Ainsworth Game Technology Ltd
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24 February 2020

ASX Market Announcements Office
Exchange Centre
20 Bridge Street
Sydney NSW 2000

ELECTRONIC LODGEMENT

Results for Half Year Ended 31 December 2019 – Appendix 4D and Half Year Report

We attach a copy of the Appendix 4D and Half Year Report in respect of Ainsworth Game Technology's half year results.

For the purposes of ASX Listing Rule 15.5, this document is authorised for lodgment with the ASX by the Board.

Yours faithfully

Mark Ludski
Company Secretary

Ainsworth Game Technology Limited
ABN 37 068 516 665
and its controlled entities

APPENDIX 4D
Half Year Report
Half Year Ended: 31 December 2019
Prior corresponding period: 31 December 2018

Results for announcement to the market

	Up / Down	% Change		Half Year ended 31/12/19 A$'000
Revenue from ordinary activities	Down	9%	to	107,298
Loss from ordinary activities after tax attributable to members	Down	133%	to	(4,009)

Dividends (distributions)	Amount per security	Franked amount per security	Record date for determining entitlements to dividends
Current Year – 2020			
- Interim dividend	-	-	N/A
Previous Year – 2019			
- Interim dividend	-	-	N/A
- Final dividend	-	-	N/A

Refer "Review of operations' section within the attached Directors' Report.

NTA backing	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	$0.92	$0.96

Ainsworth Game Technology Limited

ABN 37 068 516 665

31 DECEMBER 2019

INTERIM FINANCIAL REPORT

Contents

Ainsworth Game Technology Limited
31 December 2019 Interim Financial Report

Directors' report

The directors of Ainsworth Game Technology Limited (the "Company") present their report together with the condensed consolidated financial statements of the Group comprising the Company and its subsidiaries for the six months ended 31 December 2019 and the auditor's review report thereon.

Directors

The directors of the Company at any time during or since the end of the interim period are:

Name	Period of directorship
Non-executive	
Mr Daniel Gladstone *Chairman and Non-Executive Director*	Director since 2010 and Chairman from 26 November 2019
Mr Graeme Campbell *Chairman and Independent Non-Executive Director*	Director since 2007, Chairman from 2016 until 26 November 2019, lead independent director from 26 November 2019
Mr Michael Yates *Independent Non-Executive Director*	Director since 2009
Mr Colin Henson *Independent Non-Executive Director*	Director since 2013
Mr Harald Neumann *Non-Executive Director*	Director since 2017
Ms Heather Scheibenstock *Independent Non-Executive Director*	Director since 2016, resigned 26 November 2019

Review of operations

Operating results

The Company today announced a loss before tax, excluding the impact of foreign currency, of $3.8 million (H1FY19: profit before tax pre-currency impact of $8.9 million), a decrease of 143% compared to the prior corresponding period. Included in this result were $3.6 million of expenses from one off, non-recurring items, i.e. legal costs and settlement claims. Normalised for currency effects and the costs noted above, the loss before tax was $0.2 million compared to normalised profit before tax of $8.9 million in the prior corresponding period.

The result from operating activities as shown in the condensed consolidated statement of profit or loss and other comprehensive income was a loss of $0.7 million (excluding the one off, non-recurring costs in H1FY20), a decrease of 110% compared to the prior corresponding period. This decrease was primarily due to a reduction in sales contribution from international markets, primarily Latin America and Rest of the world and increased costs of sales, service and marketing and research and development in the period.

Net loss after tax reported in the current period was $4.0 million, a decrease of 133% compared to the prior corresponding period. The Group recorded an income tax benefit of $51 thousand in the current period compared to a $2.6 million expense in the prior corresponding period. This resulted in an effective tax rate of 1.3% compared to 17.7% in the prior corresponding period.

Directors' report (continued)

Review of operations (continued)

Operating results (continued)

The Group's performance for the current and prior corresponding period is set out below:

In millions of AUD	6 months to 31 Dec 2019 Statutory	AASB 16 *Leases*	6 months to 31 Dec 2019 Underlying	6 months to 31 Dec 2018	Variance %
Total revenue	107.3	-	107.3	118.0	(9.1%)
Underlying EBITDA	18.5	(1.3)	17.2	23.9	(28.0%)
Reported EBITDA	14.6	(1.3)	13.3	29.7	(55.2%)
EBIT	**(4.6)**	**(0.1)**	**(4.7)**	**13.1**	**(135.9%)**
(Loss) / profit before tax	(4.1)	0.3	**(3.8)**	14.7	(125.9%)
(Loss) / profit for the year	**(4.0)**	**0.2**	**(3.8)**	**12.1**	**(131.4%)**
Total assets	477.9	(16.9)	461.0	497.8	(7.4%)
Net assets	389.9	0.3	390.2	394.0	(1.0%)
Earnings per share (fully diluted)	(1.2 cents)	0.1 cents	(1.1 cents)	3.6 cents	(130.6%)

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

In millions of AUD	6 months to 31 Dec 2019 Statutory	AASB 16 *Leases*	6 months to 31 Dec 2019 Underlying	6 months to 31 Dec 2018	Variance %
Reconciliation:					
(Loss) / profit before tax	**(4.1)**	**0.3**	**(3.8)**	**14.7**	**(125.9%)**
Net interest income	(0.5)	(0.4)	(0.9)	(1.6)	(43.8%)
Depreciation and amortisation	19.2	(1.2)	18.0	16.6	8.4%
Reported EBITDA	**14.6**	**(1.3)**	**13.3**	**29.7**	**(55.2%)**
Foreign currency losses / (gains)	0.3	-	0.3	(5.8)	(105.2%)
Legal costs and settlement claims	3.6	-	3.6	-	N/A
Underlying EBITDA	**18.5**	**(1.3)**	**17.2**	**23.9**	**(28.0%)**

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

The earnings performance in the Americas, now represents 89% ($30.2 million) of the total segment result compared to 83% ($34.9 million) in the prior corresponding period.

Review of operations (continued)

Review of principal businesses
Results in the current period and prior corresponding period are summarised as follows:

In millions of AUD	**6 months to 31 Dec 2019**	**6 months to 31 Dec 2018**	**Variance Favourable/ (Unfavourable)**	**Variance % Favourable/ (Unfavourable)**
Segment revenue				
Australia and Rest of the World				
Australia	19.5	19.7	(0.2)	(1.0%)
Rest of the World	4.3	8.8	(4.5)	(51.1%)
Total Australia and Rest of the World	23.8	28.5	(4.7)	(16.5%)
Americas				
North America	50.7	53.8	(3.1)	(5.8%)
Latin America	32.8	35.7	(2.9)	(8.1%)
Total Americas	83.5	89.5	(6.0)	(6.7%)
Total segment revenue	**107.3**	**118.0**	**(10.7)**	**(9.1%)**
Segment result				
Australia and Rest of the World				
Australia	1.4	2.0	(0.6)	(30.0%)
Rest of the World	2.2	5.0	(2.8)	(56.0%)
Total Australia and Rest of the World	3.6	7.0	(3.4)	(48.6%)
Americas				
North America	21.3	21.6	(0.3)	(1.4%)
Latin America	8.9	13.3	(4.4)	(33.1%)
Total Americas	30.2	34.9	(4.7)	(13.5%)
Total segment result	**33.8**	**41.9**	**(8.1)**	**(19.3%)**
Unallocated expenses				
Net foreign currency (losses) / gains	(0.3)	5.8	(6.1)	(105.2%)
R&D expenses	(21.4)	(19.1)	(2.3)	(12.0%)
Corporate expenses	(11.6)	(12.8)	1.2	9.4%
Other expenses	(3.6)	-	(3.6)	N/A
Share of loss of equity-accounted investee	-	(0.1)	0.1	N/A
Total unallocated expenses	**(36.9)**	**(26.2)**	**(10.7)**	**(40.8%)**
Less : interest included in segment result	(1.5)	(2.6)	1.1	42.3%
EBIT	**(4.6)**	**13.1**	**(17.7)**	**(135.1%)**
Net interest income	0.5	1.6	(1.1)	(68.8%)
(Loss) / profit before income tax	**(4.1)**	**14.7**	**(18.8)**	**(127.9%)**
Income tax benefit / (expense)	0.1	(2.6)	2.7	103.8%
(Loss) / profit after income tax	**(4.0)**	**12.1**	**(16.1)**	**(133.1%)**

Review of operations (continued)

Key performance metrics %	% of revenue 6 months to 31 Dec 2019	% of revenue 6 months to 31 Dec 2018	Variance Points
Segment result margin			
Australia and Rest of the World			
Australia	7.2	10.2	(3.0)
Rest of the World	51.2	56.8	(5.6)
Total Australia and Rest of the World	15.1	24.6	(9.5)
Americas			
North America	42.0	40.1	1.9
Latin America	27.1	37.3	(10.2)
Total Americas	36.2	39.0	(2.8)
Segment result margin	**31.5**	**35.5**	**(4.0)**
R&D expense	19.9	16.2	3.7
Adjusted EBIT(1)	(4.0)	6.2	(10.2)
Adjusted (loss) / profit before income tax(1)	(3.5)	7.5	(11.0)
Adjusted (loss) / profit after income tax(1)	(3.4)	5.3	(8.7)
	%		**Variance**
Effective tax rate	1.3	17.7	(16.4)

(1) Excludes net foreign currency loss of $0.3 million (H1FY19: Net foreign currency gain of $5.8 million)

Revenue

Revenue for the period was $107.3 million, compared to $118.0 million for the prior corresponding period in FY19, a decrease of 9%. International revenue contributed 82% of total revenue, compared to 83% in the prior corresponding period.

Domestic revenue was $19.5 million, a slight decrease on the $19.7 million in the prior corresponding period. The reduction in domestic revenue reflects the challenging domestic market and competitor factors, prior to release of the new A-Star hardware. Further game releases on the new hardware are expected to provide increased opportunities within all domestic and international markets in the second half of FY20.

International revenue was $87.8 million compared to $98.3 million in the prior corresponding period, a decrease of 11%. The key markets of the Americas now constitute 78% ($83.5 million) of total revenues, up from 76% ($89.5 million) in the prior corresponding period in FY19. Revenue has decreased in all international jurisdictions, predominantly in Americas followed by Europe then Asia respectively. Revenue from participation and leased machines under operation was $24.7 million, an increase of 18% compared to the prior corresponding period. This represented a contribution of 28% of total international revenue, an increase of 7% compared to the prior corresponding period. Units under gaming operations for the period were 6,604 units, an increase of 6% compared to the prior corresponding period. The increase in gaming operations units is predominantly from Latin America with 364 units increase compared to the prior corresponding period.

Latin America delivered revenue of $32.8 million, a decrease of 8% compared to the prior corresponding period. Unit sales of 1,205 were down by 13% compared to the prior corresponding period. Peru and Mexico unit sales decreased by 84% and 20% respectively, compared to the prior corresponding period. Units under gaming operation at period end were 4,268 an increase of 9% from the 3,904 at the prior corresponding period.

Review of operations (continued)

Revenue (continued)

Rest of the world (included in Australia and other segment) encompassing Europe, Asia and New Zealand achieved revenue of $4.3 million, a decrease on the $8.8 million in the prior corresponding period. Although Asia and Europe both suffered a decrease in revenue from the prior corresponding period, New Zealand and Online Gaming revenue have remained consistent with the prior corresponding period. Similar to domestic markets, new hardware and game releases, in addition to improved product performance for existing games, is expected to provide increased opportunities within these markets in the second half of FY20.

Operating costs

Cost of sales in the period were $41.3 million compared to $46.6 million in the prior corresponding period in FY19. Gross margin achieved for the current half year period was 62%, compared to 60% in the prior corresponding period. The increase in margin was assisted with increased sales of parts and conversions and higher margin contributions from the North America and Latin America segment.

Operating costs, excluding cost of sales and financing costs, were $70.6 million compared to $64.5 million in the prior corresponding period in FY19, an increase of 9%. Share based payment expense amortisation was fairly consistent with the prior corresponding period. Sales, service and marketing expenses increased by $1.0 million due to increase in depreciation recognised for leased assets and additional costs in relation to Mustang Money during the half. The weakening of the AUD against the USD has also contributed to the increase of operating costs by $2.3 million across all three cost categories.

Research and Development (R&D) expense in the period was $21.4 million, an increase of $2.3 million (12%) compared to the prior corresponding period. The increase in R&D expense resulted from the increase in evaluation and testing expenses as well as an increase in amortisation costs as a result of commercialisation of previously capitalised projects and investment in product offerings initiatives.

Net financing income

Net financing income was $0.3 million compared to $7.4 million in the prior corresponding period. Net unrealised foreign exchange loss from balance sheet translations in the current period totalled $0.3 million compared to a gain of $5.8 million in the prior corresponding period, an unfavourable variance of $6.1 million. Net interest income was $0.5 million in the current period compared to $1.6 million in the prior corresponding period.

Cashflow

Total cash held as at 31 December 2019 was $42.3 million compared to $51.7 million at the prior corresponding period end. The net cashflow in the current period resulted in a decrease of $19.4 million (H1FY19: increase of $14.5 million) as the group repaid USD $18 million of the ANZ facility (loan) during the half.

Cash inflows from operations for the current period were $17.9 million, a decrease of $13.8 million compared to the prior corresponding period. Cash receipts for the period decreased by 31% to $116.7 million as the prior corresponding period included the receipt of the significant sales to Churchill Downs Incorporated.

During this first half, net cash used in investing activities increased by $7.3 million due to an increase in acquisitions of property, plant and equipment and development expenditure as well as the movement of interest received into net cash from operating activities. The increase in acquisitions of property, plant and equipment and development expenditure predominately related to new hardware (A-Star), which amounted to $7.6 million compared to $1.4 million in the prior corresponding period.

Review of operations (continued)

Cashflow (continued)

Net cash used in financing activities was $28.2 million during this half, a movement of $12.9 million compared to the prior corresponding period. The improved cash flow has allowed the Group to continue implementing its debt reduction strategy whereby USD $18 million was repaid towards the Group's secured bank loan during this period.

Market Capitalisation

An analysis based upon the share price at 31 December 2019 ($0.785) implies a market capitalisation of $264,383 thousand, a deficit of $125,512 thousand to the net assets value as at 31 December 2019. The share price does not include a premium for control. Despite including a control premium in the share price, a deficit to the net assets value as at 31 December 2019 would still result.

As such, the Group has undertaken an in-depth value in use calculation to assess the recoverability of the carrying value of all cash generating units "CGUs" as at 31 December 2019. This has been disclosed in Note 12 to the interim financial statements.

Events subsequent to reporting date

In the prior year, Aristocrat Technologies Australia Pty Limited commenced proceedings against the Company in the Federal Court of Australia claiming infringement of intellectual property rights and breach of the Australian Consumer Law. Since the reporting date, terms have been mutually agreed, subject to execution of a formal settlement and release agreement, to settle all Federal Court claims commenced by Aristocrat Technologies Australia Pty Ltd. The terms of settlement remain confidential to the parties. The Company has recognised a provision in the reporting period given this amount can be quantified based on negotiations undertaken and that it is more than probable that settlement will be reached. This provision expense is recognised in other expenses and disclosed in Note 15 to the interim financial statements.

Other than the matter raised above, there has not arisen in the interval between the end of the half 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.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 33 and forms part of the directors' report for the six months ended 31 December 2019.

Rounding off

The Company 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 condensed consolidated interim financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors:

D. Gladstone

Danny Gladstone
Chairman

Dated at Sydney this 24th day of February 2020.

Condensed consolidated statement of financial position

As at 31 December 2019

In thousands of AUD

	Note	31-Dec-19	30-Jun-19
Assets			
Cash and cash equivalents		42,302	61,661
Receivables and other assets		113,881	119,964
Current tax assets		3,275	2,813
Inventories		73,865	66,851
Prepayments		8,246	8,436
Total current assets		**241,569**	**259,725**
Receivables and other assets	*13*	28,635	28,648
Deferred tax assets		4,553	2,786
Property, plant and equipment		125,771	130,548
Right-of-use assets	*3*	16,945	-
Intangible assets		60,487	61,555
Equity-accounted investee		(13)	-
Total non-current assets		**236,378**	**223,537**
Total assets		**477,947**	**483,262**
Liabilites			
Trade and other payables		27,036	20,945
Loans and borrowings	*14*	771	12,661
Lease liabilities	*3*	2,689	-
Employee benefits		8,599	9,590
Current tax liability		359	618
Provisions		3,525	1,015
Total current liabilities		**42,979**	**44,829**
Loans and borrowings	*13, 14*	28,547	42,778
Lease liabilities	*3, 13*	14,557	-
Employee benefits		605	525
Deferred tax liabilities		1,364	1,585
Total non-current liabilities		**45,073**	**44,888**
Total liabilities		**88,052**	**89,717**
Net assets		**389,895**	**393,545**
Equity			
Share capital		207,709	207,709
Reserves		183,450	187,454
Accumulated losses		(1,264)	(1,618)
Total equity		**389,895**	**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 13 to 29 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of profit or loss and other comprehensive income

For six months ended 31 December 2019

In thousands of AUD

	Note	31-Dec-19	31-Dec-18
Revenue	7	107,298	118,005
Cost of sales		(41,292)	(46,643)
Gross profit		**66,006**	**71,362**
Other income		296	476
Sales, service and marketing expenses		(33,319)	(32,330)
Research and development expenses		(21,387)	(19,109)
Administrative expenses		(11,594)	(12,777)
Other expenses	15	(4,324)	(289)
Results from operating activities		**(4,322)**	**7,333**
Finance income		1,600	8,538
Finance costs		(1,324)	(1,128)
Net finance income		**276**	**7,410**
Share of loss of equity accounted investee		(14)	(57)
(Loss) / profit before tax		**(4,060)**	**14,686**
Income tax benefit / (expense)		51	(2,542)
(Loss) / profit for the year		**(4,009)**	**12,144**
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Foreign operations - foreign currency translation differences		152	7,211
Total other comprehensive income		**152**	**7,211**
Total comprehensive (loss) / income for the year		**(3,857)**	**19,355**
(Loss) / profit attributable to owners of the Company		**(4,009)**	**12,144**
Total comprehensive (loss) / income attributable to the owners of the Company		**(3,857)**	**19,355**
Earnings per share:			
Basic earnings per share (AUD)		$ (0.01)	$ 0.04
Diluted earnings per share (AUD)		$ (0.01)	$ 0.04

**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 13 to 29 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of changes in equity

For six months ended 31 December 2019

In thousands of AUD

	Attributable to owners of the Company						
	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	-	-	-	-	-	12,144	12,144
Transfer between reserves	-	-	-	-	9,545	(9,545)	-
Other comprehensive income							
Foreign currency translation reserve	-	-	-	7,211	-	-	7,211
Total other comprehensive income	-	-	-	7,211	-	-	7,211
Total comprehensive income for the period	-	-	-	7,211	9,545	2,599	19,355
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	-	245	-	-	-	-	245
Total transactions with owners	4,677	245	-	-	(8,313)	-	(3,391)
Balance at 31 December 2018	**207,709**	**4,574**	**9,684**	**18,198**	**156,019**	**(2,199)**	**393,985**
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	-	-	-	-	-	(4,009)	(4,009)
Transfer between reserves	-	-	-	-	(4,363)	4,363	-
Other comprehensive income							
Foreign currency translation reserve	-	-	-	151	-	-	151
Total other comprehensive income	-	-	-	151	-	-	151
Total comprehensive loss for the period	-	-	-	151	(4,363)	354	(3,858)
Transactions with owners, recorded directly in equity							
Share-based payment amortisation	-	208	-	-	-	-	208
Total transactions with owners	-	208	-	-	-	-	208
Balance at 31 December 2019	**207,709**	**4,525**	**9,684**	**19,415**	**149,826**	**(1,264)**	**389,895**

**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 13 to 29 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of cash flows

For six months ended 31 December 2019

In thousands of AUD

	Note	31-Dec-19	31-Dec-18
Cash flows from operating activities			
Cash receipts from customers		116,653	168,098
Cash paid to suppliers and employees		(98,770)	(130,347)
Cash generated from operations		**17,883**	**37,751**
Interest received		1,596	-
Income taxes paid		(1,579)	(6,081)
Net cash from operating activities		**17,900**	**31,670**
Cash flows used in investing activities			
Proceeds from sale of property, plant and equipment		17	28
Interest received		4	2,691
Acquisitions of property, plant and equipment		(5,801)	(2,971)
Development expenditure		(3,301)	(1,575)
Net cash used in investing activities		**(9,081)**	**(1,827)**
Cash flows used in financing activities			
Borrowing costs paid		(1,064)	(893)
Proceeds from borrowings		479	-
Repayment of borrowings		(26,788)	(11,279)
Proceeds from finance lease		-	707
Payment of lease liabilities		(850)	(239)
Dividend paid		-	(3,636)
Net cash used in financing activities		**(28,223)**	**(15,340)**
Net (decrease) / increase in cash and cash equivalents		(19,404)	14,503
Cash and cash equivalents at 1 July		61,661	35,667
Effect of exchange rate fluctuations on cash held		45	1,522
Cash and cash equivalents at 31 December		**42,302**	**51,692**

**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 13 to 29 are an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements

1. Reporting entity

Ainsworth Game Technology Limited (the “Company”) is a company domiciled in Australia. These condensed consolidated interim financial statements ("interim financial statements") as at and for the six months ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the “Group”). The Group primarily is involved in the design, development, manufacture, sale and servicing of gaming machines and other related equipment and services.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2019 is available upon request from the Company’s registered office at 10 Holker Street, Newington, NSW, 2127 or at www.agtslots.com.

2. Basis of preparation

Statement of compliance

These interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, and with IAS 34 *Interim Financial Reporting*.

These interim financial statements do not include all of the information required for a complete set of annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Group as at and for the year ended 30 June 2019.

This is the first set of the Group’s financial statements where AASB 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 3.

These interim financial statements were approved by the Board of Directors on 24 February 2020.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/ Directors’ Report) Instrument 2016/191 dated 1 April 2016 and in accordance with that Instrument, amounts in the condensed consolidated interim financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Judgements and estimates

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2019.

3. Changes in significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 30 June 2019.

The changes in accounting policies are also expected to be reflected in the Group’s consolidated financial statements as at and for the year ending 30 June 2020.

Notes to the condensed consolidated interim financial statements

3. Changes in significant accounting policies (continued)

AASB 16 Leases

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 effect 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 2018 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.

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 of ownership. 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.

Notes to the condensed consolidated interim financial statements

3. Changes in significant accounting policies (continued)

AASB 16 Leases (continued)

b. As a Lessee (continued)

(i) *Significant accounting policies.*

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.

(ii) *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.

3. Changes in significant accounting policies (continued)

AASB 16 Leases (continued)

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

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) *Impacts 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 $16,945 thousand of right-of-use assets and $17,246 thousand of lease liabilities as at 31 December 2019.

In addition, for leases recognised under AASB 16, the Group has recognised depreciation and interest expense, instead of operating lease expense. During the six months ended 31 December 2019, the Group recognised $1,155 thousand of depreciation charges and $440 thousand of interest expenses from these leases.

4. 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 early adoption 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.

5. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2019.

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 six months ending 31 December 2019, 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 six months ended 31 December 2019 and the comparative period.

Notes to the condensed consolidated interim financial statements

6. Operating segments (continued)

For the six months ended 31 December 2019

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
	---- Australia and other ----										
Reportable segment revenue	10,595	3,389	4,498	996	474	1,319	2,468	23,739	50,721	32,838	107,298
Result											
Segment result	(780)	363	1,635	223	(483)	361	2,336	3,655	21,343	8,848	33,846
Interest revenue not allocated to segments											4
Interest expense											(1,064)
Foreign currency loss											(260)
Share of loss of equity-accounted investee											(14)
R & D expenses											(21,387)
Corporate and administrative expenses											(11,594)
Other expenses not allocated to segments											(3,591)
Loss before tax											(4,060)
Income tax benefit											51
Net loss after tax											(4,009)

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

Notes to the condensed consolidated interim financial statements

6. Operating segments (continued)

For the six months ended 31 December 2018

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
	---- Australia and other ----										
Reportable segment revenue	11,299	2,238	5,072	1,154	2,383	1,381	5,019	28,546	53,790	35,669	118,005
Result											
Segment result	(470)	31	2,020	408	739	483	3,758	6,969	21,609	13,327	41,905
Interest revenue not allocated to segments											5
Interest expense											(1,128)
Foreign currency gain											5,847
Share of loss of equity-accounted investee											(57)
R & D expenses											(19,109)
Corporate and administrative expenses											(12,777)
Other expenses not allocated to segments											-
Profit before tax											14,686
Income tax expense											(2,542)
Net profit after tax											12,144

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

7. Revenue

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenues are 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 six months ending 31 December 2019

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
	---- Australia and other ----										
Major products/service lines											
Machine and part sales	5,919	2,686	3,988	582	461	1,319	10	14,965	32,096	22,366	69,427
Multi element arrangements	1,533	703	510	414	-	-	-	3,160	-	-	3,160
Sale type leases	-	-	-	-	-	-	-	-	113	421	534
Rendering of services	3,151	-	-	-	-	-	-	3,151	3,395	-	6,546
License income	(7)	-	-	-	13	-	2,458	2,464	386	34	2,884
Rental and participation	-	-	-	-	-	-	-	-	14,731	10,016	24,747
	10,596	**3,389**	**4,498**	**996**	**474**	**1,319**	**2,468**	**23,740**	**50,721**	**32,837**	**107,298**
Timing of revenue recognition											
Products and services transferred at a point in time	7,374	3,349	4,438	989	474	1,319	10	17,953	32,184	22,722	72,859
Products and services transferred over time	3,222	40	60	7	-	-	2,458	5,787	18,537	10,115	34,439
	10,596	**3,389**	**4,498**	**996**	**474**	**1,319**	**2,468**	**23,740**	**50,721**	**32,837**	**107,298**

Notes to the condensed consolidated interim financial statements

7. Revenue (continued)

a) Disaggregation of revenue (continued)

For the six months ending 31 December 2018

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
	---- Australia and other						----				
Major products/service lines											
Machine and part sales	6,368	1,473	3,726	632	2,365	1,344	1,304	17,212	35,531	25,563	78,306
Multi element arrangements	1,754	761	1,334	522	-	-	-	4,371	-	-	4,371
Sale type leases	-	-	-	-	-	-	-	-	2,141	2,553	4,694
Rendering of services	3,156	-	-	-	-	-	-	3,156	1,652	(25)	4,783
License income	21	4	12	-	18	37	3,715	3,807	626	539	4,972
Rental and participation	-	-	-	-	-	-	-	-	13,840	7,039	20,879
	11,299	**2,238**	**5,072**	**1,154**	**2,383**	**1,381**	**5,019**	**28,546**	**53,790**	**35,669**	**118,005**
Timing of revenue recognition											
Products and services transferred at a point in time	7,997	2,122	4,955	1,130	2,383	1,381	2,289	22,257	37,890	28,441	88,588
Products and services transferred over time	3,302	116	117	24	-	-	2,730	6,289	15,900	7,228	29,417
	11,299	**2,238**	**5,072**	**1,154**	**2,383**	**1,381**	**5,019**	**28,546**	**53,790**	**35,669**	**118,005**

Notes to the condensed consolidated interim financial statements

8. Write-down of inventory

During the six months ended 31 December 2019, the write-down of inventories to net realisable value amounted to $183 thousand (six months ended 31 December 2018: $1,791 thousand). Write-downs of inventory are included in cost of sales in the condensed consolidated statement of profit or loss and other comprehensive income.

9. Impairment of trade receivables

During the six months ended 31 December 2019, the Group recognised impairment losses of $596 thousand (six months ended 31 December 2018: $289 thousand), included in other expenses, in the condensed consolidated statement of profit or loss and other comprehensive income.

10. Income Tax Expense

During the six months ended 31 December 2019, the Group recognised a true up after the completion of the Australian 30 June 2019 tax return resulting in an income tax benefit of $155 thousand (six months ended 31 December 2018: $426 thousand income tax expense) in the condensed consolidated statement of profit or loss and other comprehensive income.

The Group's consolidated effective tax rate for the six months ending 31 December 2019 is 1.3% (six months ended 31 December 2018: 17.7%).

11. Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2019, the Group capitalised assets with a cost of $14,236 thousand (six months ended 31 December 2018: $22,263 thousand). Included in the $14,236 thousand are assets with a cost of $8,247 thousand (six months ended 31 December 2018: $19,293 thousand) associated with gaming products under rental and participation arrangements. Also included in this amount was $4,759 thousand relating to tooling for new hardware (A-Star) (six months ended 31 December 2018: $169 thousand). In addition, $5,253 thousand (six months ended 31 December 2018: $5,089 thousand) of gaming product assets were transferred to inventory after being returned or sold to customers.

12. Intangible assets

Impairment testing for development costs

In accordance with the Group's accounting policies, the Group has evaluated whether the carrying amount of a CGU or group of CGUs exceeds the recoverable amount as at 31 December 2019. As noted in the Director's Report, the Group has undertaken an in-depth value in use calculation to assess the recoverability of the carrying value of all CGUs as at 31 December 2019.

The four main CGUs or Group of 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.

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 $26,118 thousand (2019: $26,055 thousand), comprising of $22,545 thousand in development costs relating to product development and $3,573 thousand in development costs relating to online development activities.

Notes to the condensed consolidated interim financial statements

12. Intangible assets (continued)

Development costs include development 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 or when there are indicators of impairment.

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 has allocated goodwill and intangible assets on a consistent basis with last financial year. This includes allocation of goodwill arising from the acquisition of Nova Technologies in 2016 which has been allocated to the North America CGU.

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

The recoverable amount of each CGU was estimated based on its value in use. Value in use for each individual CGU was determined by discounting the future cash flows generated from continuing use of the product development costs over a five-year period. Future cash flows are expected to be generated from the sales of machines and products and are based on the following key assumptions:

	31 Dec 2019		30 June 2019	
CGUs	**Discount rate (1)**	**Forecast average annual revenue growth rate (2)**	**Discount rate (1)**	**Forecast average annual revenue growth rate (3)**
Development	15.4%	5.0%	17.2%	5.6%
Australia and other	14.6%	15.8%	16.6%	15.8%
North America	12.4%	3.3%	13.5%	3.4%
Latin America	18.0%	7.7%	18.7%	8.1%

1. Discount rates are pre-tax discount rates. The discount rates in 31 December 2019 for all CGUs have decreased compared to 30 June 2019 primarily due to change in local external economy factors in jurisdictions of which these CGUs operate such as government bond rates and a reduction in forecasting risk across all CGUs as a result of the global release of the A-Star cabinets combined with product development. These changes contributed to the determination of the final discount rates.

2. The 5 years forecast average annual revenue growth rate (2020 to 2024) presented above has been reviewed and adjusted for accordingly as at 31 December 2019. The growth rate is based on historical experience, actual operating results and estimated financial results based on the release of new hardware configuration, A-Star, improved game performance and other planned strategic initiatives. The A-Star cabinet was released globally in February 2020 and this underpins the achievement of the forecasted revenue growth rates.

3. The 30 June 2019 forecast average annual revenue growth rate for 5 years (2020 to 2024) presented above is calculated based on historical experience, actual operating results and estimated financial results based on planned strategic initiatives.

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

31 December 2019					
CGUs	**Goodwill '$000**	**Indefinite life intangible assets '$000**	**Capitalised development costs '$000**	**Other assets '$000**	**Recoverable amount '$000**
Development	-	-	26,118	28,115	99,172
Australia and other	-	-	-	13,122	18,711
North America	21,741	1,583	-	71,633	163,825
Latin America	-	-	-	40,890	44,959

12. Intangible assets (continued)

	30 June 2019				
CGUs	**Goodwill '$000**	**Indefinite life intangible assets '$000**	**Capitalised development costs '$000**	**Other assets '$000**	**Recoverable amount '$000**
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

Other assets and change in recoverable amount

Other assets
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 31 December 2019. 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.

Change in recoverable amount
There were notable changes in the recoverable amount for all CGUs compared to 30 June 2019. The primary factor for the change in the recoverable amount for the Development, Australia and other and North America CGUs is the change of the pre-tax discount rates for these CGUs. The reduction in the discount rates in this reporting period is driven by the external market forces data such as government bond rates and a reduction in forecasting risk across all CGUs as a result of the global release of the A-Star cabinets combined with product development, which forms part of the discount rate determination. The annual revenue growth rates for Australia and other CGU remained consistent with 30 June 2019.

The recoverable amount for the Latin America CGU of $44,959 thousand, a decrease of $27,337 thousand from 30 June 2019, has been adversely impacted by the change in the average annual revenue growth rate assumption. Management determined that it was necessary to reduce the revenue growth rate due to risks identified in certain part of the business within this CGU.

Impairment testing for goodwill and indefinite life intangibles

Goodwill arising from the Class II gaming business acquired in 2016 and Nevada license indefinite life intangibles were allocated to the North America CGU. The recoverable amount of this CGU was estimated based on its value in use, determined by discounting future cash flows to be generated from the continuing use of the CGU.

The key assumptions used in estimation of value in use were as follows:

- The discount rate of 12.4% (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 3.3% (30 June 2019: 3.4%) and is based on past experience, adjusted for anticipated revenue growth in the Class II markets in which this CGU operates.

Notes to the condensed consolidated interim financial statements

12. Intangible assets (continued)

The impact of possible changes in key assumptions

Australia and other

As at 31 December 2019, Australia and other CGU has a forecast value in use exceeding carrying amount (“headroom”) of $5,589 thousand. Given that this headroom is highly dependent on the forecast revenue growth and discount rate assumptions, a change in these key assumptions may result in a deficiency in the net recoverable amount when compared to the carrying value of the CGU. This may result in impairment charges recognised in the CGU in future periods. From a sensitivity perspective, based on the current carrying amount of assets in the CGU, a reduction in the revenue assumption by 22.8% for FY20 or an increase in discount rate by 156 basis points will result in the elimination of any headroom.

Latin America

As at 31 December 2019, Latin America has headroom of $4,069 thousand compared to $28,164 thousand in June 2019. The material decrease of this headroom is due to the revised future forecast revenue growth given the underperformance of this CGU for six months ended 31 December 2019. Given that this headroom is highly dependent on the forecast revenue growth and discount rate assumptions, a change in these key assumptions may result in a deficiency in the net recoverable amount when compared to the carrying value of the CGU. This may result in impairment charges recognised in the CGU for the future periods. From a sensitivity perspective, based on the current carrying amount of assets in the CGU, a reduction in the revenue assumption by 8.9% for FY20 or an increase in discount rate by 103 basis points will result in the elimination of any headroom.

Dev*elopment*

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.

North America

In respect of the North America CGU, 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 forecast revenue growth rates are expected to be achieved.

Notes to the condensed consolidated interim financial statements

13. Financial instruments

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

In thousands of AUD
Carrying amounts versus fair values

	Carrying amount	Fair value
31 December 2019		
Non-current financial assets		
Trade and other receivables	28,635	28,635
Non-current financial liabilities		
Loans and borrowings:		
Secured bank loan	28,547	28,547
Lease Liabilities	14,557	14,557

14. Loans and borrowings

The following loans and borrowings (current and non-current) were obtained and repaid during the six months ended 31 December 2019:

In thousands of AUD	Currency	Nominal Interest Rate	Face Value	Carrying Amount	Year of Maturity
Balance at 1 July 2019			55,443	55,439	
New funding					
Insurance premium funding	AUD	1.38%	485	479	2020
Repayments					
Insurance premium funding	AUD	1.38%	(445)	(441)	2020
Secured bank loan	USD	LIBOR + 0.85%	(26,214)	(26,214)	2021
The effects of foreign exchange rate					
Secured bank loan	USD	LIBOR + 0.85%	55	55	2021
Balance at 31 December 2019			29,324	29,318	

15. Other Expenses

During the six months ended 31 December 2019, other expenses amounting to $4,324 thousand were recognised in the condensed consolidated statement of profit or loss and other comprehensive income (six months ended 31 December 2018: $289 thousand). This includes legal costs and settlement fees amounting to $3,591 thousand (six months ended 31 December 2018: nil), impairment of trade receivables for the amount of $596 thousand (six months ended 31 December 2018: $289 thousand) and loss on disposal of fixed assets for the amount of $137 thousand (six months ended 31 December 2018: nil).

16. Related parties

Transactions with key management personnel

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and share-based payments awards. The Group recognised total compensation of $1,960 thousand for key management personnel for the six months ended 31 December 2019 (six months ended 31 December 2018: $1,648 thousand).

16. Related parties (continued)

Other related party transactions

In thousands of AUD	Transaction value six months ended		Balance receivable/(payable)	
	31 Dec 19	31 Dec 18	31 Dec 19	31 Dec 18
Sale				
Novomatic AG and its related entities [(i)]				
– sale of goods	10	2,293	101	1,994
Expenses				
Novomatic AG and its related entities[(i)]				
– purchases and other charges made on behalf of Novomatic	888	899	234	433
Novomatic AG and its related entities[(i)]				
– purchases and other charges made by the Group	1,492	1,288	(1,052)	(178)

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

17. Issue of share capital

During this half, no additional number of shares were issued. In first half of FY19, 4,281,004 shares were issued due to shareholders participation in the Dividend Reinvestment Plan for the declared final FY18 dividend.

18. Share-based payments

At 31 December 2019, the Group had the following share-based payment arrangements:

Performance rights programme (equity-settled)

(i) 1 March 2017 Performance rights

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.

Notes to the condensed consolidated interim financial statement

18. Share-based payments (continued)

Performance rights programme (equity-settled) (continued)

(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.

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 outstanding	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.

18. Share-based payments (continued)

Performance rights programme (equity-settled) (continued)

(ii) 30 August 2019 share options (continued)

(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 per option
Fair value at grant date	
- 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.

19. Subsequent events

In the prior year, Aristocrat Technologies Australia Pty Limited commenced proceedings against the Company in the Federal Court of Australia claiming infringement of intellectual property rights and breach of the Australian Consumer Law. Since the reporting date, terms have been mutually agreed, subject to execution of a formal settlement and release agreement, to settle all Federal Court claims commenced by Aristocrat Technologies Australia Pty Ltd. The terms of settlement remain confidential to the parties. The Company has recognised a provision in the reporting period given this amount can be quantified based on negotiations undertaken and that it is more than probable that settlement will be reached. This provision expense is recognised in other expenses and disclosed in Note 15 to the interim financial statements.

Other than the matter raised above, there has not arisen in the interval between the end of the half 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.

Ainsworth Game Technology Limited

Directors' declaration

In the opinion of the directors of Ainsworth Game Technology Limited ("the Company"):

1. the financial statements and notes set out on pages 13 to 29, are in accordance with the Corporations Act 2001 including:

    (a) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the six month period ended on that date; and

    (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

D. Gladstone

Danny Gladstone
Chairman

Dated at Sydney this 24th day of February 2020

Independent Auditor's Review Report

To the shareholders of Ainsworth Game Technology Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Ainsworth Game Technology Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Ainsworth Game Technology Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2019 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Condensed consolidated statement of financial position as at 31 December 2019;
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Half-year ended on that date;
- Notes 1 to 19 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Group*** comprises Ainsworth Game Technology Limited (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

KPMG

Independent Auditor's Review Report (continued)

Report on the Interim Financial Report (continued)

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the interim period ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Ainsworth Game Technology Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

KPMG

KPMG

Stephen May

Partner

Sydney

24 February 2020

KPMG

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 review of Ainsworth Game Technology Limited for the half-year ended 31 December 2019 there have been:

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

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

KPMG

KPMG

Stephen May

Partner

Sydney

24 February 2020