY20 (i.e. 30 August 2019) and are subject to achievement of share price growth of at least 50% in the exercise price of $0.73 at the first vesting date, followed by compounded growth of at least 20% in the second and third vesting dates respectively. Further details about share based payments to directors and KMP's are included in the Remuneration Report in section 15. These rights 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/performance rights

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

11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

The Group has agreed to indemnify current and former directors of the Group 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.

Neither the Group nor Company have indemnified the auditor in relation to the conduct of the audit.

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 senior executive officers of the Company and directors, senior executive 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.

12. NON-AUDIT SERVICES

During the year KPMG, the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements.

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 Group and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the audit; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG, and its network firms for audit and non-audit services provided during the year are set out below:

	2020 $
Services other than audit and review of financial statements:	
Other regulatory audit services	
Controlled entity audit	22,500
Other services	
In relation to taxation services	69,116
	91,616
Audit and review of financial statements	282,000
Total paid/payable to KPMG	**373,616**

13. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 102 and forms part of the directors' report for the financial year ended 30 June 2020.

14. ROUNDING OFF

The Group is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191* and in accordance with that Instrument, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

15. REMUNERATION REPORT

Message from the Chairman of the Remuneration and Nomination Committee

On behalf of the Remuneration and Nomination Committee (RNC) and with the authority of the Board of Directors I provide the FY20 Remuneration Report. The commencement of the COVID-19 pandemic in March 2020 and the consequential government-imposed restrictions negatively affected the earnings of venues and of all the Group's customers. The global gaming industry has been significantly impacted and the Group has acted to mitigate reduced revenue for the immediate period. In particular within the FY20 period (quarter 4 ended 30 June 2020) the RNC in consultation with the Board, adopted measures to immediately reduce salary related expense. These measures included:

- the Group's Chairman (Mr DE Gladstone) waived his Board fees for the 30 June quarter resulting in a saving of $68,440. Since the reporting date (30 June 2020) the Chairman has agreed to a further 20% reduction in his fees for the period ending 30 September 2020, an additional saving of $13,688;
- voluntary reductions by independent directors of 20% of Board fees (including Sub-Committee fees and related superannuation payments) became effective from 1 April 2020. This resulted in a monthly saving of $8,778 and a $26,334 saving in FY20. It was agreed by the independent directors to extend these reductions for the period ending 30 September 2020;
- executive Key Management Personnel similarly volunteered a 20% reduction in Base Salary for the three months ended 30 June 2020 which resulted in savings of $73,668 for FY20, including superannuation payments. These reductions were also extended to the quarter ending 30 September 2020;
- in addition to the above, other key executives throughout the Group had base salary reduced by up to 20% for the periods stated above resulting in savings in FY20 of $415,785;
- reduced working days, stand downs and employees within the Americas being placed on furlough were maintained throughout the period; and
- the remuneration of directors, executives and staff will be reviewed on 1 October 2020 and, subject to prevailing conditions, may revert to pre COVID-19 levels.

The 2019 Annual General Meeting (AGM) approved the 2019 Remuneration Report with 0.35% of shareholders voting against the resolution. During the lead-up to the 2019 AGM the Company engaged with major shareholders to discuss any concerns and ensure robust remuneration strategies were established. This followed the appointment of an independent remuneration consultant (Remuneration Strategies Pty Ltd (RS)) during 2019 to review current remuneration practices and proxy service reports.

The objective of the engagement involved assisting the RNC to develop remuneration structures including Fixed Remuneration (FR), Short-Term Incentives (STI) and Long-Term Incentives (LTI) that align with appropriate financial objectives.

The Committee's approach to remuneration structures includes the following:

- to align executive remuneration with the Group's business strategy; and
- to support, retain and motivate our people by providing competitive rewards.

The remuneration of key executives is fully aligned to our key business objectives listed in section 15.2 which underpin future remuneration structures, including STI and LTI compensation programs.

The Performance Rights Plan granted on 1st March 2017 remains in place, based on 15% compound increases in the Volume Weighted Average Price (VWAP) – refer to section 15.1.5.

A new grant of share options under the LTI Plan was established on 30 August 2019. These share options have an exercise price of $0.73 based on the share price at the grant date. The share options vest progressively over a four year period – 25% on 30 August 2021, 25% on 30 August 2022 and 50% on 30 August 2023, providing share price hurdles are met. The share price hurdles are increased at each relevant vesting date and the share options are cumulative on the basis that the higher share price is achieved when measured. Vesting is also dependant on service conditions. The structure and terms of these share options are designed to align shareholder interests with Board objectives of improving financial results translating into share price gains.

FY20 remuneration outcomes

The key remuneration outcomes for FY20 included:

- voluntary reductions to base salaries as outlined previously;
- no remuneration increases for the Board directors (last adjustment 1 July 2014). No increases in Key Management Personnel remuneration since 1 July 2016. No recommendations for fixed annual remuneration changes in FY21;
- short-term incentives (STI) for the FY20 period were not awarded given the COVID-19 financial impact on the Group. It was determined that no discretionary non-financial payments would be awarded given the affect of the pandemic. The current expense recorded as short-term incentive represents solely deferred components of prior year amounts with no amounts provided for the FY20 period;

- following a review of the long-term incentive (LTI) by RS and as outlined in the 2019 Remuneration Report a new LTI grant was made in August 2019 to assist in incentivising and retaining our workforce;
- the LTI grants in place during the year are summarised below:
  - grant of 17 March 2015 Performance Rights where 50% lapsed on each of 17 March 2019 and 2020, respectively. No performance rights under this LTI grant vested and all applicable grants have been forfeited;
  - grant of 1 March 2017 Performance Rights. Performance conditions were not met at the relevant vesting date of 1 March 2020. These will be re-tested at the next applicable performance date being 1 March 2021 and will be subject to the higher performance condition; and
  - on 30 August 2019 share options were granted subject to vesting, performance and service conditions as detailed above.

Remuneration strategies will be continually reviewed to ensure they align with Board objectives over the coming year.

CJ Henson,
Chairman, Remuneration and Nomination Committee

Directors' Report (continued)

for the year ended 30 June 2020

Contents

15.1 Remuneration Framework – 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 Group, directly or indirectly, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and senior executives for the Group that are named in this report.

Compensation levels for 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 (RNC) regularly reviews market surveys on the appropriateness of compensation packages of the Group given trends in comparative companies both locally and internationally, and the objectives of the Group's compensation strategy. In addition, independent remuneration consultants are used to advise the RNC on compensation levels given market trends.

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 (KPIs) and individual contributions to the Group's performance;
- the Group's performance including:
  - revenue and earnings;
  - growth in share price and delivering returns on shareholder wealth; and
  - the amount of incentives within each key management person's compensation.

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.

15.1.1 Fixed compensation

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

Compensation levels are reviewed annually by the RNC 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 marketplace. A senior executive's compensation is also reviewed on promotion and performance under the overall financial performance of the Group. This review determined that no increases were awarded from the previous year to any key management personnel.

The RNC undertook a review of fixed compensation levels in 2020 to assist with determining an appropriate mix between fixed and performance linked compensation for senior executives of the Group during the year. Given the overall financial performance in the current period no increases in base compensation were recommended for the ensuing year until the broader objective of financial performance was achieved.

15.1.2 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 performance rights over ordinary shares of the Company under the rules of the Employee Rights Share Plans (see Note 23 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 at each vesting date.

As outlined a review was undertaken by the RNC to determine and assess current performance linked compensation arrangements - STI and LTI plans. This review was evaluated by the Board to determine appropriate remuneration levels taking into consideration the Group's growth objectives, industry specific and market considerations and related retention of key employees.

15. REMUNERATION REPORT (continued)

15.1 Remuneration Framework – audited (continued)

15.1.3 Short-term incentive bonus

Each year the RNC determines the objectives and KPIs of the key management personnel. The KPIs generally include measures relating to the Group, the relevant segment, and the individual, and include financial, people, customer, compliance, 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 objectives for FY20 comprise 50% for Group 'profit before tax' excluding foreign currency gains/(losses) and 30% for 'minimum international revenue' with the remaining 20% being non-financial. These financial performance targets were assessed by the RNC for all key management personnel (excluding non-executive directors) and it was determined that the Group did not achieve either the 'profit before tax' minimum target or the minimum international revenue and no STI was payable for the current year relating to these criteria.

15.1.4 Non-Financial KPI's

The non-financial objectives comprising 20% vary with position and responsibility and include measures such as achieving strategic outcomes, safety measures, and compliance with established regulatory processes, customer satisfaction and staff development. The non-financial objectives for key management personnel, excluding directors for FY20 were assessed on 23 June 2020 by the RNC and it was determined that given the COVID-19 pandemic and the consequences on financial performance in the current period, no STI under this criterion would be awarded in the current period.

Currently, the performance linked component of compensation comprises approximately 4% (2019: 1%) of total payments to key management personnel.

15.1.5 Long-term incentive

Performance Rights Plan

During a previous year an employee incentive plan was established whereby performance rights were granted under the Rights Share Trust (RST). Under the RST, eligible employees and executives were allocated performance rights over ordinary shares in the Company. The performance rights were granted at nil consideration or exercise price however are dependent on service conditions, vesting conditions and performance hurdles. The performance rights convert to ordinary shares of the Company on a one-for-one basis.

Details of the vesting conditions for outstanding plan are outlined as follows:

1 March 2017 Granted Plan

The performance hurdles for this plan are based on a 15% compound increase on the share price of $1.86 (VWAP) for 90 days ending 28/02/2017. The hurdles set for this plan were determined as appropriate due to the following:

- share Price growth is considered more reflective of the Group's underlying performance and is aligned to shareholder wealth;
- to ensure relevance of the LTI for international employees;
- international expansion reflects ASX share price and is a more meaningful performance measure;
- inherent volatility of the gaming industry makes TSR and EPS less relevant; and
- there are limited numbers of gaming industry companies in the ASX.

Vesting on each tranche is as follows:

Tranche 1	20% will vest if the VWAP for 20 days preceding 01/03/2018 is equal or greater than $2.14
Tranche 2	20% will vest if the VWAP for 20 days preceding 01/03/2019 is equal or greater than $2.46
Tranche 3	20% will vest if the VWAP for 20 days preceding 01/03/2020 is equal or greater than $2.83
Tranche 4	40% will vest if the VWAP for 20 days preceding 01/03/2021 is equal or greater than $3.25

This plan currently remains in place.

Rights that do not vest at the end of the final vesting period will lapse, unless the Board in its discretion determine otherwise. Upon cessation of employment prior to the vesting date, rights will be forfeited and lapse. Performance rights do not entitle holder to dividends that are declared during the vesting period.

During the year, Tranche 3 of these rights did not vest at the third vesting date of 1 March 2020 due to performance conditions not being met. The grant of this Tranche under the RST will be re-tested at the end of the next applicable performance vesting date of 1 March 2021 subject to the higher performance conditions. If the performance conditions at the end of the next applicable performance period are satisfied, then the performance rights for the current performance period and any non-vested performance rights from prior performance periods will vest.

Share Options Plan

On 30 August 2019, the Group offered to eligible employees the opportunity to participate in a share option over ordinary shares in Ainsworth Game Technology Limited, under the Ainsworth Game Technology Limited Option Share Trust (OST). To be eligible to participate in the OST, the employees were selected by the directors and reviewed by the Remuneration and Nomination Committee. The OST provides for employees an option to purchase allocated shares at the valuation price at grant date. Each option is convertible to one ordinary share. Option holders have no voting or dividend rights. On conversion from option to ordinary shares, the issued shares will have full voting and dividend rights. The ability to exercise the right is conditional on the continuing employment of the participating employee.

The performance hurdles and vesting conditions for this plan are as follows:

	Performance Hurdles	Vesting conditions
Tranche 1	On 30 August 2021 ("first vesting date"), the share price shall be 50% greater than exercise price of $0.73.	25% will vest if the VWAP for 20 days preceding the first vesting date is equal or greater than $1.10
Tranche 2	On 30 August 2022 ("second vesting date"), the share price shall be 20% greater than the hurdle price established at the first vesting date	25% will vest if the VWAP for 20 days preceding the second vesting date is equal or greater than $1.32
Tranche 3	On 30 August 2023 ("third vesting date"), the share price shall be 20% greater than the hurdle price established at the second vesting date	50% will vest if the VWAP for 20 days preceding the third vesting date is equal or greater than $1.58

The hurdles set for this plan were determined as appropriate due to the following:

- share Price growth is considered more reflective of the Group's underlying performance and is aligned to shareholder wealth;
- to ensure relevance of the LTI for international employees;
- international expansion reflects ASX share price and is a more meaningful performance measure;
- inherent volatility of the gaming industry makes TSR and EPS less relevant; and
- there are limited numbers of gaming industry companies in the ASX.

The share options granted are cumulative whereby should the performance hurdles not be met at the respective vesting dates, the grant relating to these tranches will be re-tested at the next applicable performance vesting date subject to higher performance conditions. If the performance conditions at the end of the next applicable performance period are satisfied, then the share options for the current performance period and any non-vested share options from prior performance periods will vest.

Options that do not vest at the end of the final vesting period will lapse, unless the Board in its discretion determine otherwise. Upon cessation of employment prior to the vesting date, these options will be forfeited and lapse. These share options do not entitle holder to dividends that are declared during the vesting period.

This plan currently remains in place.

15.1.6 Short-term and long-term incentive structure

Given the highly competitive nature of the gaming industry and to ensure retention of key employees, the RNC has and continues to consider performance linked remuneration is appropriate.

The current review of both short-term and long-term incentive plans is ongoing to ensure these are aligned to Board and shareholder interests.

15.1.7 Other benefits

Key management personnel 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, and the Group pays fringe benefits tax on these benefits.

15. REMUNERATION REPORT (continued)

15.2 Linking the Remuneration Framework to business outcomes- audited

In the Chairman's introduction to the Remuneration Report, we indicated that the key business objectives will underpin future remuneration structures. The objectives are:

- invest in product development to create a diverse and creative product offering to increase market share in global markets;
- improve the Group's performance through revenue and earnings growth in domestic and international markets;
- improve cash flows through reduction in working capital investment and maintain a strong balance sheet to support growth and deliver value; and
- maintain a strong focus on best practice compliance throughout the Group in adherence to gaming laws and regulations.

The following remuneration structures are being considered by the Remuneration Consultant to achieve these business objectives:

- short-term incentives that measure and reward increased market share in selected global markets, adherent to the Good Governance and Compliance with Gaming Laws and Regulations;
- long-term incentives that measure and reward revenue and earnings growth in domestic and international markets, as well as the achievement of the Balance Sheet and using Capital Investment Targets; and
- the objective of these incentive programs is to increase shareholder value for investors and key management stakeholders.

15.2.1 Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the RNC have regard to the following indices in respect of the current financial year and the previous four financial years. Profit is considered as one of the financial performance targets in setting the short-term incentive bonus. (Loss)/profit amounts for 2016 to 2020 have been calculated in accordance with Australian Accounting Standards (AASBs).

$'000	2020	2019	2018	2017	2016
(Loss/profit) attributable to owners of the company	($43,433)	$10,895	$31,936	$37,930	$55,703
Dividends paid	–	$8,313	$4,966	$16,386	$32,245
Change in share price ($A)	**($0.26)**	**($0.37)**	**($1.12)**	**No change**	**($0.41)**

15.3 Service contracts – audited

It is the Group's policy that service contracts for Australian key management personnel and key employees be unlimited in term but capable of termination by either party on periods 3 to 12 months' notice and that the Group retains the right to terminate the contracts immediately, by making payment equal to the notice period.

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

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 market conditions, 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 Lawrence Levy was appointed as Chief Executive Officer (CEO) effective 1 July 2019 as per his contract with the company dated 2 May 2019. 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 a 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.

15.4 Non-executive directors- audited

Total compensation for all non-executive directors, last voted upon by shareholders at the 2012 Annual General Meeting, is not to exceed $850,000 per annum, with effect from 1 July 2012. Directors' base fees are presently $120,000 per annum (excluding superannuation) and was set based on a review of fees paid to other non-executive directors of comparable companies. 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 Group operates. Fees incorporate an allowance for the onerous probity requirements placed on non-executive directors by regulators of the jurisdictions in which the Group operates or proposes to operate in. In addition to these fees the cost of reasonable expenses is reimbursed as incurred.

There was no increase in non-executive compensation including Board and Committee fees during the period.

Non-executive directors do not participate in performance related compensation and are not provided with retirement benefits apart from statutory superannuation.

The CEO and Company Secretary do not receive any additional fees for undertaking Board or Committee responsibilities. Following a review previously undertaken by an independent remuneration consultant, non-executive director's fees were assessed based on current market levels for comparable companies, demands and responsibilities associated with their roles and the global nature of the Group's operations within a highly regulated environment to ensure the Board is appropriately compensated. Other independent non-executive directors who also chair or are a member of a committee receive a supplementary fee in addition to their annual remuneration. Current fees for directors, excluding superannuation are set out below.

POSITION	$ (per annum)
Chair of Board	250,000
Lead Independent Director (in addition to directorship fees where applicable)	10,000
Australian Resident Non-executive Director	120,000
Chair of Audit Committee	20,000
Chair of Regulatory and Compliance Committee	24,000
Chair of Remuneration and Nomination Committee	12,000
Member of Audit Committee	12,000
Member of Regulatory and Compliance Committee	15,000
Member of Remuneration and Nomination Committee	8,000

15.5 Services from remuneration consultants- audited

The RNC, comprising of independent non-executive directors only, has utilised the services of an independent remuneration consultant (Remuneration Strategies Pty Ltd (RS)) to assist the RNC review and evaluate remuneration practices of the Group. The RNC received a report from RS in 2019 to assist in establishing a long-term incentive aligned to Board objectives and shareholder interests. The grant of share options on 30 August 2019 was in line with recommendations provided by RS. A total of $nil (2019: $12,900) was paid during the year for these services.

The Board made its own inquiries and reviewed the processes and procedures followed by the remuneration consultant during the course of their assignment to ensure that they were satisfied that any remuneration recommendations are made free from undue influence.

The Board's inquiries included a summary of the way in which the remuneration consultant carried out any work, details of any interaction with non-executive directors in relation to the assignment and other services, and further questions in relation to the assignment.

Directors' Report (continued)

for the year ended 30 June 2020

15. REMUNERATION REPORT (continued)

15.6 Directors' and executive officers' remuneration – audited

Details of the nature and amount of each major element of remuneration of each director of the Company, and other key management personnel of the consolidated entity are:

		Short-term				Post-employment	Other long-term benefits		Share-based payments			
In AUD		Salary & fees $	STI cash bonus (A) $	Non-monetary benefits $	Total $	Super-annuation benefits $	(C) $	Termination benefits $	Rights (B) $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Non-executive directors												
Current												
Mr GJ Campbell	2020	195,398	–	–	195,398	18,563	–	–	–	213,961	–	–
	2019	270,000	–	–	270,000	25,650	–	–	–	295,650	–	–
Mr MB Yates	2020	151,567	–	–	151,567	14,399	–	–	–	165,966	–	–
	2019	156,000	–	–	156,000	14,820	–	–	–	170,820	–	–
Mr CJ Henson	2020	148,262	–	–	148,262	14,085	–	–	–	162,347	–	–
	2019	152,000	–	–	152,000	14,440	–	–	–	166,440	–	–
Mr DE Gladstone (Appointed non-executive director 1 July 2019, Chairman effective 26 November 2019)	2020	134,965	–	–	134,965	12,822	–	–	–	147,787	–	–
	2019	–	–	–	–	–	–	–	–	–	–	–
Mr HK Neumann	2020	–	–	–	–	–	–	–	–	–	–	–
	2019	–	–	–	–	–	–	–	–	–	–	–
Former												
Ms HA Scheibenstock (resigned 26 November 2019)	2020	54,489	–	–	54,489	5,176	–	–	–	59,665	–	–
	2019	143,000	–	–	143,000	13,585	–	–	–	156,585	–	–
Sub-total non-executive directors' remuneration	2020	684,681	–	–	684,681	65,045	–	–	–	749,726	–	–
	2019	721,000	–	–	721,000	68,495	–	–	–	789,495	–	–

In AUD		Short-term				Post-employment	Other long-term benefits		Share-based payments			
		Salary & fees $	STI cash bonus (A) $	Non-monetary benefits $	Total $	Super-annuation benefits $	(C) $	Termination benefits $	Rights (B) $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Executive directors												
Former												
Mr DE Gladstone (Chief Executive Officer) - resigned as CEO 30 June 2019 and appointed non-executive director	2020	–	–	–	–	–	–	–	–	–	–	–
	2019	750,000	20,625	81,434	852,059	73,209	70,192	–	(267,804)	727,656	3%	–
Total directors' remuneration	2020	684,681	–	–	684,681	65,045	–	–	–	749,726	–	–
	2019	1,471,000	20,625	81,434	1,573,059	141,704	70,192	–	(267,804)	1,517,151	1%	–
Executives												
Current												
Mr SL Levy – Chief Executive Officer (appointed 1 July 2019)	2020	665,000	–	50,000	715,000	63,175	65,513	–	17,835	861,523	–	2%
	2019	–	–	–	–	–	–	–	–	-	–	–
Mr ML Ludski - Chief Financial Officer/ Company Secretary	2020	343,989	81,471	105,109	530,569	40,419	33,888	–	15,292	620,168	13%	2%
	2019	362,094	10,920	79,915	452,929	35,436	33,888	–	17,341	539,594	2%	3%
Mr V Bruzzese - General Manager Technical Services	2020	269,272	43,369	24,000	336,641	29,701	26,528	–	8,623	401,493	11%	2%
	2019	283,445	5,669	24,000	313,114	27,466	26,528	–	9,195	376,303	2%	2%

Directors' Report (continued)

for the year ended 30 June 2020

15. REMUNERATION REPORT (continued)

15.6 Directors' and executive officers' remuneration – audited (continued)

		Short-term				Post-employment	Other long-term benefits		Share-based payments			
In AUD		Salary & fees $	STI cash bonus (A) $	Non-monetary benefits $	Total $	Super-annuation benefits $	(C) $	Termination benefits $	Rights (B) $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Former												
Mr K Power - Chief Technology Officer (Resigned 4 October 2019)	2020	100,208	–	–	100,208	46,000	7,708	384,000	(17,470)	520,446	–	–
	2019	384,000	3,840	–	387,840	36,845	35,938	–	11,116	471,739	1%	2%
Total executives' remuneration	2020	1,378,469	124,840	179,109	1,682,418	179,295	133,637	384,000	24,280	2,403,630	5%	1%
	2019	1,029,539	20,429	103,915	1,153,883	99,747	96,354	–	37,652	1,387,636	1%	3%
Total directors' and executive Officers' remuneration	2020	2,063,150	124,840	179,109	2,367,099	244,340	133,637	384,000	24,280	3,153,356	4%	1%
	2019	2,500,539	41,054	185,349	2,726,942	241,451	166,546	–	(230,152)	2,904,787	1%	–

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

A. The short-term incentive bonus for performance during the 30 June 2020 financial year uses the criteria set out in section 15.1.3. The circumstances surrounding COVID-19 and the resultant financial effect on the Group was considered on 23 June 2020 by the RNC who recommended that no short-term incentives be paid for the current period. In accordance with previous short-term incentive programs, whereby STI amounts had been voluntarily deferred from previous years, approval for the full amounts were agreed and paid on 1 September 2019. The current expense recorded as short-term incentive represents solely deferred components of prior year amounts with no amounts provided for the FY20 period.

B. The fair value of performance rights is calculated at the date of grant using the Black Scholes Merton simulation model after taking into account the impact of the TSR, EPS and share price growth conditions during the vesting period. The value disclosed is the portion of the fair value of the rights recognised as an expense in each reporting period. Certain tranches of previous awards have been assessed by the RNC as being unlikely to vest based on performance conditions applicable.

C. In accordance with AASB119 *Employee Benefits*, annual leave is classified as other long-term employee benefit.

Details of performance related remuneration - audited

Details of the Group's policy in relation to the proportion of remuneration that is performance related is discussed in section 15.1 of this Remuneration Report. Short-term incentive bonuses have been provided to the extent that these are payable as at 30 June 2020.

15.7 Analysis of bonuses included in remuneration – audited

Details of the vesting profile of the short-term incentive cash bonuses included as remuneration to each director of the Company, and other key management personnel for 2020 are detailed below:

	Short-term incentive bonus		
	Included in remuneration $ (A)	% vested in year (B)	% forfeited in year (C)
Executives			
Mr ML Ludski	81,471	100%	100%
Mr V Bruzzese	43,369	100%	100%

A. Amounts for short-term incentive ("STI") bonuses included in remuneration for the 2020 financial year relates to a previously established STI scheme whereby the first 50% of the STI was to be paid on 1 September 2018 and the remaining 50% on 1 September 2019, subject to individual performance targets and service conditions. Although the executives were eligible for the 1 September 2018 payment, they volunteered to have this first 50% STI amount to be re-evaluated on 1 September 2019. Following an evaluation of individual performance and the meeting of continuous service criteria, the Board determined that it was appropriate to pay 100% of these deferred STI amounts on 1 September 2019.

B. The amount vested in the 2020 year represented all previous STI amounts awarded and paid on 1 September 2019 in the current period. There is no further STI outstanding at 30 June 2020.

C. The amounts forfeited are due to the performance criteria not being met in relation to the current financial year.

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

15.8 Equity instruments – audited

15.8.1 Rights and options over equity instruments granted as compensation

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

	Number of options granted during FY20	Grant date	Fair value per option at grant date ($)	Exercise price per option ($)	Expiry date
Executives					
Mr SL Levy	125,000	30 August 2019	$0.1327	$0.73	30 August 2024
	125,000	30 August 2019	$0.1282	$0.73	30 August 2024
	250,000	30 August 2019	$0.1229	$0.73	30 August 2024
Mr ML Ludski	59,264	30 August 2019	$0.1327	$0.73	30 August 2024
	59,264	30 August 2019	$0.1282	$0.73	30 August 2024
	118,528	30 August 2019	$0.1229	$0.73	30 August 2024
Mr V Bruzzese	35,431	30 August 2019	$0.1327	$0.73	30 August 2024
	35,431	30 August 2019	$0.1282	$0.73	30 August 2024
	70,861	30 August 2019	$0.1229	$0.73	30 August 2024

All share options expire on the earlier of their expiry date or termination of the individual's employment. For options granted in the current year, the earliest exercise date is 30 August 2021. 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 incentive's discussion on page 30 to 31.

15. REMUNERATION REPORT (continued)

15.8 Equity instruments – audited (continued)

15.8.2 Modification of terms of equity-settled share-based payment transactions

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

15.8.3 Exercise of options granted as compensation

During the reporting period nil shares (2019: nil shares) were issued on the exercise of rights or options previously granted as compensation.

15.8.4 Details of equity incentives affecting current and future remuneration

Details of vesting profiles of rights and options held by each key management person of the Group are detailed below:

	Instrument	Number	Grant Date	% vested in year	% forfeited in year (A)	Financial years in which grant vests
Mr SL Levy	Options	500,000	30 August 2019	– %	–%	2022-2024
Mr ML Ludski	Rights	119,053	01 March 2017	– %	–%	2018-2021
	Options	237,056	30 August 2019	– %	–%	2022-2024
Mr V Bruzzese	Rights	62,131	01 March 2017	– %	–%	2018-2021
	Options	141,723	30 August 2019	– %	–%	2022-2024
Mr K Power	Rights	112,228	01 March 2017	– %	100%	–

A. The % forfeited in the year represents the reduction from the maximum number of rights and options available to vest at the beginning of the year.

15.8.5 Analysis of movements in equity instruments

The movement during the reporting period, by value, of rights and options over ordinary shares in the Company held by each key management person of the Group is detailed below:

	Granted in year $	Amount paid on exercise $	Value of rights exercised in year $(A)	Forfeited in year $
Current				
MR SL Levy	63,337	–	–	–
Mr ML Ludski	30,029	–	–	–
Mr V Bruzzese	17,953	–	–	–
Former				
Mr K Power	–	–	–	17,470

A. No rights or options were exercised during the year.

Directors’ Report (continued)

for the year ended 30 June 2020

15.8.6 Rights and options over equity instruments

The movement during the reporting period, by number of rights and 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 30 June 2019	Granted as compensation	Exercised	Other Changes*	Held at 30 June 2020	Vested during the year	Vested and exercisable at 30 June 2020
Rights/Share Options							
Current							
Mr SL Levy	–	500,000	–	–	500,000	–	–
Mr ML Ludski	119,053	237,056	–	–	356,109	–	–
Mr V Bruzzese	62,131	141,723	–	–	203,854	–	–
Former							
Mr K Power	112,228	–	–	(112,228)	–	–	–

* Other changes represent rights that were forfeited during the year.

Rights and options held by key management personnel that are vested and exercisable at 30 June 2020 were nil (2019: nil). No rights or options were held by related parties of key management personnel.

15.8.7 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 30 June 2019	Purchases	Sales	Dividend Re-Investment Plan (DRP) allotment	Held at 30 June 2020
Current					
Mr GJ Campbell	389,241	–	–	–	389,241
Mr MB Yates	43,600	–	–	–	43,600
Mr CJ Henson	135,189	–	–	–	135,189
Mr DE Gladstone	146,346	40,000	(9,200)	–	177,146
Mr M Ludski	10,000	–	–	–	10,000
Mr V Bruzzese	783	2,500	–	–	3,283
Former					
Ms HA Scheibenstock	15,344	–	–	–	15,344
Mr Kieran Power	4,662	–	–	–	4,662

No Shares were granted to key management personnel during the reporting period as compensation in 2019 or 2020.

There were no other changes in key management personnel in the period after the reporting date and prior to the date when the Financial Report was authorised for issue.

This Directors’ report is made out in accordance with a resolution of the directors.

D. Gladstone

DE Gladstone
Chairman

Dated at Sydney this 23rd day of September 2020

Consolidated Statement of Financial Position

as at 30 June 2020

In thousands of AUD	*Note*	30-Jun-20	30-Jun-19*
Assets			
Cash and cash equivalents	*18*	26,543	61,661
Receivables and other assets	*17*	88,039	119,964
Current tax assets		3,524	2,813
Inventories	*16*	91,377	66,851
Prepayments		8,723	8,436
Total current assets		**218,206**	**259,725**
Receivables and other assets	*17*	25,844	28,648
Deferred tax assets	*15*	5,520	2,786
Property, plant and equipment	*12*	107,434	130,548
Right-of-use assets	*27*	15,750	–
Intangible assets	*13*	92,738	61,555
Total non-current assets		**247,286**	**223,537**
Total assets		**465,492**	**483,262**
Liabilities			
Trade and other payables	*24*	36,726	20,945
Loans and borrowings	*21*	44,021	12,661
Lease liabilities	*27*	1,320	–
Employee benefits	*22*	9,173	9,590
Current tax liability		–	618
Provisions	*25*	3,395	1,015
Total current liabilities		**94,635**	**44,829**
Loans and borrowings	*21*	–	42,778
Lease liabilities	*27*	15,094	–
Employee benefits	*22*	605	525
Deferred tax liabilities	*15*	603	1,585
Total non-current liabilities		**16,302**	**44,888**
Total liabilities		**110,937**	**89,717**
Net assets		**354,555**	**393,545**
Equity			
Share capital	*19*	207,709	207,709
Reserves	*19*	160,468	187,454
Accumulated losses	*19*	(13,622)	(1,618)
Total equity		**354,555**	**393,545**

* The Group has initially applied AASB 16 at 1 July 2019. Under the transition methods chosen, comparative information is not restated.

The notes on pages 44 to 92 are an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2020

In thousands of AUD	*Note*	30-Jun-20	30-Jun-19*
Revenue	7	149,396	234,344
Cost of sales		(59,011)	(94,395)
Gross profit		**90,385**	**139,949**
Other income	8	984	1,228
Sales, service and marketing expenses		(59,272)	(64,851)
Research and development expenses		(41,192)	(40,428)
Administrative expenses		(22,191)	(25,065)
Impairment of trade receivables		(3,410)	(875)
Other expenses		(15,561)	(4,539)
Results from operating activities		**(50,257)**	**5,419**
Finance income	11	3,686	11,559
Finance costs	11	(2,229)	(2,242)
Net finance income		**1,457**	**9,317**
Share of loss of equity accounted investee	14	–	(54)
(Loss)/profit before tax		**(48,800)**	**14,682**
Income tax benefit/(expense)	15	5,367	(3,787)
(Loss)/profit for the year		**(43,433)**	**10,895**
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Foreign operations - foreign currency translation differences		3,881	8,277
Total other comprehensive income		**3,881**	**8,277**
Total comprehensive (loss)/income for the year		**(39,552)**	**19,172**
(Loss)/profit attributable to owners of the Company		**(43,433)**	**10,895**
Total comprehensive (loss)/income attributable to the owners of the Company		**(39,552)**	**19,172**
Earnings per share:			
Basic earnings per share (AUD)		$(0.13)	$0.03
Diluted earnings per share (AUD)		$(0.13)	$0.03

* The Group has initially applied AASB 16 at 1 July 2019. Under the transition methods chosen, comparative information is not restated.

The notes on pages 44 to 92 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2020

	Attributable to owners of the Company						
In thousands of AUD	Issued Capital	Equity compensation reserve	Fair value reserve	Translation reserve	Profit reserve	Retained Earnings / (Accumulated losses)	Total Equity
Balance at 1 July 2018	**203,032**	**4,329**	**9,684**	**10,987**	**154,787**	**(4,020)**	**378,799**
Adjustment from intial application of AASB 15 (net of tax)	–	–	–	–	–	34	34
Adjustment from initial application of AASB 9 (net of tax)	–	–	–	–	–	(812)	(812)
Adjusted balance at 1 July 2018	**203,032**	**4,329**	**9,684**	**10,987**	**154,787**	**(4,798)**	**378,021**
Total comprehensive income for the period							
Profit	–	–	–	–	–	10,895	10,895
Transfer between reserves	–	–	–	–	7,715	(7,715)	–
Other comprehensive income							
Foreign currency translation reserve	–	–	–	8,277	–	–	8,277
Total other comprehensive income	–	–	–	8,277	–	–	8,277
Total comprehensive income for the period	–	–	–	8,277	7,715	3,180	19,172
Transactions with owners, recorded directly in equity							
Issue of ordinary shares under the Dividend Reinvestment Plan	4,677	–	–	–	(4,677)	–	–
Dividends to owners of the Company	–	–	–	–	(3,636)	–	(3,636)
Share-based payment amortisation	–	(12)	–	–	–	–	(12)
Total transactions with owners	4,677	(12)	–	–	(8,313)	–	(3,648)
Balance at 30 June 2019	**207,709**	**4,317**	**9,684**	**19,264**	**154,189**	**(1,618)**	**393,545**
Balance at 1 July 2019*	**207,709**	**4,317**	**9,684**	**19,264**	**154,189**	**(1,618)**	**393,545**
Total comprehensive loss for the period							
Loss	–	–	–	–	–	(43,433)	(43,433)
Transfer between reserves	–	–	–	–	(31,429)	31,429	–
Other comprehensive income							
Foreign currency translation reserve	–	–	–	3,881	–	–	3,881
Total other comprehensive income	–	–	–	3,881	–	–	3,881
Total comprehensive loss for the period	–	–	–	3,881	(31,429)	(12,004)	(39,552)
Transactions with owners, recorded directly in equity							
Share-based payment amortisation	–	562	–	–	–	–	562
Total transactions with owners	–	562	–	–	–	–	562
Balance at 30 June 2020	**207,709**	**4,879**	**9,684**	**23,145**	**122,760**	**(13,622)**	**354,555**

* The Group has initially applied AASB 16 at 1 July 2019. Under the transition methods chosen, comparative information is not restated.

The notes on pages 44 to 92 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 30 June 2020

In thousands of AUD	*Note*	30-Jun-20	30-Jun-19*
Cash flows from operating activities			
Cash receipts from customers		179,156	307,693
Cash paid to suppliers and employees		(165,784)	(245,515)
Cash generated from operations		**13,372**	**62,178**
Interest received		2,326	5,503
Income taxes refunded/(paid)		1,023	(6,473)
Net cash from operating activities	*18(a)*	**16,721**	**61,208**
Cash flows used in investing activities			
Proceeds from sale of property, plant and equipment		45	29
Interest received		115	11
Acquisitions of property, plant and equipment	*12*	(6,382)	(6,521)
Payment for business acquisition	*13, 34*	(27,877)	–
Development expenditure	*13*	(4,386)	(3,340)
Net cash used in investing activities		**(38,485)**	**(9,821)**
Cash flows used in financing activities			
Borrowing costs paid		(2,034)	(1,887)
Proceeds from borrowings		16,198	–
Repayment of borrowings		(27,275)	(20,676)
Payment of lease liabilities		(1,449)	(929)
Dividend paid		–	(3,636)
Net cash used in financing activities		**(14,560)**	**(27,128)**
Net (decrease)/increase in cash and cash equivalents		(36,324)	24,259
Cash and cash equivalents at 1 July		61,661	35,667
Effect of exchange rate fluctuations on cash held		1,206	1,735
Cash and cash equivalents at 30 June		**26,543**	**61,661**

* The Group has initially applied AASB 16 at 1 July 2019. Under the transition methods chosen, comparative information is not restated.

The notes on pages 44 to 92 are an integral part of these consolidated financial statements.

Index to Notes to the Financial Statements and Significant Accounting Policies

for the year ended 30 June 2020

Notes to the Financial Statements (continued)

for the year ended 30 June 2020

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 2020 comprised of the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities'). The Group is a for-profit entity and primarily is involved in the design, development, manufacture, sale and servicing of gaming machines and other related equipment and services.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The consolidated financial statements were authorised for issue by the Board of Directors on 23rd September 2020.

Going Concern

The financial statements have been prepared on a going concern basis, which assumes continuity of normal activities and realisation of assets and settlement of liabilities in the ordinary course of the business. For the year ended 30 June 2020, the Group incurred net losses after tax of $43.4 million (2019: Profit after tax of $10.9 million) and had a cash balance of $26.5 million (2019: $61.7 million). As at 30 June 2020, the Group was required to reclassify $43.9 million of non-current loans/borrowings to current due to a breach of the debt covenants. The Group has prepared an 18 month cash flow projection based on best available information at this time, indicating that the Group expects to maintain sufficient liquidity to meet its obligations as they fall due, and remain in compliance with the terms of its revised debt arrangement.

Current Period Impact

The COVID-19 outbreak was declared a pandemic by the 'World Health Organization' in March 2020. The outbreak and the response of Governments in dealing with the pandemic is impacting the general activity levels within the community and the economy, which has caused a significant impact to the operations of the Group's business. For the year ended 30 June 2020, COVID-19 has impacted the Group, specifically as follows:

- the FY20 financial performance and cash flows due to the mandatory closure of gaming venues and restrictions on travel and public gatherings which have adversely impacted our business partners and customers;
- breach of financial covenants for the ANZ loan, in particular, the interest cover ratio and leverage ratio calculated based on EBITDA for the 12 months ended 30 June 2020 and as a result, the full loan balance was classified as a current liability as at 30 June 2020. Subsequent to year end, on 24 August 2020, the Group signed a deed of amendment for the ANZ loan facility and agreed on revised terms to the facility, including a reduction to the facility limit and the replacement of the financial covenants. The facility limit has reduced to $60 million as at 24 August 2020. Progressive reductions of $10 million required in each of December 2020, March 2021, and April 2021, which will result in a total reduced facility of $30 million by end of April 2021. The new covenants will be in place for the remaining term of the loan, which expires on 30 September 2021, and requires maintenance of minimum liquidity levels, monthly reporting obligations, and achievement of quarterly sales targets for the Group, based on the Group's 18 month forecast; and
- the Company successfully applied for the Australian Government's JobKeeper subsidies and was assessed as eligible in March 2020. The majority of the Company's employees in Australia were eligible and the total payment received for the period 30 March 2020 to 30 June 2020 was approximately $1.7 million and this is reflected within the operating cash flows. This Government assistance has benefited the Group in maintaining productivity of employees, as well as liquidity.

Future Impact and Going Concern

The full magnitude and adverse impact of the pandemic and Government response is highly uncertain. The Group has remained focused on its liquidity and has prepared an 18 month cash flow projection, which has considered the current state of the pandemic as it relates to the impact on the industry and judgements have been made in determining the timing of the recovery period. The following key assumptions have been made:

- assessment of the impacts of COVID-19 based on geographical regions has been performed and assumptions have been made on the expected re-opening of global markets in which the Group operates when forecasting revenue, in particular, for regions in Latin America that were and still are adversely impacted by the pandemic. Overall, a gradual re-opening of all jurisdictions is expected to take place over the next 18 months and should return to pre-COVID-19 levels during FY22;
- the recovery stage from COVID-19 incorporated in the forecast is not impacted by a second wave of infections;
- the Group's receivables at 30 June 2020 were $113.9 million, of which $88.0 million was classified as current. Since the declaration of the pandemic in March 2020, the Group maintained an ongoing engagement with its customers. Customer receipts projections have been adjusted to reflect the current economic conditions of customers in all regions, and in particular, of Latin American customers which typically have extended repayment terms;

2. BASIS OF PREPARATION (continued)

- the Group has suspended non-critical operating and capital expenditure and is undertaking pro-active working capital management including ongoing negotiations with suppliers on payment terms;
- the Group has suspended dividends;
- the Group has successfully negotiated rent concessions for the Newington facility to 31 December 2020;
- the senior management team agreed to reduce their salaries by 20% for the June and September 2020 quarters. The paid independent directors have also reduced their fees by 20% from 1 April 2020 until 30 September 2020 and the Chairman waived his June 2020 quarterly fees and agreed to a 20% reduction for the September 2020 quarter;
- the Group is forecasting to be able to meet the amended bank covenant requirements as noted above and repay $15 million of the ANZ loan by April 2021, as the facility limit is progressively reduced;
- no further material government assistance is expected to be received, other than JobKeeper subsidies included in the forecasted cash flows up until 30 September 2020;
- the Group has not experienced to date, material issues over receivables collectability, or its supply chains. As the market in each region re-opens, the Group is geared with the new cabinets as well as games that have been developed to recover to pre-COVID-19 levels; and
- the Group's facilities in Nevada and Florida have recently been appraised with market values greater than their respective carrying amounts.

After assessing detailed cash flow forecasting based on key revenue, cost, capital expenditure, working capital assumptions, along with reassessments of significant judgements and estimates, including but not limited to, provisions against debtors and inventory, impairment of non-current assets, and based on the best available information at this time, the Directors believe that the going concern assumption remains appropriate.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for loans and borrowings from a related entity, which were measured initially at fair value and then subsequently carried at amortised cost.

(c) Functional and presentation currency

The financial information of each of the Group's entities and foreign branches is measured using the currency of the primary economic environment in which it operates (the functional currency).

These consolidated financial statements are presented in Australian dollars, which is the Company's primary functional currency.

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191* and in accordance with that Instrument, 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 the consolidated financial statements in conformity with IFRSs 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.

The COVID-19 pandemic has led to additional estimates and judgements which involves assumptions when preparing these financial statements. The revisions to accounting estimates were recognised during the year and will require ongoing assessment due to the inherent uncertainty of the COVID-19 impact. Key judgements involve an assessment of forecast performance of the Group and the industry it operates in, and at the time of preparation of these financial statements, those assessments have inherent uncertainty. The following were the key areas, but not limited to, that required additional judgements as a result of the pandemic:

- the going concern assumption;
- the recoverability of receivables;
- the appropriateness of stock obsolescence provisions;
- impairment testing on non-financial assets; and
- the recoverability of deferred tax assets.

Should actual performance differ significantly from the assumptions used for the estimates and judgements mentioned above, it is likely that there may be material changes to the carrying value of the assets and liabilities listed above in future reporting periods.

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included in 'Note 13 – Intangible assets' and 'Note 26 – Financial instruments (trade and other receivables)'.

(e) Comparative figures

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

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

(i) Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see (a)(ii)). The consideration transferred in the acquisition is generally measured at fair value as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (refer Note 3(h)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt of equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Interest in equity-accounted investee

A joint venture is an arrangement in which the Group has joint control, and whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Interest in a joint venture is accounted for using the equity method. It is recognised initially at cost, which includes transactions costs. Subsequently to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and Other Comprehensive Income ("OCI") of the equity-accounted investee, until the date on which significant influence of joint control ceases.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements in accordance with AASBs.

(v) 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.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance 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 year.

(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 the average exchange rates for the period.

Foreign currency differences are recognised in other comprehensive income and presented in the translation reserve in equity. When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is transferred to the profit or loss, as part of gain or loss on disposal.

When the Group disposes of only a part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant portion of cumulative amounts is re-attributed to non-controlling interest.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation, are recognised in other comprehensive income and are presented in the translation reserve in equity.

(c) Financial instruments

(i) Non-derivative financial assets

Non-derivative financial assets comprise trade and other receivables and cash and cash equivalents.

Recognition and initial measurement

Trade and other receivables are recognised on the date that they are originated. 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 ownership of the financial asset are transferred.

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value. Subsequent to initial recognition trade and other receivables are measured at amortised cost using the effective interest method, less any impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at amortised cost. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The assessment amount of current and non-current receivable involves reviewing the contractual term and how it compares to the current payment trend. When the current payment trend is less favourable from the contractual term, the Group will base the current and non-current assessment on payment trend.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at Fair Value Through Profit or Loss ("FVTPL"):

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets - Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sale of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluation on a fair value basis are measured at FVTPL.

Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the• amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

Financial assets – Subsequent measurement and gains and losses.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised. Financial assets at fair value through profit or loss.

(ii) Non-derivative financial liabilities

Non-derivative financial liabilities comprise loans and borrowings and trade and other payables.

Recognition and initial measurement

Debt securities issued and subordinated liabilities are initially recognised on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Loans and borrowings and trade and other payables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured 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.

Classification and subsequent measurement

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

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.

Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(iv) 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 tax effects.

(d) Property, plant and equipment

(i) 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.

Machines previously held as inventory are transferred to property, plant and equipment when a rental or participation agreement is entered into. When the rental or participation agreements cease and the machines become held for sale, they are transferred to inventory at their carrying amount. Proceeds are reflected in revenue while value disposed are recognised as cost of sale. These are treated as an operating cash flow.

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 the property, plant and equipment and are recognised net within “other income” or “other expenses” in profit and loss.

(ii) Subsequent costs

The cost of replacing a 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.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

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 since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

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

– buildings	39 - 40 years
– leasehold improvements	10 years
– plant and equipment	2.5 - 20 years

The useful lives of capitalised machines leased under rental or participation agreements are included in the plant and equipment useful lives.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(e) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see Note 3(a)(v) and (vi). Goodwill is subsequently carried at cost less accumulated impairment losses (refer Note 3(h)).

(ii) 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. Other development expenditure and discontinued projects that are expected to have no further economic benefit are recognised in profit or loss when incurred.

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

(iii) Other intangible assets

Other intangible assets, which include intellectual property, technology and software assets, customer relationships, tradenames and trademarks, and service contracts, that are acquired by the Group through business combinations, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Refer Note 3(a)(i) for details on the determination of cost of these acquired assets.

(iv) 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.

(v) Amortisation

Amortisation is based on the cost of an asset less its residual value. 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, since this most closely reflects the expected pattern of consumption of the future economic benefit embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

– capitalised development costs	4-5 years
– intellectual property	3-10 years
– technology and software	5-10 years
– customer relationships and contracts acquired	3-10 years
– tradenames and trademarks	3 years
– service contracts	3 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(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 statement of financial position.

(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, production or conversion costs and other costs incurred in 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

(i) Non-derivative financial assets

The Group recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost. The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitive information and analysis, based on the Group's historical experience and informed credit assessment and including available forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if there is significant difficulty of the borrower or issuer. Lifetime ECLs are the ECLs that result from possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- a breach of contract such as a default or shortfall of agreed payment plans; or
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, 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. An impairment loss is recognised if the carrying amount of an asset or its related cash generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU. 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 (the "CGU"). The goodwill acquired in a business combination for the purpose of impairment testing, is allocated to CGU that is expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amount of the other assets in the CGU 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Employee benefits

(i) Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution superannuation funds are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) 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 corporate bonds that have maturity dates approximating the terms of the Group's obligations.

(iii) 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.

(iv) 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.

(v) 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 for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. Where such adjustments result in a reversal of previous expenses these are recognised as a credit to profit or loss in the period that it is assessed that certain vesting conditions will not be 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.

The unwinding of the discount is recognised as a finance cost.

(k) Warranties

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

(l) Revenue

(a) Sale of goods and related licences

(i) Machine and part sales

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, allowances and trade discounts. Revenue is recognised when persuasive evidence exists usually in the form of an executed sales agreement, that 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. Transfer of risks and rewards vary depending on the individual terms of the contract of sale.

(ii) Multi element arrangements

When gaming machines, games, conversions and other incidental items are licensed to customers for extended periods, revenue is recognised on delivery for gaming machines and games and for other items including conversions on a straight-line basis over the licence term. The revenue recognised for each item is based on the relative fair values of the items included in the arrangement.

(iii) Licence income
Licence income, including those received from online business, is recognised when all obligations in accordance with the agreement have been met which may be at the time of sale or over the life of the agreement.

(b) Services
Revenue from services rendered is recognised in profit or loss when the services are performed.

(c) Participation and rental
Participation revenue is revenue earned when the Group's owned machines are placed in venues either directly by the Group or indirectly through a licensed operator for a fee. The fee is calculated as either a daily fee or an agreed fee based upon a percentage of turnover of participating machines, depending on the agreement.

Revenue from rental of gaming machines is recognised in profit or loss on a straight line basis over the term of the rental agreement.

(m) Lease payments

The transition from AASB 117 *Leases* to AASB 16 Leases is disclosed under Note 3(r)

Policy applicable after 1 July 2019
The Group recognises assets and liabilities for all property and equipment leases with terms of more than 12 months, unless the underlying asset is of low value. A right-of-use asset is recognised representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments.

Right of use assets are measured similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, the Group recognises depreciation of the right-of-use asset and interest on the lease liability. The lease payments reduce the lease liability.

Policy applicable before 1 July 2019
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.

(n) Finance income and finance costs

Finance income comprises interest income and foreign currency gains. Interest income is recognised in profit or loss as it accrues using the effective interest method.

Finance costs comprise interest expense on borrowings and foreign currency losses. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(o) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax are 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 other comprehensive income.

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 in respect of 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 temporary differences arising from: 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 not recognised for taxable temporary differences arising from the initial recognition of goodwill. 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.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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, see Note 15.

(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, performance rights and share options granted to employees.

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(r) Changes in new significant accounting policies

The Group initially applied AASB 16 Leases from 1 July 2019. A number of other new standards and pronouncements are also effective from 1 July 2019, but they do not have a material impact on the Group's financial statements.

AASB 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group applied AASB 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2019 has not been restated – i.e. it is presented, as previously reported, under AASB 117 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in AASB 16 have not generally been applied to comparative information.

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under Interpretation 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under AASB 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed. Therefore, the definition of a lease under AASB 16 has been applied only to contracts entered into or changed on or after 1 July 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(b) As a lessee

The Group leases many assets including properties, motor vehicles and IT equipment. As a lessee, the Group previously classified leases as operating, or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under AASB 16, the Group recognises right-of-use assets and lease liabilities for most of these leases - i.e. these leases are on-balance sheet.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. IT equipment). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents its right-of-use assets and lease liabilities separately in the statement of financial position.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

(i) Transition

Previously, the Group classified property leases as operating leases under AASB 117. These include office, warehouse, factory facilities and office equipment. The leases typically run for a period of 1-10 years. Some leases include an option to renew the lease after the end of the non-cancellable period. Some leases provide additional rent payments that are based on changes in local price indices.

At transition, for leases classified as operating leases under AASB 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at either:

- their carrying amount as if AASB 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – this approach was not applicable to the Group; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all leases, which resulted in a nil impact on retained earnings related to the cumulative effect of initial application.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than or equal to 12 months of lease term;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(c) As a lessor

The accounting policies applicable to the Group as a lessor are not different from those under AASB 117. The Group is not required to make any adjustments on transition to AASB 16 for leases in which it acts as a lessor. However, the Group has applied AASB 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

(d) Impacts on Financial Statements

(i) Impact on transition

On transition to AASB 16, the Group recognised additional right-of-use assets to the equal value of lease liabilities recognised. The impact on transition is summarised below:

In thousands of AUD	1 July 2019
Right-of-use assets	17,910
Deferred tax asset	87
Lease liabilities	17,910

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

When measuring lease liabilities for leases that were previously classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 July 2019 of 5.1%.

In thousands of AUD	1 July 2019
Operating lease commitments at 30 June 2019 as disclosed in the Group's consolidated financial statements	10,997
Discounted using the incremental borrowing rate 1 July 2019	9,785
– Recognition exemption for leases of low-value assets	(34)
– Recognition exemption for leases with less than 12 months of lease term at transition	(183)
– Extension options reasonably certain to be exercised	8,342
Lease liabilities recognised at 1 July 2019	17,910

(ii) Impact for the period

As a result of initially applying AASB 16, in relation to the leases that were previously classified as operating leases, the Group recognised $15,750 thousand of right-of-use assets and $16,414 thousand of lease liabilities as at 30 June 2020.

In addition, for leases recognised under AASB 16, the Group has recognised depreciation and interest expense, instead of operating lease expense. During the twelve months ended 30 June 2020, the Group recognised $2,393 thousand of depreciation charges and $864 thousand of interest expenses from these leases.

During the year, the Group received rental concessions as a result of COVID-19. Under AASB 16 Leases, rent concessions often meet the definition of a lease modification. In light of the effects of the COVID-19 pandemic, the Australian Accounting Standards Board has issued amendments to AASB 16 to simplify how lessees account for rent concessions and introduced a practical expedient for lessees.

Under this practical expedient, lessees are not required to assess whether eligible rent concessions are lease modifications, and instead are permitted to account for them as if they were not lease modifications. AASB 16.46A–B rent concessions are eligible for the practical expedient if they occur as a direct consequence of the COVID-19 pandemic and if all of the following criteria are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to the other terms and conditions of the lease.

As such, the Group recognised $467 thousand in 'other income' for the period in relation to the rental concessions predominantly received for the Newington facility in Australia.

(s) Changes in new standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2019 and earlier application is permitted. However, there are currently no new standards, amendments to standards or accounting interpretations that are expected to affect the Group's consolidated financial statements in future periods.

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.

(a) Intangible assets

The fair value of intangibles 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.

(b) 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.

(c) 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.

(d) Loans and borrowings

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

(e) 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.

(f) Share-based payment transactions

The fair value of employee stock options is measured using the Black Scholes Merton model. 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 Group has exposure to the following risks from their use of financial instruments:

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

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

Risk management framework

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's Audit Committee, which is responsible for developing and monitoring risk management policies. The Audit 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 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 Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The 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 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 receivables from customers.

Trade and other receivables

The 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. The Group's concentration of credit risk is disclosed in Note 26.

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 and the local economy operating conditions of these customers. 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 within sales limits approved by the Chief Executive Officer and Chief Financial Officer, 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 Group has established an allowance for impairment that represents its estimate of incurred and expected credit 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.

5. FINANCIAL RISK MANAGEMENT (continued)

Guarantees

The Group's policy is to provide financial guarantees only for wholly owned subsidiaries. At 30 June 2020, no guarantees were outstanding (2019: none).

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 and pandemic.

During FY20, the Group commenced discussions with ANZ bank to restructure the facility terms due to the impending breach in financial covenants by the Group as a result of the adverse impacts of COVID-19 pandemic on the Group's operations. On 24 August 2020, the Group managed to renegotiate the terms of the facility with amendments to the facility limit and financial covenants as at 30 June 2020 and has assisted the Group with preserving its liquidity and mitigating the financial impacts of the pandemic. Detailed disclosures are outlined in Notes 2(a) and Note 31.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates 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) and the US dollar (USD). The currency in which these transactions are primarily denominated is in USD for the Australian business operations.

The Group continually monitors and reviews the financial impact of currency variations to determine strategies to minimise the volatility of changes and adverse financial effects in foreign currency exchange rates. No hedging arrangements were utilised during 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 in its exposure.

Interest rate risk

The Group's main interest rate risk arises from floating rate borrowings drawn under bank debt facilities.

Capital management

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 an acceptable return on capital is achieved and that dividends are able to be provided to ordinary shareholders in the short-term.

The Board continues to review alternatives to ensure present employees will hold equity in the Company's ordinary shares. This is expected to be an ongoing process establishing long-term incentive plans to further align shareholders and employees' interests.

There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

6. OPERATING SEGMENTS

The activities of the entities within the Group are predominantly within a single business which is the design, development, manufacture, sale and service of gaming machines and other related equipment and services. Information reported to the Group's Chief Executive Officer (CEO) as the chief operating decision maker for the purposes of resource allocation and assessment of performance is focused on the geographical location of customers of gaming machines. As such, the Group's reportable segments are as follows:

- Australia and other ('other' consists of Asia, New Zealand, South Africa and Europe);
- North America; and
- Latin America.

Performance of each reportable segment is based on segment revenue and segment result as included in internal management reports that are reviewed by the Group's CEO. Segment results includes segment revenues and expenses that are directly attributable to the segment, which management believes is the most relevant approach in evaluating segment performance. The revenue from external parties reported to the CEO is measured in a manner consistent within the statement of profit or loss and other comprehensive income.

During the year ending 30 June 2020, the Group has changed the presentation of its reportable segments compared to previously disclosed information in the last financial statements in order to clearly identify the Group's reportable segments. This change did not affect the prior reporting period's approach in deriving these respective geographical region's segment results but rather related to aggregating the Australia, Asia, New Zealand and Europe jurisdictions as one reportable segment, Australia and other. Accordingly, the Group has reflected this in the operating segment information for the year ended 30 June 2020 and the comparative period.

The Group has a large and dispersed customer base. The Group's largest customer accounts for only 4% of the total reportable revenue.

Notes to the Financial Statements (continued)

for the year ended 30 June 2020

A reconciliation of segment result to net profit after tax is also included as follows:

Information about reportable segments

In presenting information on the basis of reportable segments, segment revenue is based on the geographical location of customers and relates to sales and servicing of gaming machines.

For the year ended 30 June 2020

	Australia and other										
In thousands of AUD	NSW	QLD/NT	VIC/TAS	South Australia	Asia	New Zealand	Europe/ Other	Total Australia and Other	North America	Latin America	Total
Reportable segment revenue	15,224	4,634	6,749	1,689	598	1,603	4,826	35,323	72,038	42,035	149,396
Result											
Segment result	(1,947)	29	2,108	238	(1,992)	399	4,421	3,256	25,332	2,272	30,860
Interest revenue not allocated to segments											115
Interest expense											(2,229)
Foreign currency gain											1,245
Share of loss of equity-accounted investee											–
R & D expenses											(41,192)
Corporate and administrative expenses											(22,191)
Other expenses not allocated to segments											(15,408)
Loss before tax											(48,800)
Income tax benefit											5,367
Net loss after tax											(43,433)

Non-current assets, other than financial instruments and deferred tax assets, located in the entity's county of domicile (Australia) as at 30 June 2020 are $50,693 thousand (2019: $43,357 thousand). Non-current assets, other than financial instruments and deferred tax assets, located in foreign countries as at 30 June 2020 total $165,229 thousand (2019: $148,746 thousand), of which $143,649 thousand (2019: $116,045 thousand), are in North America.

Impairment expenses relating to write down of Latin America leased assets of $11,958 thousand is recorded in 'other expenses not allocated to segments'.

Notes to the Financial Statements (continued)

for the year ended 30 June 2020

6. OPERATING SEGMENTS (continued)

In presenting information on the basis of reportable segments, segment revenue is based on the geographical location of customers and relates to sales and servicing of gaming machines.

For the year ended 30 June 2019

In thousands of AUD	Australia and other							Total Australia and Other	North America	Latin America	Total
	NSW	QLD/NT	VIC/TAS	South Australia	Asia	New Zealand	Europe/ Other				
Reportable segment revenue	21,379	5,851	6,990	1,848	2,540	2,328	6,639	47,575	114,067	72,702	234,344
Result											
Segment result	(845)	586	2,490	563	1,277	646	4,877	9,594	47,143	23,992	80,729
Interest revenue not allocated to segments											11
Interest expense											(2,242)
Foreign currency gain											6,045
Share of loss of equity-accounted investee											(54)
R & D expenses											(40,428)
Corporate and administrative expenses											(25,065)
Other expenses not allocated to segments											(4,314)
Profit before tax											14,682
Income tax expense											(3,787)
Net profit after tax											10,895

Non-current assets, other than financial instruments and deferred tax assets, located in the entity's county of domicile (Australia) as at 30 June 2019 are $43,357 thousand (2018: $46,199 thousand). Non-current assets, other than financial instruments and deferred tax assets, located in foreign countries as at 30 June 2019 total $148,746 thousand (2018: $139,890 thousand), of which $116,045 thousand (2018: $117,049 thousand), are in North America.

Impairment expenses relating to write down of NSW service goodwill of $2,436 thousand and write down of 616 Digital LLC segmented as Europe/Other amounting to $1,878 thousand are recorded in 'other expenses not allocated to segments'.

7. REVENUE

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers

(a) Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition.

For the year ended 30 June 2020	Australia and other										
In thousands of AUD	NSW	QLD/NT	VIC/TAS	South Australia	Asia	New Zealand	Europe/ Other	Total Australia and Other	North America	Latin America	Total
Major products/service lines											
Machine and part sales	8,255	3,417	6,093	973	585	1,603	179	21,105	42,459	25,905	89,469
Multi element arrangements	1,939	1,217	656	716	–	–	–	4,528	–	–	4,528
Sale type leases	–	–	–	–	–	–	–	–	115	429	544
Rendering of services	5,037	–	–	–	–	–	–	5,037	5,225	–	10,262
License income	(7)	–	–	–	13	–	4,647	4,653	920	166	5,739
Rental and participation	–	–	–	–	–	–	–	–	23,319	15,535	38,854
	15,224	4,634	6,749	1,689	598	1,603	4,826	35,323	72,038	42,035	149,396
Timing of revenue recognition											
Products and services transferred at a point in time	10,086	4,573	6,649	1,681	598	1,603	179	25,369	42,538	26,227	94,134
Products and services transferred over time	5,138	61	100	8	–	–	4,647	9,954	29,500	15,808	55,262
	15,224	4,634	6,749	1,689	598	1,603	4,826	35,323	72,038	42,035	149,396

Notes to the Financial Statements (continued)

for the year ended 30 June 2020

7. REVENUE (continued)

For the year ended 30 June 2019

	Australia and other										
In thousands of AUD	NSW	QLD/NT	VIC/TAS	South Australia	Asia	New Zealand	Europe/ Other	Total Australia and Other	North America	Latin America	Total
Major products/service lines											
Machine and part sales	12,013	4,523	5,197	949	2,522	2,291	1,417	28,912	77,773	52,187	158,872
Multi element arrangements	2,923	1,320	1,781	899	–	–	–	6,923	–	–	6,923
Sale type leases	–	–	–	–	–	–	–	–	3,056	2,586	5,642
Rendering of services	6,412	–	–	–	–	–	–	6,412	4,165	–	10,577
License income	31	8	12	–	18	37	5,222	5,328	957	35	6,320
Rental and participation	–	–	–	–	–	–	–	–	28,116	17,894	46,010
	21,379	5,851	6,990	1,848	2,540	2,328	6,639	47,575	114,067	72,702	234,344
Timing of revenue recognition											
Products and services transferred at a point in time	14,725	5,668	6,789	1,808	2,540	2,328	2,451	36,309	79,827	55,724	171,860
Products and services transferred over time	6,654	183	201	40	–	–	4,188	11,266	34,240	16,978	62,484
	21,379	5,851	6,990	1,848	2,540	2,328	6,639	47,575	114,067	72,702	234,344

Notes to the Financial Statements (continued)

for the year ended 30 June 2020

8. OTHER INCOME

In thousands of AUD	Note	2020	2019
Royalties income		188	257
Bad debts reversed	*26*	196	958
Rent concessions	*27*	467	–
Other income		133	13
		984	1,228

9. EXPENSES BY NATURE

In thousands of AUD		2020	2019
Employee benefits expense	*10*	58,515	65,201
Depreciation and amortisation expense	*12,13, 27*	39,995	33,419
Impairment of property, plant and equipment	*12*	11,958	–
Impairment of intangibles	*13*	–	2,436
Impairment of equity-accounted investee	*14*	–	1,878
Changes in raw material and consumables, finished goods and work in progress	*16*	45,847	77,673
Legal expenses		1,234	1,015
Evaluation and testing expenses		7,604	7,681
Marketing expenses		4,971	5,720
Impairment of trade receivables	*26*	3,410	875
Operating lease expenses	*27*	102	2,331
Other expenses		27,001	31,924
		200,637	230,153

10. EMPLOYEE BENEFIT EXPENSES

In thousands of AUD	*Note*	2020	2019
Wages and salaries		52,876	60,495
Short-term incentives		339	1,172
Contributions to defined contribution superannuation funds		3,368	3,439
Increase in liability for annual leave	*22*	195	23
Increase/(decrease) in liability for long service leave	*22*	81	(97)
Termination benefits		1,094	181
Equity settled share-based payment transactions		562	(12)
		58,515	65,201

Included in the decline in wages and salaries in 2020 are JobKeeper subsidies received by the Australian companies within the group amounting to $2,766 thousand (2019: nil).

11. FINANCE INCOME AND FINANCE COSTS

In thousands of AUD	2020	2019
Interest income	2,441	5,514
Net foreign exchange gain	1,245	6,045
Finance income	3,686	11,559
Interest expense on financial liabilities	(2,229)	(2,242)
Finance costs	(2,229)	(2,242)
Net finance income recognised in profit or loss	1,457	9,317

12. PROPERTY, PLANT AND EQUIPMENT

In thousands of AUD	*Note*	Land and buildings	Plant and equipment	Leasehold improvements	Total
Cost					
Balance at 1 July 2018		59,266	103,170	3,052	165,488
Re-classification of inventory to plant and equipment		–	36,206	–	36,206
Additions		116	5,246	1,159	6,521
Disposals		–	(22,292)	–	(22,292)
Effect of movements in foreign exchange		3,194	4,722	17	7,933
Balance at 30 June 2019		62,576	127,052	4,228	193,856
Balance at 1 July 2019		62,576	127,052	4,228	193,856
Re-classification of inventory to plant and equipment		–	13,737	–	13,737
Additions		14	6,360	8	6,382
Disposals		–	(13,345)	–	(13,345)
Effect of movements in foreign exchange		1,368	2,344	8	3,720
Balance at 30 June 2020		63,958	136,148	4,244	204,350
Depreciation and impairment losses					
Balance at 1 July 2018		4,421	41,052	1,422	46,895
Depreciation charge for the year		2,005	22,751	313	25,069
Disposals		–	(11,080)	–	(11,080)
Effect of movements in foreign exchange		278	2,134	12	2,424
Balance at 30 June 2019		6,704	54,857	1,747	63,308
Balance at 1 July 2019		6,704	54,857	1,747	63,308
Depreciation charge for the year	*9*	2,147	24,906	389	27,442
Impairment Loss	*13*	–	11,958	–	11,958
Disposals		–	(6,118)	–	(6,118)
Effect of movements in foreign exchange		100	222	4	326
Balance at 30 June 2020		8,951	85,825	2,140	96,916
Carrying amounts					
At 1 July 2018		54,845	62,118	1,630	118,593
At 30 June 2019		55,872	72,195	2,481	130,548
At 30 June 2020		55,007	50,323	2,104	107,434

Disposals in the table above includes sale of gaming machines previously under participation or rental agreements of $6,683 thousand (2019: $10,852 thousand) at net book value.

The carrying amount of plant and equipment on participation and fixed rental leases is $34,877 thousand (2019: $57,426 thousand).

Impairment loss of $11,958 thousand recognised during the year relates to the recoverability of the carrying value of assets within the Latin American cash generating unit. See 'Note 13 – Intangible assets' for further details.

Notes to the Financial Statements (continued)

for the year ended 30 June 2020

13. INTANGIBLE ASSETS

In thousands of AUD	*Note*	Goodwill	Development costs	Intellectual property	Nevada licence costs	Technology and software	Customer relationships and workforce	Tradenames and trademarks	Service contracts	Total
Cost										
Balance at 1 July 2018		23,044	40,357	–	1,583	9,599	11,128	671	433	86,815
Additions		–	3,340	–	–	–	–	–	–	3,340
Intangible assets fully amortised and written off		–	(1,208)	–	–	–	–	–	(433)	(1,641)
Effects of movements in foreign currency		1,111	–	–	–	–	600	–	–	1,711
Balance at 30 June 2019		24,155	42,489	–	1,583	9,599	11,728	671	–	90,225
Balance at 1 July 2019		24,155	42,489	–	1,583	9,599	11,728	671	–	90,225
Additions		–	4,386	–	–	–	–	–	–	4,386
Additions through business combination	34	20,408	–	–	–	11,317	5,172	1,193	–	38,090
Intangible assets fully amortised and written off		–	–	–	–	–	–	(671)	–	(671)
Effects of movements in foreign currency		(488)	–	–	–	(534)	12	(57)	–	(1,067)
Balance at 30 June 2020		44,075	46,875	–	1,583	20,382	16,912	1,136	–	130,963
Amortisation and impairment losses										
Balance at 1 July 2018		–	11,906	–	–	3,086	3,346	548	433	19,319
Amortisation for the year	9	–	5,736	–	–	1,255	1,236	123	–	8,350
Intangible assets fully amortised and written off		–	(1,208)	–	–	–	–	–	(433)	(1,641)
Impairment losses	9	2,436	–	–	–	–	–	–	–	2,436
Effects of movements in foreign currency		–	–	–	–	–	206	–	–	206
Balance at 30 June 2019		2,436	16,434	–	–	4,341	4,788	671	–	28,670
Balance at 1 July 2019		2,436	16,434	–	–	4,341	4,788	671	–	28,670
Amortisation for the year	9	–	7,226	–	–	1,592	1,270	72	–	10,160
Intangible assets fully amortised and written off		–	–	–	–	–	–	(671)	–	(671)
Impairment losses	9	–	–	–	–	–	–	–	–	–
Effects of movements in foreign currency		–	–	–	–	(8)	76	(2)	–	66
Balance at 30 June 2020		2,436	23,660	–	–	5,925	6,134	70	–	38,225
Carrying amounts										
At 1 July 2018		23,044	28,451	–	1,583	6,513	7,782	123	–	67,496
At 30 June 2019		21,719	26,055	–	1,583	5,258	6,940	–	–	61,555
At 30 June 2020		41,639	23,215	–	1,583	14,457	10,778	1,066		92,738

Impairment testing for development costs

The four main CGUs are: Development, Australia and other (comprised of Asia, New Zealand, South Africa and Europe), North America and Latin America.

The determination of CGUs for the purposes of testing development costs for impairment is consistent with last financial year. During the financial year, the Group completed an asset acquisition from a US privately held company, MTD Gaming Inc. – see 'Note 34 - Business combinations' for further details of this acquisition. The Group assessed and determined it was appropriate to incorporate the acquired intangible assets of $17,682 thousand and goodwill of $20,408 thousand as part of the North America CGU. Other than the MTD acquisition, the allocation of goodwill remains consistent with last financial year. The Group has maintained that the most reasonable and consistent basis upon which to allocate development costs is to have the Group's research and development function ('Development CGU') recharge product development costs to the Group's other CGUs, which are in line with the Group's geographic operating segments.

The carrying amount of the Group's development costs amounts to $23,215 thousand (2019: $26,055 thousand), comprising of $19,968 thousand in development costs relating to product development and $3,247 thousand in development costs relating to online development activities.

Development costs include costs relating to products and online gaming that are not yet available for sale and as such their recoverable amount is assessed at the end of each reporting period.

Product development costs are recharged from the Development CGU to individual CGUs, based on the forecasted unit sales of each individual CGU. Other assets, consisting of intangible assets and property, plant and equipment are allocated to the individual CGUs to which they relate.

The Group's corporate assets largely comprises of building facilities, IT infrastructure and manufacturing equipment. The allocation of the corporate assets is based on the usage pattern by each CGU.

Allocation of right-of-use assets under AASB 16 *Leases*

The Group applied AASB 16 *Leases* for the first-time from 1 July 2019 and as a result the 'other assets' within each CGU includes the carrying amount of right-of-use ("ROU") assets as at 30 June 2020. This is consistent with the previous approach for assets under finance lease in accordance with AASB 117 *Leases* whereby a lessee applies AASB 136 *Impairment of Assets* to assess the ROU assets for impairment.

The allocation of goodwill, indefinite useful life intangible assets and other assets to the Groups of CGUs are as follows:

In thousands of AUD

	2020				
CGUs	Goodwill	Indefinite life intangible assets	Capitalised Development costs	Other assets	Recoverable amount
Development	–	–	23,215	41,512	88,599
Australia and other	–	–	–	9,075	24,777
North America	41,639	1,583	–	74,172	212,687
Latin America	–	–	–	24,620	24,620

In thousands of AUD

	2019				
CGUs	Goodwill	Indefinite life intangible assets	Capitalised Development costs	Other assets	Recoverable amount
Development	–	–	26,055	20,200	76,367
Australia and other	–	–	–	4,810	5,244
North America	21,719	1,583	–	73,604	128,215
Latin America	–	–	–	44,132	72,296

13. INTANGIBLE ASSETS (continued)

Impairment testing for goodwill and indefinite life intangibles

Goodwill acquired through business combinations (Nova Tech in 2016 and MTD Gaming in 2020) and Nevada license indefinite life intangibles were allocated to the North America CGU as this CGU is expected to benefit from the business combination's synergies from impairment testing. The recoverable amount of this CGU was estimated based on its value in use ("VIU"), determined by discounting future cash flows to be generated from the continuing use of the CGU.

The key assumptions used in estimation of VIU were as follows:

- the discount rate of 14.0% (30 June 2019: 13.5%) used is a pre-tax rate;
- five years of forecast cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity of 1.8% (30 June 2019: 1.8%) has been determined based on growth prospects of this CGU industry and the overall economy; and
- the projected average annual revenue growth rate over the five years is 17.6% (30 June 2019: 3.4%) and is based on past experience, adjusted for anticipated revenue growth in the Class II, Poker, Keno, and video reel content for use in Multi-Game and Video Lottery Terminal markets in which this CGU operates.

As the recoverable amount of the CGU was estimated to be higher than the carrying amount of the CGU's assets, no impairment was considered necessary.

Key assumptions used in determining the recoverable amount

The recoverable amount of each CGU was estimated based on its VIU. The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make. The key assumptions used when assessing the recoverable amount of each CGU is outlined as below.

	2020		2019	
CGUs	Pre-tax Discount rate	Average annual revenue growth rate[1]	Pre-tax Discount rate	Average annual revenue growth rate
Development	15.6%	0.4%	17.2%	5.6%
Australia and other	14.7%	25.5%	16.6%	15.8%
North America	14.0%	17.6%	13.5%	3.4%
Latin America	18.8%	17.3%	18.7%	8.1%

[1] The 5 years forecast average annual revenue growth rates (FY21 to FY25) has been calculated based on FY20 revenue as the base year, which has been adversely impacted by COVID-19, resulting in an increased average growth rate compared to the last financial year. When estimating the revenue growth rates, management have considered and incorporated the effects of the pandemic by forecasting growth rate based on a staggered recovery in Half 2 FY21 and a gradual return to pre-COVID-19 levels during FY22, and normalised business performance/ growth rates thereafter.

Australia and other CGU

As at 30 June 2020, Australia and other CGU has a forecasted VIU exceeding carrying amount ("headroom") of $15,702 thousand, compared to $434 thousand at 30 June 2019. The increase in headroom is primarily driven by the decrease in the pre-tax discount by 190 basis points due to change in local external economic factors such as government bond rates. When estimating the revenue growth rates, the historical experience, and forecasted financial results based on the release of new hardware configuration, A-Star™, improved game performance and other planned strategic initiatives have been considered.

Given that this headroom is highly dependent on the forecasted revenue growth, an adverse change in this key assumption may result in a deficiency in the net recoverable amount when compared to the carrying value of the CGU, which may result in impairment charges recognised in future periods.

From a sensitivity perspective, based on the current carrying amount of assets in the CGU, an overall reduction in average revenue growth rate from 25.5% to 22.6% will result in the elimination of any headroom. This sensitivity assumes the specific assumption moves in isolation, whilst all other assumptions are held constant. In reality, a change in this assumption may accompany a change in another assumption.

North America CGU

The average annual revenue growth projection of 17.6% is derived from a low FY20 result due to the impacts of COVID-19. This growth rate also incorporates growth projections contributed by the MTD acquisition. The pre-tax discount rate for the North America CGU has been adjusted accordingly to reflect the risk associated with this new acquisition, resulting in a 50-basis point increase in discount rate.

As the headroom of this CGU is $95,293 thousand, Management does not believe that a reasonable possible change in key assumptions will result in a material impairment charge.

Latin America CGU

As at 30 June 2020, the Latin America CGU recorded an impairment charge of $11,958 thousand against its leased assets as a result of reduction in revenue projections and the deterioration of working capital assumptions. The impairment charge has been recognised in the 'Consolidated statement of profit and loss and other comprehensive income' under 'Other expenses'. The material decrease in its recoverable amount compared to last financial year is due to the revised future forecasted revenue growth given the underperformance of this CGU, coupled with the adverse effects of COVID-19 on the future operations particularly noted in the regions in which this CGU operates in. In addition, taking into consideration the impact of COVID-19, the working capital assumptions has been adjusted for, in particular the timing of customer receipt projections, as customers within this CGU typically have extended repayment terms.

As there is nil headroom within this CGU, an adverse change in any of the key assumptions used may result in further impairment charges in future periods. The following sensitivities assume a specific assumption moves in isolation, whilst all other assumptions are held constant:

- A reduction in forecasted revenue by 10% for the next 18-month period would cause additional material impairment of approximately $1,967 thousand;
- A reduction in discount rate by 50 basis points would cause additional material impairment of $2,348 thousand.

This sensitivity assumes the specific assumption moves in isolation, whilst all other assumptions are held constant. In reality, a change in an assumption may accompany a change in another assumption.

Development CGU

The recoverable amount of the Development CGU is significantly driven by the performance of the other CGUs' and a change in key assumptions will impact both the geographical and the Development CGUs'. As the revenue projections of the Australia and other, North America and Latin America CGUs are also dependent on the success of products supplied by the Development CGU, impairment could also potentially arise at the Development CGU level shall any of the other CGUs have deficiencies in their recoverable amounts compared to their carrying amounts. Other than the recoverable amount of the Development CGU being significantly driven by the performance of the other CGUs, management does not believe a reasonable possible change in key assumptions will result in a material impairment charge.

In addition, for all CGUs, whilst the achievement of forecast revenue growth rates is dependent on the success of current strategic initiatives, market conditions, improved product performance, a change in implemented product development and recently released new hardware configurations, Management, based on historical experience and industry specific factors, has reviewed and assessed that forecasted revenue growth rates are expected to be achieved. However, the full magnitude and the adverse impact of the pandemic is highly uncertain.

14. EQUITY-ACCOUNTED INVESTEE

616 Digital LLC ("616") is a joint venture in which the Group had 40% ownership interest.

616 is an online social platform provider established in Delaware, USA and operates from Romania and Australia. This arrangement allowed both parties to jointly progress development and marketing of social gaming offering on both desktop and mobile, leveraging the extensive game content library established for land-based markets. An agreement had also been established where the Group had the ability to purchase the remaining 60% interest in 616 at a future date.

During the year ended 30 June 2020, the Group disposed its 40% ownership interest in 616 Digital LLC. The investment in equity accounted investee for the Group comprise the following:

In thousands of AUD	Ownership 30-Jun-20	Ownership 30-Jun-19	Carrying amount 30-Jun-20	Carrying amount 30-Jun-19
616 Digital LLC	0%	40%	–	–

The Group's share of profit or loss of equity accounted investee is $nil thousand (2019: $54 thousand loss).

14. EQUITY-ACCOUNTED INVESTEE (continued)

616's earnings growth profile continued to be affected by the ongoing maturation of the North American and Australian social gaming market and an increase in player acquisition and retention costs. These market changes has been to the disadvantage of smaller operators like 616 in favour of larger scale competitors and are reflected in lower than previously anticipated year on year revenue and EBITDA growth.

Summary financial information for the equity accounted investee, not adjusted for the percentage ownership held by the Group, is as follows:

In thousands of AUD	01-Jan-2020 (Date of Disposal)	30-Jun-19
Cash and cash equivalents	164	206
Current assets (excluding cash and cash equivalents)	3	9
Non-current assets	3	3
Current financial liabilities (excluding trade and other payables and provisions)	(11)	(11)
Current financial liabilities (including trade and other payables and provisions)	(90)	(112)
Net Assets	69	95
Income	671	1,923
Expenses	(707)	(2,393)
Elimination of upstream purchases	–	334
Loss	(36)	(136)

The movement of the Group's investment in 616 during the year, adjusted for the percentage ownership held by the Group was as follows:

Carrying amount at beginning of period	–	2,001
Share of loss	–	(54)
Write down of carrying amount	–	(1,878)
Effects of movements in foreign exchange	–	(69)
Carrying amount at end of period	–	–

15. TAXES

Current tax expense

In thousands of AUD	2020	2019
Tax recognised in profit or loss		
Current tax benefit/(expense)		
Current year	1,135	(9,842)
Prior year adjustments	(319)	(179)
Recognition of R&D tax credits	835	7,216
	1,651	(2,805)
Deferred tax benefit/(expense)		
Origination and movement of timing differences	3,716	(982)
	3,716	(982)
Total income tax benefit/(expense)	5,367	(3,787)

Reconciliation of effective tax rate

In thousands of AUD	2020	2020	2019	2019
(Loss)/Profit before income tax		(48,800)		14,682
Income tax expense using the Company's domestic tax rate	(30.00%)	14,640	(30.0%)	(4,405)
Effective tax rates in foreign jurisdictions	1.12%	(547)	4.19%	615
Non-deductible expenses	21.49%	(10,487)	(43.66%)	(6,409)
Non-assessable income and concessions	(4.26%)	2,080	53.71%	7,885
Prior year adjustments	0.65%	(319)	(1.22%)	(179)
Recognition of previously unrecognised tax losses and timing differences	0.00%	–	(8.81%)	(1,294)
	(11.00%)	5,367	(25.79%)	(3,787)

Recognised deferred tax assets/liabilities

In thousands of AUD	2020 Net deferred tax assets	2019 Net deferred tax assets	2020 Net deferred tax liabilities	2019 Net deferred tax liabilities
Employee benefits	2,260	2,284	355	377
Provisions	792	677	3,733	3,446
Property, plant and equipment	139	120	(5,977)	(6,021)
Unrealised foreign exchange gain	(1,496)	(1,510)	–	–
Other items	1,799	807	1,285	609
Tax loss carry forwards	2,026	408	1	4
Net deferred tax assets/(liabilities)	5,520	2,786	(603)	(1,585)

The deductible temporary differences and tax losses do not expire under current tax legislation. R&D non-refundable tax offset credits are available to be applied against income tax payable in future years and do not expire under current tax legislation.

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.

Management has assessed that the carrying amount of the deferred tax assets of $5,520 thousand should be recognised as management considers it probable that future taxable profits would be available against which they can be utilised.

16. INVENTORIES

In thousands of AUD	2020	2019
Raw materials and consumables	47,495	31,613
Finished goods	43,390	33,550
Stock in transit	492	1,688
Inventories stated at the lower of cost and net realisable value	91,377	66,851

During the year ended 30 June 2020 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to $45,847 thousand (2019: $77,673 thousand).

A re-classification from inventory to property, plant and equipment of $13,737 thousand (2019: $36,206 thousand) was recorded to reflect gaming products for which rental and participation agreements were entered into during the year.

During the year ended 30 June 2020, the write down of inventories to net realisable value amounted to $4,620 thousand (2019: $2,726 thousand). The write down is included in cost of sales.

17. RECEIVABLES AND OTHER ASSETS

In thousands of AUD	*Note*	2020	2019
Current			
Trade receivables		92,435	122,998
Less impairment losses	*26*	(6,249)	(5,002)
		86,186	117,996
Other assets		1,188	593
Amount receivable from shareholder-controlled entities	*29*	665	1,375
		88,039	119,964
Non-current			
Trade receivables		25,844	28,648
		25,844	28,648

Information about the Group's exposure to credit and market risks and impairment losses for trade and other receivables is included in Note 26.

Leasing arrangements

Included in trade receivables are receivables from gaming machines that have been sold under finance lease arrangement. The lease payments receivable under these contracts is as follows:

In thousands of AUD	2020	2019
Minimum lease payments under finance leases are receivable as follows:		
Within one year	3,920	5,614
Later than one year but not later than 5 years	1,258	3,703
	5,178	9,317
Unearned finance income as follows:		
Within one year	247	366
Later than one year but not later than 5 years	52	197
	299	563
The present value of minimum lease payments and lease receivables classification is as follows:		
Within one year	3,673	5,248
Later than one year but not later than 5 years	1,206	3,506
	4,879	8,754

18. CASH AND CASH EQUIVALENTS

In thousands of AUD	2020	2019
Bank balances	26,528	59,695
Cash deposits	15	1,966
Cash and cash equivalents in the statement of cash flows	26,543	61,661

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 26.

18A. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

In thousands of AUD	*Note*	2020	2019
Cash flows from operating activities			
(Loss)/profit for the period		(43,433)	10,895
Adjustments for:			
Rent concessions	*8*	(467)	–
Equity-settled share-based payment transactions	*10*	562	(12)
Net finance income	*11*	(1,457)	(9,317)
Depreciation	*12,27*	29,835	25,069
Impairment losses on trade receivables and provision for obsolescence		8,030	3,601
Write-down of goodwill	*13*	–	2,436
Amortisation of intangible assets	*13*	10,160	8,350
Impairment of LATAM CGU	*12,13*	11,958	–
Impairment of 616 Digital LLC		745	–
Write-down of Equity-accounted investee	*14*	–	1,878
Loss on sale of property, plant and equipment		153	224
Unrealised currency translation movements		(4,510)	6,062
Income tax (benefit)/expense	*15*	(5,367)	3,787
Operating profit before changes in working capital and provisions		**6,209**	**52,973**
Change in trade and other receivables		26,827	46,608
Change in inventories		(28,081)	15,745
Net transfers between inventory and leased assets		(5,151)	(25,942)
Change in other assets		(4,479)	(405)
Change in trade and other payables		16,310	(21,732)
Change in provisions and employee benefits		1,737	(5,069)
		13,372	62,178
Interest received		2,326	5,503
Income taxes refunded/(paid)		1,023	(6,473)
Net cash from operating activities		**16,721**	**61,208**

19. CAPITAL AND RESERVES

(a) Share capital

In thousands of shares	Ordinary shares 2020	2019
In issue at 1 July	336,794	332,513
Shares issued under dividend reinvestment plan	–	4,281
In issue at 30 June – fully paid	336,794	336,794

(i) Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. All shares rank equally with regard to the Company's residual assets.

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.

Issue of ordinary shares

During the year, no ordinary shares were issued.

(b) Nature and purpose of reserve

(i) Equity compensation reserve

The equity compensation reserve represents the expensed cost of share options issued to employees.

(ii) 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 at below market rates.

(iii) 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.

(iv) Profits reserve

This reserve is comprised wholly of the profits generated by the Australian entity which would be eligible for distribution as a frankable dividend.

(c) Dividends

The following dividends were paid by the Company during the year:

In thousands of AUD	2020	2019
0.0 cents per qualifying ordinary share (2019: 2.5 cents)	–	8,313

During the year and subsequent to the reporting date, no dividend was proposed by the board of directors (2019:nil).

The amount of franking credits available to shareholders for subsequent financial years is $28,017 thousand (2019: $30,185 thousand). The ability to utilise the franking credits is dependent upon the ability to declare dividends.

20. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2020 was based on the loss attributable to ordinary shareholders of $43,433 thousand (2019: $10,895 thousand profit) and a weighted average number of ordinary shares outstanding during as at 30 June 2020 of 336,794 thousand (2019: 335,000 thousand) calculated as follows:

(Loss)/profit attributable to ordinary shareholders

In thousands of AUD	*Note*	2020	2019
(Loss)/profit for the period		(43,433)	10,895
(Loss)/profit attributable to ordinary shareholders		(43,433)	10,895
Weighted average number of ordinary shares			
In thousands of shares			
Issued ordinary shares at 1 July	19	336,794	332,513
Effect of shares issued		–	2,487
Weighted average number of ordinary shares at 30 June		336,794	335,000
Total basic earnings per share attributable to the ordinary equity holders of the Company		($0.13)	$0.03

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2020 was based on the loss attributable to ordinary shareholders of $42,871 thousand (2019: $10,883 thousand profit) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 336,794 thousand (2019: 338,224 thousand), calculated as follows:

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

In thousands of AUD		2020	2019
(Loss)/profit attributable to ordinary shareholders		(43,433)	10,895
Amortisation of share-based payment arrangement		562	(12)
(Loss)/profit attributable to ordinary shareholders (diluted)		(42,871)	10,883
Weighted average number of ordinary shares (diluted)			
In thousands of shares			
Weighted average number of ordinary shares at 30 June	19	336,794	335,000
Effect of rights and options on issue		–	3,224
Weighted average number of ordinary shares (diluted) at 30 June		336,794	338,224
Total diluted earnings per share attributable to the ordinary equity holders of the Company		($0.13)	$0.03

As at 30 June 2020, 10,988 thousand options (2019: nil options) were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive.

21. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 26.

In thousands of AUD	2020	2019
Current		
Insurance premium funding	87	295
Secured bank loan	43,934	12,366
	44,021	12,661
Non-current		
Secured bank loan	–	42,778
	–	42,778

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

			2020		2019	
In thousands of AUD	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Insurance premium funding	1.38%	2020	88	87	299	295
Secured bank loan	LIBOR+0.85%	2021	43,934	43,934	55,144	55,144
Total interest-bearing liabilities			44,022	44,021	55,443	55,439

Change in loan covenant

The Group has a secured bank loan with a carrying amount of $43,934 thousand as at 30 June 2020 with ANZ bank. The bank loan is secured by fixed and floating charges over identified assets of the Company and certain subsidiaries within the Group, and imposes financial covenants measured on a six-monthly basis. Following the asset acquisition of MTD Gaming Inc. ("MTD"), the financial covenant ratios were amended, and the measurement period was reduced from a six-monthly basis to a quarterly basis, with the first measurement period being 31 March 2020.

Consequent to the outbreak of the COVID-19 pandemic which caused significant disruption in the markets in which the Group operates, management forecasted an impending breach in financial covenants, calculated based on EBITDA for the 12 months ending 30 June 2020, and commenced discussion with ANZ bank to restructure the facility.

As at year end, the Group breached its financial covenants for the interest cover and leverage ratios and as a result, the full loan payable balance was classified as a current liability. Subsequent to year end on 24 August 2020, the Group signed a deed of amendment for the ANZ facility and renegotiated the terms of the facility - See 'Note 31 – Subsequent Events' for further details of this amendment.

Insurance premium funding

Finance lease liabilities of the Group are payable as follows:

In thousands of AUD	Future minimum lease payments 2020	Interest 2020	Present value of minimum lease payments 2020	Future minimum lease payments 2019	Interest 2019	Present value of minimum lease payments 2019
Less than one year	88	1	87	299	4	295
Between one and five years	–	–	–	–	–	–
	88	1	87	299	4	295

22. EMPLOYEE BENEFITS

In thousands of AUD	2020	2019
Current		
Accrual for salaries and wages	1,452	1,245
Accrual for short-term incentive plan	101	921
Liability for annual leave	4,383	4,188
Liability for long service leave	3,237	3,236
	9,173	9,590
Non-current		
Liability for long service leave	605	525
	605	525

23. SHARE-BASED PAYMENTS

At 30 June 2020, the Group had the following share-based payment arrangements:

Performance rights programme (equity-settled)

(i) 1 March 2017 Performance rights

(a) Description of programme

On 1 March 2017, the Group established an employee incentive plan whereby performance rights were granted to all eligible Group employees under the Rights Share Trust (RST). Under the RST, eligible employees were allocated performance rights over ordinary shares in the Company at nil consideration or exercise price, however are dependent on service conditions, vesting conditions and performance hurdles. These rights are to be settled by the physical delivery of shares. The last vesting date for this performance rights is 1 March 2021 with 5 years contractual life since grant date.

During the year, Tranche 3 of these rights did not vest at the third vesting date of 1 March 2020 due to performance conditions not being met. The grant of this Tranche along with Tranches 1 and 2 under the RST will be re-tested at the end of the next applicable performance vesting date of 1 March 2021, subject to the higher performance conditions. If the performance conditions at the end of the next applicable performance period are satisfied, then the performance rights for the current performance period and any non-vested performance rights from prior performance periods will vest. During the year, 507,272 rights were cancelled due to termination of employees during the year with 2,716,877 rights outstanding as at 30 June 2020.

Performance hurdles

- Tranche 1 - 20% will vest if the VWAP for 20 days preceding 01/03/2018 is equal to or greater than $2.14.
- Tranche 2 - 20% will vest if the VWAP for 20 days preceding 01/03/2019 is equal to or greater than $2.46.
- Tranche 3 - 20% will vest if the VWAP for 20 days preceding 01/03/2020 is equal to or greater than $2.83.
- Tranche 4 - 40% will vest if the VWAP for 20 days preceding 01/03/2021 is equal to or greater than $3.25.

(b) Measurement of fair value

The fair value of the performance rights granted on 1 March 2017 under the RST are as follows:

Fair value at grant date	Fair Value per option
– Vesting date 1 March 2018	$0.56
– Vesting date 1 March 2019	$0.49
– Vesting date 1 March 2020	$0.42
– Vesting date 1 March 2021	$0.37

23. SHARE-BASED PAYMENTS (continued)

The inputs used in the measurement of the above fair values at grant date of the equity settlement share-based payment plan under the RST were as follows:

	RST plan
Share price at grant date	$1.77
Exercise price	–
Expected volatility	36.90%
Expected life	5 years
Expected dividends	5.65%
Risk-free interest rate (based on Treasury Bonds)	2.31%

(ii) 30 August 2019 Share options

(a) Description of programme

On 30 August 2019, the Group offered to eligible employees the opportunity to participate in a share option over ordinary shares in Ainsworth Game Technology Limited, under the Ainsworth Game Technology Limited Option Share Trust (OST). To be eligible to participate in the OST, the employees were selected by the directors and reviewed by the Remuneration and Nomination Committee. The OST provides for employees an option to purchase allocated shares at the valuation price at grant date. Each option is convertible to one ordinary share. Option holders have no voting or dividend rights. On conversion from option to ordinary shares, the issued shares will have full voting and dividend rights. The ability to exercise the right is conditional on the continuing employment of the participating employee. The total issued share options under this programme was 11,062,029 units. During the year, 1,163,408 options were cancelled due to termination of employees during the year with 9,898,621 rights outstanding as at 30 June 2020.

The key terms and conditions related to the grants under the programme are as follows, with all options to be settled by the physical delivery of shares.

Grant date/employee entitled	Number of instruments issued	Vesting conditions	Contractual life of options
Options granted to key management personnel	878,779	Four years' service and performance hurdles from grant date as per OST below	5 years
Options granted to senior and other employees	10,183,250	Four years' service and performance hurdles from grant date as per OST below	5 years
Total rights OST	**11,062,029**		

Performance hurdles

- Tranche 1 - 25% will vest if the VWAP for 20 days preceding to 30/08/2021 is equal to or greater than $1.10.
- Tranche 2 - 25% will vest if the VWAP for 20 days preceding to 30/08/2022 is equal to or greater than $1.32.
- Tranche 3 - 50% will vest if the VWAP for 20 days preceding to 30/08/2023 is equal to or greater than $1.58.

The share options granted are cumulative whereby should the performance hurdles not be met at the respective vesting dates, the grant relating to these tranches will be re-tested at the next applicable performance vesting date subject to higher performance conditions. If the performance conditions at the end of the next applicable performance period are satisfied, then the share options for the current performance period and any non-vested share options from prior performance periods will vest. The last date whereby all tranches can be re-tested is on the final vesting date, being 30 August 2023, at which time any unvested share options will lapse.

(b) Measurement of fair value

The fair value of the performance rights granted on 30 August 2019 under the OST are as follows:

Fair value at grant date	Fair value per option
– Vesting date 30 August 2021	$0.1327
– Vesting date 30 August 2022	$0.1282
– Vesting date 30 August 2023	$0.1229

The fair value of the share option has been measured using the Black-Scholes formula. The inputs used in the measure of the fair value at grant date of the equity settlement shared based payment plan under the OST were as follows:

	OST plan
Share price at grant date	$0.737
Exercise price	$0.73
Expected volatility	27.1006%
Expected life	5 years
Expected dividends	3.38%
Risk-free interest rate (based on Treasury Bonds)	0.6940%

The expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term. The volatility rate under this option has been determined based on the daily share price returns over the 5-year period leading up to the date of valuation.

24. TRADE AND OTHER PAYABLES

In thousands of AUD	*Note*	2020	2019
Current			
Trade payables		14,829	5,418
Other payables and accrued expenses		8,519	15,527
Deferred consideration on MTD Gaming Inc acquisition	*34*	10,326	–
Amount payable to shareholder-controlled entities	*29*	3,052	–
		36,726	20,945

The Group recognised $10,563 thousand as payable for consideration on MTD Gaming Inc as at date of acquisition – see Note 34 for details. As at year end, this amount payable was revalued at spot rate and a foreign currency gain of $237 thousand was recorded.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 26.

25. PROVISIONS

In thousands of AUD	Service/ warranties	Legal	Total
Balance at 1 July 2019	925	90	1,015
Provisions made during the year	736	2,659	3,395
Provisions used during the year	(925)	(90)	(1,015)
Balance at 30 June 2020	736	2,659	3,395

26. FINANCIAL INSTRUMENTS

Credit risk

Exposure to credit risk

Trade and other receivables

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:

		Carrying amount	
In thousands of AUD	*Note*	2020	2019
Receivables	*17*	112,695	148,019
		112,695	148,019

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

In thousands of AUD	2020	2019
Australia	9,869	14,658
Americas	105,225	133,911
Europe	1,692	1,488
New Zealand	217	694
Asia	1,899	2,172
South Africa	42	98
	118,944	153,021

The Group's concentration of credit risk arises from its two most significant receivable amounts is represented by customers in North America. They account for $9,908 thousand (2019: $10,147 thousand) and $6,757 thousand (2019: $3,799 thousand) of the trade receivables carrying amount at 30 June 2020 respectively.

Cash and cash equivalents

The Group held cash of $26,528 thousand at 30 June 2020 (2019: $59,695 thousand) and $15 thousand of cash deposits at 30 June 2020 (2019: $1,966 thousand), which represents its maximum credit exposure on these assets. The cash and cash deposits are held with bank and financial institution counterparts, which are rated AA- to A-, based on rating agency Standard & Poor ratings.

Impairment Losses

During the financial year the group has applied a provision matrix to capture the different historical credit loss rates for different customers in geographical segments and the movement of these customer's ageing compared to prior financial year. The increase in expected credit loss over total receivable recognised for the year compared to the prior financial year is due to the increase risk of collection from customers as a result of COVID-19.

In thousands of AUD

	2020		
Geographical region	Loss rate	Debtor Balance	Impairment loss allowance under AASB 9
Australia & Other	12.9%	13,719	1,767
North America	0.5%	26,184	139
Latin America	5.5%	79,041	4,343
		118,944	6,249

In thousands of AUD

	2019		
Geographical region	Loss rate	Debtor Balance	Impairment loss allowance under AASB 9
Australia & Other	1.8%	19,109	336
North America	3.4%	45,961	1,541
Latin America	3.6%	87,951	3,125
		153,021	5,002

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

In thousands of AUD	2020	2019
Balance at 1 July	5,002	3,931
Impairment loss written off	(2,260)	(309)
Provision during the year	3,410	2,128
Reversal of provision	(196)	(958)
Effect of exchange rate fluctuations	293	210
Balance at 30 June	6,249	5,002

26. FINANCIAL INSTRUMENTS (continued)

Based on historic default rates and current repayment plans in place, the Group believes that apart from the above, no further impairment is necessary in respect of trade receivables not past due or on amounts past due as these relate to known circumstances that are not considered to impact collectability.

The allowance for impairment losses in respect of receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

Liquidity risk

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

30 June 2020

In thousands of AUD	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years
Non-derivative financial liabilities						
Insurance premium funding	87	(88)	(88)	–	–	–
Finance lease liabilities	16,414	(16,414)	(951)	(845)	(6,479)	(8,139)
Secured bank loan	43,934	(43,934)	(43,934)	–	–	–
Trade and other payables	36,726	(36,726)	(36,726)	–	–	–
	97,161	(97,162)	(81,699)	(845)	(6,479)	(8,139)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

30 June 2019

In thousands of AUD	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years
Non-derivative financial liabilities						
Insurance premium funding	295	(299)	(299)	–	–	–
Secured bank loan	55,144	(55,144)	(12,366)	–	–	(42,778)
Trade and other payables	20,945	(20,945)	(20,945)	–	–	–
	76,384	(76,388)	(33,610)	–	–	(42,778)

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.

Exposure to currency risk

The Group's significant exposures to foreign currency risk at balance date were as follows, based on notional amounts:

	2020			2019		
In thousands of AUD	USD	Euro	NZD	USD	Euro	NZD
Trade and other receivables	105,906	138	216	134,903	1,394	682
Secured bank loan	(43,934)	–	–	(55,144)	–	–
Trade and other payables	(27,702)	(452)	–	(14,773)	–	–
Net exposure in statement of financial position	34,270	(314)	216	64,986	1,394	682

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2020	2019	2020	2019
USD	0.6711	0.7156	0.6863	0.7013
Euro	0.6080	0.6270	0.6111	0.6171
NZD	1.0548	1.0669	1.0703	1.0462

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 or (loss).

A 10 percent strengthening of the Australian dollar against the following currencies at 30 June 2020 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period.

Effect In thousands of AUD	Equity	Profit or (loss)
30 June 2020		
USD	(24,353)	(11,445)
Euro	29	29
NZD	(20)	(20)
30 June 2019		
USD	(26,673)	(13,197)
Euro	(127)	(127)
NZD	(62)	(62)

A 10 percent weakening of the Australian dollar against the following currencies at 30 June 20 would have increased/ (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period.

Effect In thousands of AUD	Equity	Profit or (loss)
30 June 2020		
USD	33,500	13,987
Euro	(35)	(35)
NZD	24	24
30 June 2019		
USD	36,341	16,129
Euro	155	155
NZD	76	76

26. FINANCIAL INSTRUMENTS (continued)

Fair values

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

In thousands of AUD	*Note*	Carrying amount 2020	Fair value 2020	Carrying amount 2019	Fair value 2019
Assets carried at amortised cost					
Receivables and other assets	*17*	113,883	113,883	148,612	148,612
Cash and cash equivalents	*18*	26,543	26,543	61,661	61,661
		140,426	140,426	210,273	210,273

In thousands of AUD		Carrying amount 2020	Fair value 2020	Carrying amount 2019	Fair value 2019
Liabilities carried at amortised cost					
Secured bank loan	*21*	43,934	43,934	55,144	55,144
Insurance premium funding	*21*	87	87	295	295
Trade and other payables	*24*	36,726	36,726	20,945	20,945
Finance leases	*27*	16,414	16,414	–	–
		97,161	97,161	76,384	76,384

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 2020 plus an adequate constant credit spread and are as follows:

	2020	2019
Receivables	3.79% - 6.00%	4.24% - 6.00%
Secured bank loan	LIBOR + 0.85%	LIBOR+0.85%
Insurance premium funding	1.38%	1.73%
Finance leases	5.10%	–

Interest rate risk

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss. An increase in 100 basis points would lead to a decrease in profit by $115 thousand and a decrease in 100 basis points would lead to an increase in profit by $115 thousand. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

27. LEASES

(a) Leases as lessee (AASB 16)

The Group leases a number of warehouse and office facilities. The leases run for a period of 1-10 years, with an option to renew the lease after that date. Lease payments are increased every year either by annual increases of 2-4% per annum, or by market rental reviews at stipulated dates. None of the leases include contingent rentals.

The warehouse and office facilities were entered into many years ago as combined leases of land and buildings. Previously, these leases were classified as operating leases under AASB 117.

The Group leases plant and equipment. The leases typically run for a period of 5 years. Previously, these leases were classified as operating leases under AASB 117.

The Group leases other IT equipment with contract terms of one to three years. These leases are short-term and/or of low value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the Group is a lessee is presented below.

(i) Right-of-use assets

In thousands of AUD	*Note*	Land and buildings	Plant and Equipment	Total
2020				
Balance as at 1 July 2019		17,560	350	17,910
Depreciation charge for the year	*9*	(2,297)	(96)	(2,393)
Additions to right-of-use assets		170	41	211
Effect of movements in foreign exchange		21	1	22
Balance as at 30 June 2020		15,454	296	15,750

(ii) Lease Liabilities

In thousands of AUD	*Note*	Land and buildings	Plant and Equipment	Total
2020				
Balance as at 1 July 2019		(17,560)	(350)	(17,910)
Additions of lease liabilities		(170)	(41)	(211)
Payments made		2,007	109	2,116
Interest expense		(850)	(14)	(864)
Rent concessions	*3*	467	–	467
Effects of movements in foreign exchange		(11)	(1)	(12)
Balance as at 30 June 2020		(16,117)	(297)	(16,414)

27. LEASES (continued)

Maturity analysis – contractual undiscounted cashflows

The table below presents the contractual undiscounted cash flows associated with the Group's lease liabilities, representing principal and interest. The figures will not necessarily reconcile with the amount disclosed in the consolidated statement of financial position.

In thousands of AUD	2020
Less than one year	2,102
One to five years	8,791
More than five years	8,924
Total undiscounted lease liabilities at 30 June 2020	19,817
Current	1,320
Non-current	15,094
Lease liabilities included in the consolidated statement of financial position at 30 June 2020	16,414

(iii) Amounts recognised in profit or loss

In thousands of AUD	2020
2020 – Leases under AASB 16	
Interest on lease liabilities	(864)
Rent concessions recognised in profit and loss	467
Depreciation charge for the year	(2,393)
Expenses relating to leases of low-value assets, excluding short-term leases of low value assets	(102)
2019 – Operating leases under AASB 117	
Lease expense	(2,331)

(iv) Amounts recognised in statement of cash flows

In thousands of AUD	2020
Total cash outflow for leases	(2,116)

(v) Extension options:

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group has estimated that the potential future lease payments, should it exercise the extension option, would result in an increase in lease liability of $6,542 thousand.

28. CAPITAL AND OTHER COMMITMENTS

In thousands of AUD	2020	2019
Plant and equipment		
Contracted but not yet provided for and payable:		
Within one year	308	3,234
Employee compensation commitments		
Key management personnel		
Commitments under non-cancellable employment contracts not provided for in the financial statements and payable:		
Within one year	990	1,214

29. 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:

Non-executive directors

Current

Mr DE Gladstone

Mr GJ Campbell

Mr MB Yates

Mr CJ Henson

Mr HK Neumann

Executives

Current

Mr Lawrence Levy (Chief Executive Officer, Ainsworth Game Technology Limited)

Mr ML Ludski (Chief Financial Officer and Company Secretary, Ainsworth Game Technology Limited)

Mr V Bruzzese (General Manager Technical Services, Ainsworth Game Technology Limited)

Key management personnel compensation

The key management personnel compensation included in 'employee benefit expenses' (see Note 10) is as follows:

In AUD	2020	2019
Short-term employee benefits	2,285,980	2,726,942
Post-employment benefits	231,518	241,451
Share based payments	24,280	(230,152)
Other long-term benefits	133,637	166,546
Termination benefit	384,000	–
	3,059,415	2,904,787

Individual directors and executives compensation disclosures

Information regarding individual directors and executive's compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report section of the Directors' Report.

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

29. 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 those entities transacted with the Group during the year. Other than as described below the terms and conditions of the transactions with key 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 value of transactions and outstanding balances relating to key management personnel and their related parties were as follows:

		Transactions value year ended 30 June		Balance receivable/ (payable) as at 30 June	
In AUD	*Note*	2020	2019	2020	2019
Transaction					
Sales to Novomatic and its related entities	*(i)*	20,387	2,450,269	111,684	1,327,918
Purchases from Novomatic and its related entities	*(i)*	4,495,089	589,793	(3,052,494)	–
Other charges made on behalf of Novomatic	*(i)*	1,659,159	1,488,008	553,174	47,021
Purchases and other charges made on behalf of the Group	*(i)*	3,076,589	1,504,359	–	–

(i) Transactions with Novomatic AG and its related entities are considered related party transactions as Novomatic AG holds the controlling interest in the Group.

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

In AUD	2020	2019
Assets and liabilities arising from the above transactions		
Current receivables and other assets		
Amount receivable from shareholder-controlled entities	664,858	1,374,939
Current trade and other payables		
Amount payable to shareholder-controlled entities	3,052,494	–

Transaction with joint ventures in which entity is a joint venture

616 Digital LLC ("616") is a joint venture in which the Group had 40% ownership interest. The portions of transactions with 616 that was not eliminated in applying equity accounting is $nil thousand (2019: $200 thousand).

Further information regarding the joint venture is provided in Note 14.

30. GROUP ENTITIES

	Country of incorporation	Ownership Interest 2020	Ownership Interest 2019
Parent entity			
Ainsworth Game Technology Limited	Australia		
Subsidiaries			
AGT Pty Ltd	Australia	100%	100%
AGT Pty Mexico S. de R.L. de C.V.	Mexico	100%	100%
AGT Pty Peru S.R.L.	Peru	100%	100%
AGT Pty Argentina S.R.L.	Argentina	100%	100%
AGT Pty Colombia SAS	Colombia	100%	100%
AGT Alderney Limited	Alderney	100%	100%
Ainsworth Game Technology Inc	USA	100%	100%
Ainsworth Interactive Pty Ltd	Australia	100%	100%
AGT Gaming Services S. de R.L de C.V.	Mexico	100%	100%
AGT Interactive S. de R.L de C.V.	Mexico	100%	100%
AGT Service Pty Ltd	Australia	100%	100%
AGT Service (NSW) Pty Ltd	Australia	100%	100%
J & A Machines Pty Ltd	Australia	100%	100%
Bull Club Services Pty Ltd	Australia	100%	100%

31. SUBSEQUENT EVENTS

On 24 August 2020, the Group signed a deed of amendment for the ANZ loan facility and renegotiated the terms of the facility with amendments to the facility limit and financial covenants as at 30 June 2020. The facility limit has reduced to $60 million with progressive reductions of $10 million in each of December 2020, March 2021, and April 2021, which will result in a total reduced facility of $30 million by end of April 2021.

The amended covenants will be in place for the remaining term of the loan, which expires on 30 September 2021 and relate to maintenance of minimum liquidity levels, monthly reporting obligations and achievement of quarterly sales targets for the Group, based on the Group's 18 month forecasted cash flows.

Other than the matter discussed above, 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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2020

32. AUDITOR'S REMUNERATION

In AUD	2020	2019
Audit and review services		
Auditors of the Company - KPMG		
Audit and review of financial statements	282,000	262,000
Other regulatory audit services	22,500	22,500
	304,500	284,500
Other services		
Auditors of the Company - KPMG		
In relation to taxation services	69,116	116,215

33. PARENT ENTITY DISCLOSURES

As at and throughout the financial year ended 30 June 2020 the parent entity of the Group was Ainsworth Game Technology Limited.

In thousands of AUD	2020	2019
Result of parent entity		
(Loss)/profit for the year	(32,650)	1,382
Total comprehensive income for the year	(29,881)	3,192
Financial position of parent entity at year end		
Current assets	59,132	68,836
Total assets	400,218	428,003
Current liabilities	49,994	24,988
Total liabilities	65,477	68,394
Total equity of parent entity comprising of:		
Share capital	207,709	207,709
Equity compensation and translation reserve	13,630	12,311
Fair value reserve	9,684	9,684
Profit reserves	122,760	154,189
Accumulated losses	(19,042)	(24,284)
Total equity	**334,741**	**359,609**

Parent entity capital commitments for acquisitions of property, plant and equipment

In thousands of AUD	2020	2019
Plant and equipment		
Contracted but not yet provided for and payable:		
Within one year	241	3,226

34. BUSINESS COMBINATIONS

On 9 March 2020, the Group completed an asset acquisition of a US privately held company, MTD Gaming Inc. ("MTD") at an initial purchase price of US$13,000 thousand, with an additional US$13,000 thousand of deferred/contingent consideration payable on the successful delivery of financial targets and contract renewals.

MTD is a proven developer and supplier of premium performing and unique Poker, Keno and video reel content for use in Multi-Game and Video Lottery Terminal (VLT) markets. Prior to acquisition, MTD was operating in three markets (Montana, Louisiana and South Dakota) within North America. Through the Group's licensing structure and distribution network, the Group will be expanding MTD's product offerings into other markets in North America including Nevada and California. The Group is also able to incorporate MTD's products as an additional offering to its existing Class II and Class III markets in North America as these products complement the Group's existing game suite.

The acquired business contributed revenues of $923 thousand and a net profit of $251 thousand to the Group for the period from 9 March 2020 to 30 June 2020.

Details of the purchase consideration, the net assets acquired, and goodwill at acquisition date fair value are as follows:

(a) Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred.

In thousands of AUD	
Purchase consideration, paid in cash	19,881
Purchase consideration, deferred	7,646
Contingent consideration	10,563
Total consideration	**38,090**

(i) Cash flow

In thousands of AUD	
Payment for business acquisition	27,877
Outflow of cash - investing activities	**27,877**

The difference between the purchase price consideration recorded at acquisition date of $27,527 thousand and cash outflow of $27,877 thousand relates to the effects of foreign currency movements due to the timing of the payment of the acquisition.

Included in the outflow is deferred consideration of US$5,000 thousand (AU$7,646 thousand) which is held subject to re-signing of a key contract in Montana or attaining set financial targets.

(ii) Contingent consideration

The contingent consideration of $10,563 thousand as above is subject to meeting cumulative Gross Profit target and this consideration is payable at any time before the end of FY24. This consideration represents the fair value of contractual cash flow or equity in equivalent of cash amounting to US$8,000 thousand and measured based on the income approach. In this approach, prospective financial information based on projections prepared by the Group, was used as the basis for the forecasted earnings and in turn, determines the timing of these payments; which is then discounted at 8% over the cash flow period.

Apart from the contingent consideration of $10,563 thousand as above, the Group has agreed to pay MTD additional earnings based on the growth of MTD assets in the form of an earnout. Upon closing and for each of the following four years thereafter, MTD is entitled to an annual payment of 15% of cumulative gross profits associated with the commercialisation of the assets and/or software sold and is subject to employment service conditions. Therefore, this consideration falls outside the scope of AASB 3 *Business Combinations* and will be recognised as a remuneration expense from 1 July 2020 which is the effective employment commencement date of key personnel acquired as part of the acquisition.

34. BUSINESS COMBINATIONS (continued)

(b) Identifiable assets acquired

The fair value of assets recognised at date of acquisition are as follows:

In thousands of AUD	
Intangible assets: core technology	11,317
Intangible assets: customer relationships	5,062
Intangible assets: trade names	1,193
Intangible assets: work force	110
Total identifiable net assets acquired	17,682
Add: goodwill	20,408
Net assets acquired	**38,090**

The goodwill is attributable to the synergies expected to be achieved from integrating MTD's unique Poker and Keno games into the Group's existing Class II and III product offerings within North America and leveraging off the Group's wide customer base in this market. The total amount of goodwill that is expected to be deductible for tax purposes is $20,408 thousand.

(c) Acquisition related costs

The total acquisition related costs amounting to $52 thousand have been recognised as an expense in the statement of comprehensive income, within the 'Administrative expenses' line item.

Directors' Declaration

for the year ended 30 June 2020

1. In the opinion of the directors of Ainsworth Game Technology Limited (the 'Company'):
   (a) the consolidated financial statements and notes that are set out on pages 40 to 92 and the Remuneration report in sections 15.1 to 15.8 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
   (b) 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 2020.
3. The directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 23rd day of September 2020.

D. Gladstone

DE Gladstone
Chairman

Independent Auditor's Report

for the year ended 30 June 2020

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Independent Auditor's Report

To the shareholders of Ainsworth Game Technology Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Ainsworth Game Technology Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2020;
- Consolidated Statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

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Key Audit Matters	
The ***Key Audit Matters*** we identified are: • Revenue recognition; • Recoverability of trade receivables; • Carrying value of goodwill and intangible assets; • Acquisition of MTD Gaming Inc.; and • Going concern basis of accounting.	***Key Audit Matters*** are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period. These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Refer to note 7 of the Financial Report ($149.4m AUD)

The key audit matter	How the matter was addressed in our audit
Revenue recognition was a key audit matter due to the audit effort associated with multiple revenue streams with different recognition criteria across different geographic locations. Key revenue streams include: • outright machine and spare parts sales; • revenue from fixed and participation rental; and • revenue from multi-element arrangements which consist of several components within the revenue stream. Due to varying revenue recognition and measurement principles of the revenues generated by the Group, it necessitated greater involvement by the audit team to evaluate timing and measurement of revenue recognised.	Our procedures included: • evaluating the appropriateness of the Group's revenue recognition policies against the requirements of AASB 15 *Revenue from contracts with customers* and/or AASB 117 *Leases*; • testing key revenue recognition controls of the Group, across different geographic locations, such as the Group's process of matching underlying documents to determine the timing of revenue recognition. In testing these controls we inspected underlying documents such as invoices, delivery notes, customer contracts, purchase orders and sales orders; • testing statistical samples of transactions in key revenue streams, across different geographic locations, to underlying records. We inspected the terms and conditions of the revenue contract for consistency to the Group's policy for timing and measurement of revenue recognition; • testing a sample of revenue transactions, across different geographic locations, from immediately before and immediately after year end. We compared the year in which the revenue was recognised by the Group to terms of the underlying contract; • assessing the methodology used to calculate the Group's multi-element arrangement

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	revenue by checking samples of multi-element revenue transactions recorded by the Group against contract terms and rates and then recalculating these samples for accuracy.
Recoverability of trade receivables	
Refer to note 17 of the Financial Report ($113.9m AUD)	
The key audit matter	**How the matter was addressed in our audit**
Recoverability of trade receivables was a key audit matter because payment terms, prevailing industry practices and adverse market conditions due to COVID-19 vary significantly across the different customers and the geographic locations in which the Group operates. These conditions give rise to heightened exposure to credit risk across the Group, thus requiring greater audit focus. The prevailing practice by the Group in certain locations in which the Group operates is to provide payment terms which are extended beyond traditional payment terms observed in Australia. This required a heightened element of judgement, and scrutiny to be applied by us when assessing the recoverability of trade receivables, such as: • assessment of amounts overdue compared to contractual payment terms; • evidence from internal diligence performed by the Group on the continued credit worthiness of customers; • settlement history of previous sales with the Group; and • evidence of ongoing dialogue and correspondence with the Group.	Our audit procedures included: • testing control in relation to credit limit approvals and review of customers adherence to the payment plan by senior management within the Group; • testing the recoverability of selected samples of overdue receivable balances held by the Group across geographic locations through: - enquiries with the Group on the samples selected to understand the rationale behind the Group's recoverability assessment; - challenging the Group's recoverability assessment with our understanding of: - market practice; - ongoing correspondence between the customer and the Group; - the Group's internal diligence check on the credit worthiness of the customer; - customer payment history; and - customer contract to evidence recoverability; • evaluating the appropriateness of the expected credit loss model for the geographical locations in which the Group operates in accordance with AASB 9 *Financial Instruments*; • for those locations with a heightened risk of non-recoverability, the trade receivable balance by customer at year end was compared against established credit limits.

Carrying value of goodwill and intangible assets	
Refer to note 13 of the Financial Report ($92.7m AUD)	
The key audit matter	**How the matter was addressed in our audit**

Annual testing of goodwill and intangible assets is a key audit matter, due to the disruptions caused by COVID-19 and the significant judgement applied when evaluating the forward looking assumptions, including:
• forecast cash flows and the growth rates (including terminal growth rates) applied to those forecasts in light of current competitive market conditions as well as significant business disruption caused by COVID-19. These factors increase the uncertainty and provide a risk of inaccurate forecasts. We focused on the expected rate of recovery for the Group when assessing feasibility of the Group's revised COVID-19 forecast cash flows. In addition, the market capitalisation was less than net assets as at 30 June 2020. These conditions increase the possibility of goodwill and intangible assets being impaired.
• value in use model prepared is sensitive to the assumptions adopted by the Group including forecast growth rates and the discount rates applied for different jurisdictions and geographic locations applicable to each identified Cash Generating Unit (CGU). Such assumptions have a significant impact on the calculated recoverable amount of the assets within the identified CGUs. This drives additional audit effort to assess the assumptions adopted by the Group.
• discount rates are complex in nature and vary according to the conditions and environment in which the CGU operates. The Group operates in various jurisdictions and is therefore subject to different discount rates for each CGU. In addition, an assessment of the forecasting risk applied in the discount rate required significant judgement during these uncertain times. This drives additional audit effort in challenging the assumptions used by the Group in determining the discount rate for each CGU.
	Working with our valuation specialists, our procedures included:
	• reviewing key assumptions in the Group's value in use model, we:
	  ◦ challenged the Group's forecast cash flow and growth rates' assumptions which reflects COVID-19 expected rate of recovery approved by the board;
	  ◦ applied increased scepticism to assumptions in areas where previous forecasts were not achieved;
	  ◦ compared forecast growth rates and the terminal growth rates to published studies of industry trends and expectations across different jurisdictions and geographic locations , and considered differences for the Group's operations;
	  ◦ applied our knowledge of the Group, their past performance, business and customers, and our industry experience;
	• we considered the sensitivity of the models by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates, within a reasonably possible range.
	• we independently developed a discount rate range, across different jurisdictions and geographic locations applicable to each identified CGU. We did this using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in;
	• evaluating the appropriateness of the value in use model used for goodwill and intangibles impairment testing against the requirements of the accounting standards;
	• we assessed the integrity of the value in use models used, including the accuracy of the

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The Group uses complex models to perform their annual impairment testing of goodwill and intangible assets. Complex modelling, particularly those containing highly judgemental forward looking assumptions tend to be prone to greater risk of potential bias, error and inconsistent application. Such conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used to derive assumptions, and their consistent application. In addition to the above, the Group recorded an impairment charge of $11.9m against leased assets resulting from the Latin American CGU due to uncertainties surrounding COVID-19.	underlying calculation formulas; and • we assessed the appropriateness and adequacy of the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards. • We assessed the Group's allocation of corporate assets to CGUs for reasonableness and consistency based on the requirements of the accounting standards.

Accounting of MTD Gaming Inc.

Refer to note 34 of the Financial Report

The key audit matter	How the matter was addressed in our audit

During the year, the Group acquired MTD Gaming Inc. for consideration of $23.7 on 6 March 2020. The accounting for the acquired business is a key audit matter due to the size of the acquisition and the level of judgment and complexity relating to the valuation and preliminary purchase price allocation (PPA).
 	
The key areas of judgment included:
 	
- determination of the purchase consideration;
 	
- identification of acquired intangible assets, such as technology, customer relationships and trademarks;
 	
- the assumptions and estimates used when performing intangible asset valuations; and
 	
- the fair value of any contingent consideration.
 	
The preliminary acquisition accounting, which remains provisional at year end increases the possible range of outcomes for the auditor to consider and in impacted by the reduced precision of audit evidence.
 	
These conditions and associated complex acquisition accounting required significant audit
	Our procedures included:
	
	• Obtaining the Purchase Agreement to understand the structure, key terms and conditions and nature of certain payments.
	
	• We evaluated the accounting treatment of the acquisition consideration against the criteria in the Accounting Standards to determine whether the acquisition had been appropriately accounted for.
	
	• Working with our valuation specialist to assess and challenge key assumptions used in the PPA to identify and value separate assets. This involved:
	  • Assessing the objectivity, competence, experience and scope of the Group's independent valuation expert;
	  • Comparing inputs used by the Groups independent valuation expert to the group's strategic plans and approved business forecasts; and
	  • Challenging the Group's significant judgmental assumptions such as identification of separate identifiable intangible assets and the Group's independent expert's approach and methodology to valuing the assets and assessing the useful life estimates by

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effort and greater involvement by senior team members.	comparing to the requirements of the accounting standards. • Assessing the mathematical accuracy of the Group's calculation of goodwill arising on acquisition. • Assessing the adequacy of the Group's disclosure of the quantitative and qualitative consideration in relation to the business acquisition, by comparing these disclosures to our understanding of the acquisition and the requirements of the accounting standards.
Going concern basis of accounting	
Refer to note 2(a) of the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The Group's has $44m of external debt classified as current. The use of going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgement required by us in evaluating the Group's assessment of going concern. The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. Their assessment of going concern was based on cash flow projections. The preparation of these projections incorporated judgements and the Directors have concluded that it does not give rise to a material uncertainty casting significant doubt on the Group's ability to continue as a going concern. We critically assessed the levels of uncertainty, as it related to the Group's ability to continue as a going concern, within these assumptions and judgements, focusing on the following: • the Group's planned levels of operational expenditures over the next twelve months and incorporating potential business disruptions arising from COVID-19, and the ability of the Group to manage cash outflows within available funding, particularly in light of recent losses due to the impacts of COVID-19. • the Group's ability to meet financing commitments and covenants. This included	Working with our risk management partner, our procedures included: • Evaluating the underlying data used to generate the projections which was reviewed by us, as set out in the 'carrying value of goodwill and intangible assets' key audit matter, their consistency with the Group's intentions, and their comparability to past practices. We specifically assessed this against our understanding of management COVID-19 impact plans, obtained from our additional inquiries with management. Critical elements considered included the current impact of the pandemic on the Group, the estimated rate of recovery, and the expected return to pre-COVID 19 levels of operations; • Analysing the impact of reasonably possible changes in projected cash flows and their timing, to the projected periodic cash positions. • We read correspondence and agreements with existing financiers to understand and assess the options available to the Group including renegotiation of existing debt facilities and waivers in meeting financial loan covenants, particularly in considering the expected market conditions due to COVID-19; • As part of our sensitivity analysis, where

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nature of planned methods to achieve this, feasibility, particularly in light of sustained uncertain market conditions due to COVID-19. In assessing this key audit matter, we involved our risk management partners and senior audit team members who understand the Group's business, industry and the economic environment in which the business operates.	adverse assumptions were applied, we considered available funding options (including the sale of non-current assets and capital raising) should operating cash flows be insufficient to meet the Groups obligations as and when due. We evaluated the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter and the events or conditions incorporated into the cash flow projection assessment.

Other Information

Other Information is financial and non-financial information in Ainsworth Game Technology Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors Report, and Remuneration Report. Chairman's Report, Performance Overview, New Games, Chief Executive Officer's Report, Shareholder Information and Corporate Directory are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's and Company's ability to continue as a going concern and whether the use of the going concern assumption is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Ainsworth Game Technology Limited for the year ended 30 June 2020, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in on pages 26 to 39 of the Directors' report for the year ended 30 June 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

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Julie Cleary
Partner

Sydney
23 September 2020

Lead Auditor's Independent Declaration

for the year ended 30 June 2020

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 of Ainsworth Game Technology Limited for the financial year ended 30 June 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

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Julie Clearly
Partner

Sydney
23 September 2020

Corporate Directory

CORPORATE DIRECTORY

Non-Executive Directors
Mr DE Gladstone – Chairmann
Mr HK Neumann

Independent Non-Executive Directors
Mr GJ Campbell
Mr MB Yates
Mr CJ Henson

Chief Executive Officer
Mr SL Levy

Company Secretary and Chief Financial Officer
Mr ML Ludski

Securities Exchange Listing
The Company is listed on the Australian Securities Exchange.
The Home Exchange is Sydney.
CODE: AGI

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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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