AINSWORTH GAME TECHNOLOGY

ANNUAL REPORT 2016

LAS VEGAS

AINSWORTH
EXPERIENCE COUNTS™

FT. LAUDERDALE

SYDNEY

In 2016, following its motto, 'Experience Counts' Ainsworth announced its new talented and experienced game development team in Australia to strengthen its global leadership. The combination of such exceptional leadership from Ainsworth has positioned us well for the next stage of growth and set the bar even higher in providing innovative products.

Furthermore, with the construction of the state-of-the-art Las Vegas 291,000sq ft facility, Ainsworth continues to build its Las-Vegas based R&D and game design teams as well as legal and executive staff.

Another highlight for FY15/16 was the completed acquisition of South-Carolina based Nova Technologies LLC. This purchase provided us with an immediate presence in Class II market and growth within the Americas.

ANNUAL GENERAL MEETING:

TUESDAY 15TH NOV 2016

Dates may be subject to change

RESULTS ANNOUNCEMENT FOR SIX MONTHS ENDING 31ST DECEMBER 2016:

TUESDAY 21ST FEB 2017

Dates may be subject to change

RESULTS ANNOUNCEMENT FOR YEAR ENDING 30TH JUNE 2017:

TUESDAY 29TH AUG 2017

Dates may be subject to change

NOTICE OF ANNUAL GENERAL MEETING

Ainsworth Game Technology Limited
ABN 37 068 516 665

Notice is hereby given that the 2016 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 Tuesday 15 November 2016 at 11:00am

NEW AND RELAUNCHED A600® BRANDS

CONTENTS

In accordance with ASX Listing Rule 4.10.3, Ainsworth Game Technology's Corporate Governance Statement can be found on its website at: http://www.agtslots.com.au/corporategovernance

2016 Highlights

Performance Highlights

Continued strong growth in international businesses validates the execution of a clear strategy to improve quality of recurring earnings and strong growth and profitability in international markets.

North America

- Revenue and segment profit up by 34% and 29% respectively.
- Growth in Game Operations installed base to 2,792 units (+112% increase) - included are 1,511 units from acquisition of Nova Technologies, LLC.
- Strong A560SL™ sales, 3,559 total units sold (+15% versus pcp).
- Continuing growth in existing markets - California, Canada, Louisiana and Wisconsin.
- Maintained strong ASP in competitive market.
- Nova Technologies, LLC acquisition provides entry into Class II markets and strong complementary fit to the existing business.

Latin America

- Revenue and segment profit up by 49% and 68% respectively.
- Growth in Game Operations installed base to 1,794 units (+37% increase) with Mexico and Peru having the largest gains in install base.
- Yield increased to USD$19 (+27% increase).
- 2,923 total units sold (+32% versus pcp).
- Mexico, the largest market in region for the Company, representing 32% of units sold.
- Strong penetration in Argentina, representing 24% increase of unit sales.
- Continued growth in the Caribbean markets.

Australia

- Challenging period for volume and revenue growth given highly competitive market conditions and minimal corporate and casino sales.
- 3% increase in ASP despite competitive domestic market.
- Sustainable growth in machines placed under service in NSW/ACT to 15,001 (14,059 pcp).

Other Regions

- Strong sales revenue (+25%) and unit volume growth (+19%).
- Driven by good contribution from SkyCity Auckland and sales into South Africa (new market).
- Good pipeline of further sales within Asia (e.g. Tiger Resorts).

Online

- Real Money Gaming – Successful integrations with platforms: Microgaming Ltd, NYX and iSoftbet.
- Social Gaming – Second social casino, King Spin™ Slots App, was successfully launched in conjunction with 616 Digital LLC. Continued strong performance of previously established social casino, Players Paradise™ Slots App. New content licensing agreements with Zynga and Playstudios/MGM Resorts.

AGT's balance sheet is in a strong position and provides the Company with significant flexibility and capacity to drive earnings growth into the future.

Financial Highlights

REPORTED NPAT of $56 million (2015: $70 million)

NPAT excluding FOREX gains of $52 million, flat on pcp

EPS of $0.17 per share (2015: $0.22 per share)

Reported EBITDA down 11% to $96 million

EBITDA excluding FOREX gains up 11% to $91 million

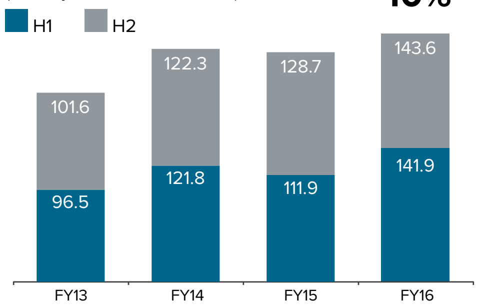
R&D as percentage of revenue at 10% (2015: 11%)

STRONG Balance Sheet, Cash Position and Cash Flow and ROE

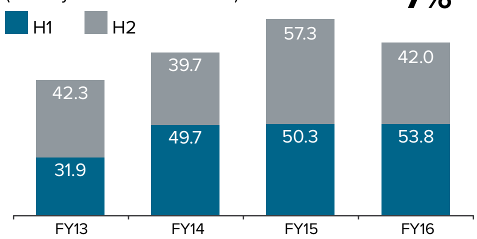
TOTAL DIVIDENDS of 10.0 cents per share (fully franked) representing a payout ratio of 58%

Interim Dividend	5.0 cents	100% Franked	(Paid 2 May 2016)
Final Dividend	5.0 cents	100% Franked	(Payable 7 November 2016)

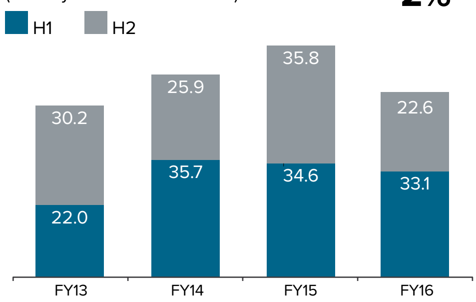
REVENUES - AUD (M) CAGR **10%**
(Fiscal years ended June 30)



EBITDA - AUD (M) CAGR **7%**
(Fiscal years ended June 30)



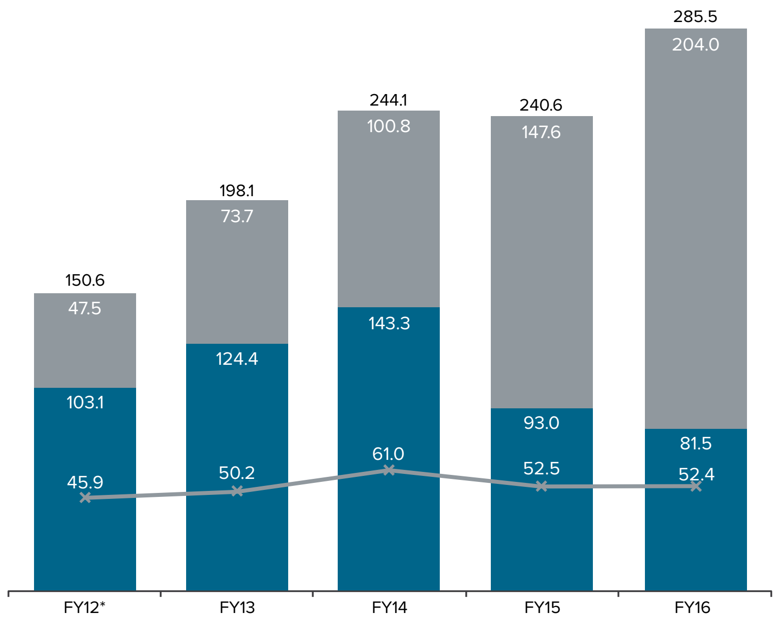
NPAT - AUD (M) CAGR **2%**
(Fiscal years ended June 30)



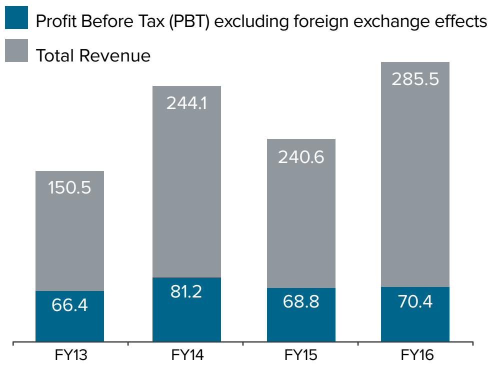
HISTORICAL PERFORMANCE - AUD (M)
Normalised PAT (All FY's- excl foreign currency gain)

Domestic Revenue International Revenue
Net Profit After Tax (NPAT) excluding foreign exchange effects

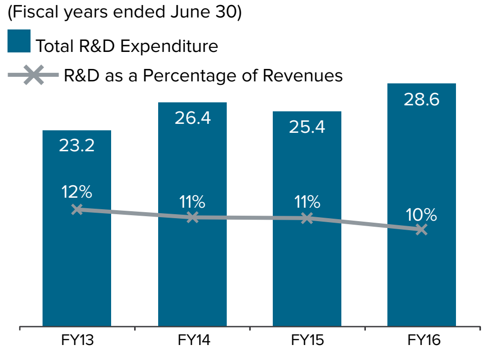
*Note: Normalised net profit for FY12 excludes one off recognition of $21.8 in deferred tax assets



REVENUE/PROFITABILITY - AUD (M)
(Fiscal years ended June 30)



R&D EXPENDITURE PERCENTAGE (M)
(Fiscal years ended June 30)



Chairman's Report

Dear Shareholders,

I am pleased to report our FY16 results. They reflect continuing progress toward achieving our long term strategy and delivering the anticipated benefits to shareholders.

Total sales for FY16 were $285.5m, a 19% increase. Net profit after tax for the year ended 30 June 2016 was $55.7m down 21% on FY15. However prior to accounting for changes in foreign exchange rates and items outside of our normal business activities, underlying EBITDA came in at $95.2m, a pleasing rise of 12%. This shows the true underlying performance of the business and illustrates our momentum.

Our strategy has been to expand and diversify our offerings to the global gaming market. We have and continue to develop a broader, more creative and differentiated product portfolio allowing Ainsworth to enter more diverse markets, increase market share and grow revenue. I am pleased to say that in 2016 we have established foundations for further growth and continue to execute on these goals.

Since 2011, Ainsworth's international revenues have grown from $23.3m to $204.0m. Compared to last year they were up by a further 38%. These international revenues now account for 71% of group revenue. Ainsworth is now positioned to continue to build on strategies to expand its international presence. We needed to operate in larger markets. We wanted to leverage our technology and game expertise into bigger opportunities. The Americas was our number one focus. I'm pleased to say our businesses in the Americas have grown strongly with a further 40% growth in revenues this year.

We expect our international revenues to continue to grow. With new hardware, games, the contribution from Nova that we acquired in January and is going very well, the new facility in Las Vegas that is now operating giving Ainsworth a greater presence and with the delivery of the expected synergies with Novomatic, we are confident we will increase the Company's revenues and profitability from international markets.

Nova Technologies was an important acquisition for Ainsworth. Nova gave us an immediate entry into the complementary Class II gaming markets in the US. Since then we have successfully integrated the business. It made a good contribution to our results in the second half of the year. It also pushed us further along in delivering the other key leg of our strategy, which is to increase the number of units on participation, which with recurring revenues, improves the quality of our earnings. There are further opportunities to leverage Nova's technology into new markets and provide an increased contribution in recurring revenues from products on gaming operation.

We also made continued progress in Latin America. This is another exciting region for us. Sales grew by 49%, another strong result from this region reflecting the continued high performance of our range of products. While Mexico is our largest market representing 32% of units sold in the region, we also sell across a broad range of countries including the Caribbean, Argentina, Peru, Uruguay and Colombia where we also saw good growth.

How do we consistently perform so well in these markets? Game performance is clearly important, the supply chain too, and our ability to deliver and service quality products. But we should not underestimate the value of relationships and tenure. As ever, at Ainsworth, experience counts. We have operated in Latin America for a long time. We anticipated the growth early and built the foundations properly. We are seeing the benefits of that foresight and planning.

"Throughout FY17 the Board and Management are focused on continuing to build a stronger, more diversified and profitable global gaming and technology Group."

Domestic markets are very competitive. Revenues were down by 12% on FY15. However, I am confident that, through our innovative game development we have a solid strategy for recovery in market share, revenues and profitability over time given the recent changes implemented.

To enable Ainsworth to continue to deliver on its growth strategy, the Group maintains a strong balance sheet. Our current assets exceed our current liabilities of $48m by more than four times. And our new Las Vegas facility and the Nova acquisition increased our non-current assets by almost 80% to $227.9m. We have significant headroom in our debt facility to fund growth and remain conservatively geared particularly given the quality of our cash flows. Despite operating a conservative balance sheet we generated a very healthy return on equity of 18%.

Let me now turn to the most significant event of FY16 and a relationship that can shape our future. On June 27 this year, shareholder approval was granted for me, and the entities that I control, to sell 172 million shares to Novomatic AG. On behalf of my fellow directors, management and staff, we are delighted to welcome Novomatic to Ainsworth. Other regulatory approvals and the licensing process are proceeding to enable the completion of this transaction.

Novomatic is a highly regarded and successful international gaming company with an extensive library of games and technologies. There are undoubtedly significant synergies that can be developed through this relationship. We detailed those synergies in the Notice of Meeting. They are intact and we have already made progress in exploring their game library and cooperating in the key North American market. We look forward to making further progress on these fronts in FY17 and delivering these synergies to the benefit of all shareholders.

With this strong performance and our confidence in the future, I am pleased to report that the Board was able to declare a fully franked dividend of 10 cents per share for the full year. The dividend represents a 58% payout ratio, recognising we clearly remain in the investment and growth phase in our development. We remain firmly committed to building and delivering value for all shareholders.

Throughout FY17 the Board and Management are focused on continuing to build a stronger, more diversified and profitable global gaming and technology Group. We expect FY17 to be an exciting and prosperous year for Ainsworth as we develop and deliver new products to our customers and players.

I am encouraged by the achievements of the Group to date and would sincerely like to thank the hard work and effort of our Board of Directors, our CEO Mr Danny Gladstone and our CFO Mr Mark Ludski who both did an outstanding job through the year, the rest of the highly capable and effective executive team, along with the invaluable contribution of our loyal and dedicated employees, my fellow shareholders and valued customers.

Len Ainsworth
Executive Chairman

Chief Executive Officer's Report

Dear Shareholders,

I am pleased to report that 2016 was another year of progress for AGT.

Starting with the results for the year ended 30 June 2016, AGT has achieved a stable profit performance. Group revenues were up by 19% versus FY15 to $285.5m. Gross profit increased by 13% and gross margins remained consistent through the year at 60%.

Pleasingly, prior to accounting for foreign currency gains, and items outside of our normal business activities, underlying EBITDA came in at $95.2m, a rise of 12%.

Currency gains contributed $4.7m in FY16 compared to $25.6m in the prior year. Prior to these gains underlying PBT was up 2% in FY16. After tax, FY16 had a foreign currency gain of $3.3m. This was much smaller than the significant $17.9m benefit in FY15. Accordingly prior to including foreign currency gains NPAT was effectively unchanged. This was a stable result given the transition in our business.

Operating costs, excluding cost of sales, financing costs and other expenses were $100.4m, an overall increase of 21% on FY15. This increase was primarily due to a lift in sales, service and marketing expenses resulting from the full year impact of previous and additional placement of products under gaming operation, additional sales/technical representation within the Americas and the integration of costs through the completed acquisition of Nova Technologies LLC (Nova) in the period.

Research and development (R&D) costs were maintained at 10% of revenue. This investment drives innovation and Ainsworth's superior game performance. The R&D program has created the A600™ where commercialisation continues in targeted markets with a broader and more diverse range of games, and the release of the new A640™ hardware configuration within the Americas.

Including these investments we delivered an 18% return on equity and we finished the year in a strong financial position with a conservative balance sheet.

Importantly, the FY16 results demonstrate our ability to execute our clear strategy to take our gaming expertise and proprietary technology and build a strong, profitable and successful international business.

We are determined to build a significant business in large international markets, particularly the Americas. We seek to leverage our proprietary technology and gaming expertise to substantially increase our profitability. We focus on improving the quality of our earnings by developing a larger participation business that provides recurring revenues. We continue to invest in multiple new licenses and their related markets to ensure our ongoing growth and sustainability. And we continue to develop our online and social gaming businesses to build a presence in these new markets. In FY16 we made progress on all these fronts.

Our international business performed well with revenues growing by 38%. As Len Ainsworth said, international revenues now account for 71% of the group total. Indeed, around 68% of our segment profits now come from the Americas. Within this, our North American revenue grew by 34% last year. We generated $111.0m of sales in the year. Profit grew by 29%. We sold 15% more units at 3,559 and held average selling prices flat at US$16,700.

The continued high performance achieved on the A560SL™ with game brands such as Mustang Money 2™, Thunder Cash™, Twice The Money™ and Cash Cave™ made the Group's product an attractive value proposition across all established and new markets. All of our main brands perform at an average index of 1.0 to 2.2 times of house average.

"Nova Technology is another important part of our growth strategy in the US. With Nova included, we finished the year with 2,792 units on participation. That represents an increase of 112%."

We now have a broad presence across North America. We have strong presence in some states and significant scope for growth. Encouragingly, we saw ongoing growth in existing markets led by California, Canada, Louisiana and Wisconsin. And we enjoyed a good contribution from new territories that we added in previous periods.

Headcount in the Americas increased by 50 employees compared to FY15. We increased sales, service, production and support resources and in line with our strategy - we built up a dual creative and design team over there. This team works closely with the Australian team in developing and accessing new technologies. We find this is a productive way to leverage, rather than duplicate resources.

Nova Technology is another important part of our growth strategy in the US. With Nova included, we finished the year with 2,792 units on participation. That represents an increase of 112%. We have fully integrated Nova's Class II products into popular Ainsworth hardware. This is being well received in the market. Nova also has licenses to sell in 11 states and over 58 jurisdictions.

Importantly, we can continue to leverage this technology platform and we have strategies in place to enter new markets to drive further growth. Nova has 35 Class II titles available now. Next year we will have 42 titles. Ainsworth has 10 titles but this is growing strongly, and next year we should have 28. This will take our total up from 45 titles at present to 70. This will drive our momentum and growth.

Let's turn now to Latin America. This is another high-performing region for us. Sales grew by 49% and profits reflecting our operational gearing, increased by 68%. We sold 2,923 units, up by 32% on the prior year and average selling prices increased by 1% to US$15,500.

Mexico is our largest market in the region. It represents 32% of units sold. Argentina is also an important market for Ainsworth. It represented 24% of unit sales in the period, up from 8% in FY15. We sell across a range of other countries including the Caribbean, Peru, Uruguay and Colombia where we also see good growth.

To complement these unit sales, we have an installed base of 1,794 machines which represents an increase of 37% over last year.

It is worth noting that the working capital payment cycle is longer in Latin America and with a high base of units on participation, the business is more capital intensive. Notwithstanding these factors, these are great results.

The Rest of the World segment was a story of strong growth. Other international revenue comprising Asia, New Zealand, South Africa and Europe contributed $18.2 million, an increase of 25% compared to FY15. Profit was 18% higher. We sold over a thousand units in this region in the year. The increase in revenue was primarily attributable to sales growth within New Zealand which increased revenue by 127% through a significant order for SkyCity Auckland and sales into South Africa within the current period.

FY16 was clearly a challenging period for volumes, revenues and margins in Australia. We operate in a highly competitive market with an effective market leader. We saw minimal corporate and casino sales in the year together with general changes in customer purchasing patterns. When we were selling far more machines back in 2014 these customer bases added significant volumes. They were largely absent for us last year.

Whilst ship-share came under pressure, high-yielding product performance ensured that the installed base of Ainsworth products still experienced moderate growth across most domestic markets.

Chief Executive Officer's Report (continued)

Despite the vendor market being highly competitive and concentrated, on the positive side, our ASP's increased by 3% to AU$21,300. Our machines are advanced and perform well and we maintain pricing discipline. Additionally, we increased the number of machines we service in NSW.

Our service base increased by 7% to over 15,000 machines. Servicing is an interesting business for us as it provides us intelligence on market developments, technical issues, quality control and we gain direct feedback from customers. This is also recurring income generating $6.6m during the year.

Domestic margins were adversely impacted due to product mix changes, higher initial material costs on new products, A$ currency changes and competitive pressures across the gaming industry. Our new machine, the A600, is also costly to manufacture given some of its advanced componentry is priced in USD and initial production runs are small. Initial cost reduction initiatives have now been implemented, and with expected growth in sales volumes and production efficiencies, as well as a greater concentration of premium progressive games, these impacts should be reduced.

So what are we going to do to remedy this decline in Australia?

First, I am confident that the release of a range of new games and concepts on the technically advanced A600™ at the Australasian Gaming Exhibition in August 2016 has been well received and should provide the positive momentum to improve domestic results – both revenue and profitability.

To support further product development, we have opened up our organisational structure, promoting greater creativity. It is making a difference. We have engaged with recognised external game consultants with good track records.

We have commenced the process to sift through Novomatic's significant game library to find a 'diamond in the rough" that we could adapt and make available to Ainsworth's markets.

Online is another element of our new model.

The strategic investments in Real Money and social platform technology should provide further opportunities to leverage Ainsworth's recognised brands to a greater number of users through social and mobile channels. Successful integrations have been achieved with leading Real Money gaming platforms: Microgaming Ltd and iSoftbet. Ten games have been provided for initial launch on these platforms and early performance is encouraging. Ainsworth opened its second social casino, King Spin™ Slots App. This was successfully launched in conjunction with 616 Digital LLC on Android and iOS. The synergy between Ainsworth and 616 Digital has been reflected in the ongoing strong performance of the Players Paradise™ Slots App. Further growth and progress can be expected.

We have achieved these results and developed these growth strategies on our own. Now we are moving towards the next stage of our development with, subject to completion, our new major shareholder, Novomatic.

Novomatic is a highly regarded and successful international gaming company with an extensive library of games and technologies. There are undoubtedly significant synergies that can be developed through this relationship. We detailed those expected synergies in the Notice of Meeting and Explanatory Statement provided to shareholders. They are intact and we have already made progress in exploring their game library and cooperating in the key North American markets. We look forward to making further progress on these fronts in FY17 and delivering synergy benefits, through our results, to all shareholders.

We expect continued growth in our international businesses in FY17. Sales in the Americas continue to grow. Strong contributions from new jurisdictions and the opening of our new facility in Las Vegas have lifted our presence in these markets and are expected to positively impact performance in coming periods.

Our strategy is to improve our share, revenue and profitability in domestic markets and I am very encouraged by the quality of the innovation that is now occurring in our business. This is a lead indicator and bodes well for our future performance.

We have made good progress to date in delivering the expected synergies with Novomatic in FY17. This strategic relationship will assist us to become a more diversified game technology business with improving quality of earnings and strong growth and profitability.

I wish to express my appreciation to the Chairman for his commitment to the Company. I would also like to thank the Board of Directors for their wise counsel, our talented employees for their major contribution to our continued success, our loyal and supportive shareholders and importantly our customers for whom we strive to deliver the best in gaming experiences.

D. Gladstone

Danny Gladstone
Chief Executive Officer / Executive Director

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 8 SEPTEMBER 2016)

Number of shareholders and shares on issue

The issued shares in the Company were 327,716,274 ordinary shares held by 7,088 shareholders.

Substantial shareholders

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

Shareholder	Number of Ordinary Shares
Mr LH Ainsworth	176,008,132*
Votraint No. 1019 Pty Ltd (MCA Private Investment A/C)	29,371,617

* Included in shareholding above of Mr LH Ainsworth are 172,100,823 ordinary shares which are subject to a proposed sale to Novomatic AG as approved at a General Meeting of Shareholders held on 27 June 2016. The completion of this share sale transaction requires necessary gaming regulatory approvals as detailed in the Notice of Meeting dated 4 May 2016.

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
1 – 1,000	1,604	5
1,001 – 5,000	3,327	276
5,001 – 10,000	1,092	65
10,001 – 100,000	995	41
100,001 and over	70	2
Total	**7,088**	**389**

The number of shareholders holding less than a marketable parcel of ordinary shares is 351 (35,129 ordinary shares).

On market buy-back

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

Unquoted equity securities

At 8 September 2016, 2,806,640 performance rights have been issued to 389 employees, respectively. These performance rights 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.

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of total
MR LH AINSWORTH	161,227,861	49.20
VOTRAINT NO 1019 PTY LTD <MCA PRIVATE INVESTMENT A/C>	29,371,617	8.96
CITICORP NOMINEES PTY LIMITED	16,003,382	4.88
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	15,778,322	4.81
J P MORGAN NOMINEES AUSTRALIA LIMITED	13,643,664	4.16
ASSOCIATED WORLD INVESTMENTS PTY LTD	9,884,656	3.01
BACLUPAS PTY LTD <VALHALLA A/C>	4,759,697	1.45
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	4,082,456	1.25
RBC INVESTOR SERVICES AUSTRALIA PTY LIMITED <VFA A/C>	3,478,216	1.06
NATIONAL NOMINEES LIMITED	3,259,935	0.99
WRITEMAN PTY LIMITED <P L H A INVESTMENT A/C>	2,911,622	0.89
BNP PARIBAS NOMS PTY LTD <DRP>	1,792,570	0.55
UBS NOMINEES PTY LTD	1,295,817	0.40
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,096,278	0.33
CASOLA HOLDINGS PTY LTD <NORDIV HOLDINGS S/FUND A/C>	1,070,000	0.33
MR CHRISTIAN JOHN HASTINGS AINSWORTH	770,650	0.24
MR SASHA ALEXANDER CAJKOVAC	690,000	0.21
MS PATTAWADEE SMARNKEO	684,999	0.21
TRINITY MANAGEMENT PTY LTD	682,037	0.21
MR DAVID WARREN LARMENT & MRS CHIZURU LARMENT <D&C LARMENT SUPER FUND A/C>	660,000	0.20
Total	**273,143,779**	**83.34**

Directors' Report

for the year ended 30 June 2016

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 2016 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 Leonard Hastings Ainsworth, DUniv, FAICD, FAIM Executive Chairman	93 yrs	– Sixty four years gaming industry experience – Founder and former Managing Director of Aristocrat – Fellow of the Institute of Company Directors in Australia and the Australian Institute of Management – Life member – Clubs NSW – Founder of Australian Gaming Machines Manufacturers Association – now Gaming Technology Association – Founder of Australasian Gaming Exhibition – Inducted into the Australian Gaming Hall of Fame and U.S Gaming Hall of Fame in 1994 and 1995, respectively – Recognition as export hero in 2002 by Australian Institute of Export – G2E Asia Gaming Visionary Award Recipient in 2010 – Recipient of Clubs NSW award for outstanding contribution to the club industry in 2011 – Recipient of Keno and Club Queensland Award for excellence in March 2014 for services to industry – Awarded Higher Doctorate degree by the University of New South Wales – Director and Chairman since 1995 – Executive Chairman since 2003
Mr Graeme John Campbell Lead Independent Non-Executive Director	59 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, recipient of J.P. Stratton award and Ern Manea Gold Medal. Inducted into the Inter Dominion Hall of Fame in February 2014 – Former Director of Central Coast Stadium and Blue Pyrenees Wines – Director of Liquor Marketing Group Limited (Bottle Mart) since September 2013 – Chairman of Lantern Hotels Group since 30 June 2016 – Chairman of Audit Committee of Illawarra Catholic Club Group, Director since 2007 – Chairperson of Audit Committee, member of Regulatory and Compliance Committee, Member of Remuneration and Nomination Committee since 31 March 2015 – Lead Independent Non-Executive Director since 2013

Directors' Report (continued)

for the year ended 30 June 2016

Name, qualifications and independence status	Age	Experience, special responsibilities and other directorships
CURRENT		
Mr Michael Bruce Yates B.Com (with merit), LLB Independent Non-Executive Director	62 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 – Chairperson of Regulatory and Compliance Committee – Member of Audit Committee – Member of Remuneration and Nomination Committee until 23 February 2016
Mr Colin John Henson, Dip Law- BAB, FCPA, FGIA, FAICD Independent Non-Executive Director	68 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 – Lead associate with Madison Cross Corporate Advisory Pty Ltd, effective 2 July 2014 – Former directorships (in recent years) include; Executive Chairman of Redcape Property Fund Limited, an ASX Listed Property Trust; Chairman and non-executive director of Videlli Limited and QuayPay 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 – Chairman of Remuneration and Nomination Committee
Ms Heather Alice Scheibenstock GAICD Independent Non-Executive Director	48 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 – Director of Southern Metropolitan Cemeteries Trust – Member of Australian Institute of Company Directors and Women on Boards – Appointed Director (subject to regulatory approval) on 18 January 2016 – Member of Remuneration and Nomination Committee since 23 February 2016
Mr Daniel Eric Gladstone Executive Director and Chief Executive Officer	61 yrs	– Danny has held senior positions within the gaming industry over a successful career spanning 40 years – Inducted into the Club Managers Association Australia Hall of Fame in 2000 – Chairman of Gaming Technologies Association from 2011 until resignation on 21 February 2012 – Chief Executive Officer since 2007 - Executive Director since 2010 – Member of Regulatory and Compliance Committee

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
LH Ainsworth	10(1)	12	–	–	–	–	–	–
GJ Campbell	12	12	2	2	3	3	4	4
MB Yates	12	12	2	2	2	2	4	4
DE Gladstone	12	12	–	–	–	–	4	4
CJ Henson	12	12	2	2	3	3	–	–
HA Scheibenstock	6	7	–	–	1	1	–	–

A Number of meetings attended

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

(1) Mr LH Ainsworth was excluded from two meetings held during the year due to his conflict of interest in dealing with the resolution at the General Meeting of Shareholders to sell ordinary shares held by him to Novomatic AG.

In addition to the above directors' meetings a special purpose Transaction Committee was formed in February 2016, to manage all matters in relation to the shareholders meeting to approve the acquisition of 172,100,823 ordinary shares held by Mr LH Ainsworth and entities controlled by him, by Novomatic AG. The Transaction Committee held seven (7) meetings during the year and comprised of all independent non-executive directors of the Company.

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 on-line 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 leading 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:

- focus on increasing revenue and profitability within geographical markets that are expected to achieve the greatest contributions to the Group's financial results, and creation of sustained growth;
- diversity and expansion of contributions from recurring revenue through units under gaming operation;
- expand presence within on-line gaming markets, including social gaming and licensed "Real Money" gambling markets;
- continue investing 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;
- provide a growing return on shareholder equity through increasing profitability, payment of dividends and share price growth; and
- prudently manage levels of investment in working capital and further improve cash flow from operations to facilitate investment in growth opportunities.

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;
- review and evaluate growth opportunities both organically and through acquisitions;
- further reduce 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's profit for the year ended 30 June 2016 was a profit after tax of $55.7 million, a decrease of 21% on the $70.4 million in 2015. The profit after tax excluding effect of net foreign currency gains was $52.4 million which is in line with the $52.5 million on the same basis in 2015.

This result was achieved on revenue of $285.5 million, an increase of 19% on the revenue of $240.6 million in 2015. Further, revenue gains in the key market of the Americas have assisted in increasing the contribution of revenue from international markets from 61% in 2015 to 71% in the current year. The current year result included a positive impact for net foreign currency gains of $4.7 million compared to $25.6 million in 2015 as a result of $US currency movements and the related translation of US denominated assets at the reporting date.

Underlying EBITDA for FY16 was $95.2 million, an increase of 12% compared to $85.1 million on the same basis in FY15.

During the current year the Group incurred significant items outside the ordinary course of the business of $4.1 million. These expenses included evaluating strategic investment opportunities, impairment of a prior period receivable where payments had fallen into arrears and leasehold/rental expenses for vacated premises in North America until the expiry of the lease following completion of the Group's new facility in Las Vegas.

The following table summarises the results for the year:

In millions of AUD	12 months to 30 June 2016	12 months to 30 June 2015	Variance %
Total revenue	**285.5**	**240.6**	18.7
Underlying EBITDA	95.2	85.1	11.9
Reported EBITDA	95.8	107.6	(11.0)
EBIT	**72.8**	**91.3**	(20.3)
Profit before tax	75.1	94.4	(20.4)
Profit for the year	**55.7**	**70.4**	(20.9)
Total assets	436.0	348.6	25.1
Net assets	315.9	280.5	12.6
Earnings per share (fully diluted)	17.0 cents	22.0 cents	(22.7)
Total dividends per share	10.0 cents	10.0 cents	–

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 2016	12 months to 30 June 2015	Variance %
Reconciliation:			
Profit before tax	**75.1**	**94.4**	(20.4)
Net interest	(2.3)	(3.1)	(25.8)
Depreciation and amortisation	23.0	16.3	41.1
Reported EBITDA	**95.8**	**107.6**	(11.0)
Foreign currency gains	(4.7)	(25.6)	(81.6)
Due diligence costs on strategic opportunites/acquisitions	1.2	1.9	(36.8)
Impairment losses	2.2	1.2	83.3
Accelerated expenses for vacated premises in North America	0.7	–	100.0
Underlying EBITDA	**95.2**	**85.1**	11.9

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

Shareholder returns

	2016	2015	2014	2013	2012
Profit attributed to owners of the company	$55,703,000	$70,353,000	$61,570,000	$52,202,000	$64,275,000
Basic EPS	$0.17	$0.22	$0.19	$0.16	$0.23
Dividends paid/declared	$32,245,000	$32,227,000	$32,211,000	$9,661,000	$–
Change in share price	($0.41)	($1.17)	($0.29)	$1.93	$1.74

Net profit amounts for 2012 to 2016 have been calculated in accordance with Australian Accounting Standards (AASBs). The profit amount for 2012 included an income tax benefit of $18.1 million following the recognition of previously unrecognised deferred tax assets.

Investments for future performance

The Group continues to review and evaluate opportunities within the gaming sector. Further investments in research and development will assist the ongoing expansion and breadth of innovative, technically advanced and consistently high performing products. The Group launched the A600™ at the Australasian Gaming Exhibition (AGE) in August 2015 with the on-going release in targeted international markets in FY17. This product was the result of the significant investment in research and development undertaken in prior periods and is a cornerstone of the Group's product transition strategies in all global markets.

The Group continues to execute strategies within on-line segments, both real money and social gaming. Completion of licenced "Real Money" gambling technical integration of the Group's Remote Gaming Server (RGS) "GameConnect™" has progressed. Registrations are continuing with leading real money gambling operators within Europe, as well as selected Asian and South American markets, where real money on-line gaming is regulated.

Entry into the high growth social gaming sector was initially established through an initial investment with 616 Digital LLC. The Group has converted this investment to a 40% equity shareholding in 616 Digital LLC subsequent to the reporting date. An option exists to purchase the remaining 60% of 616 Digital LLC. After evaluation of the financial due diligence and technical performance of 616 Digital LLC within FY16, exercise has been deferred for a twelve month period.

As part of the Group's strategic investment in 616 Digital LLC, the Company launched its new on-line casino "Players Paradise Slots™" in February 2015 to complement 616 Digital LLC's already established Pokie Magic on-line casino. The development and marketing of 616 Digital LLC's social gaming offering on both desktop and mobile platforms, has been leveraged and enhanced by Ainsworth's extensive land based game content library.

Directors' Report (continued)

for the year ended 30 June 2016

Significant changes in the state of affairs

The completion of the acquisition of Nova Technologies LLC in January 2016 has allowed access to the Class II gaming markets previously not open to the Company. The purpose built facility in Las Vegas was completed in the current financial year. This new high profile facility positions the Group to capitalise on the significant opportunities and operating efficiencies within this region.

The recent approval by shareholders of the sale of ordinary shares held by Mr LH Ainsworth and entities controlled by him to Novomatic AG is expected to provide significant revenue opportunities and synergies in coming periods and provide access to new research and development capabilities for the Group's global markets. Management has already started to examine opportunities to leverage Novomatic's product library and extensive infrastructure.

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

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 2016	12 months to 30 June 2015	Variance	Variance %
Segment revenue				
Australia	81.5	93.0	(11.5)	(12.4)
Americas	185.8	133.0	52.8	39.7
Rest of World	18.2	14.6	3.6	24.7
Total segment revenue	**285.5**	**240.6**	**44.9**	**18.7**
Segment result				
Australia	29.0	46.6	(17.6)	(37.8)
Americas	83.3	58.3	25.0	42.9
Rest of World	10.0	8.5	1.5	17.6
Total segment result	**122.3**	**113.4**	**8.9**	**7.8**
Unallocated expenses				
Net foreign currency gains	4.7	25.6	(20.9)	(81.6)
R&D expense	(28.6)	(25.4)	(3.2)	12.6
Corporate expenses	(19.8)	(18.6)	(1.2)	6.5
Other expenses	(3.4)	(1.9)	(1.5)	78.9
Share of profit of equity-accounted investee	0.4	–	0.4	100.0
Total unallocated expenses	**(46.7)**	**(20.3)**	**(26.4)**	**130.0**
Less : interest included in segment result	(2.8)	(1.8)	(1.0)	55.6
EBIT	**72.8**	**91.3**	**(18.5)**	**(20.3)**
Net interest	2.3	3.1	(0.8)	(25.8)
Profit before income tax	**75.1**	**94.4**	**(19.3)**	**(20.4)**
Income tax	(19.4)	(24.0)	4.6	(19.2)
Profit after income tax	**55.7**	**70.4**	**(14.7)**	**(20.9)**

5. OPERATING AND FINANCIAL REVIEW (continued)

Key performance metrics	% of revenue 12 months to 30 June 2016	% of revenue 12 months to 30 June 2015	Variance Points
Segment result margin			
Australia	35.6	50.1	(14.5)
Americas	44.8	43.8	1.0
Rest of World	54.9	58.2	(3.3)
Segment result margin	**42.8**	**47.1**	**(4.3)**
R&D expense	10.0	10.6	(0.6)
EBIT[1]	23.9	27.3	(3.4)
Profit before income tax (excluding net foreign currency gains)	24.7	28.6	(3.9)
Profit after income tax	19.5	29.2	(9.7)
Effective tax rate	25.8	25.4	0.4

(1) Excludes net foreign currency gains of $4.7 million (2015: $25.6 million)

Revenue

Sales revenue of $285.5 million was recorded in the year under review compared to $240.6 million in 2015, an increase of 19%. Strong revenue growth in international markets helped to offset weaker domestic revenue as changes are progressively implemented on new game development initiatives. The revenue contributions from domestic and international markets were 29% and 71% respectively compared to 39% and 61% in 2015.

The domestic markets of Australia generated revenues of $81.5 million during the reporting period, representing a reduction of 12% as compared to 2015. This reduction was experienced across most jurisdictions. It resulted from a number of factors, including a decline in business activity with large corporate customers, competitor activity as relates to product placements and some pricing pressure. Notwithstanding these factors, consistent and high-yielding performance from the broad range of established Ainsworth products ensured that the installed base still experienced moderate growth across most domestic markets.

During the reporting period, the transition between the A560™ cabinet to the new A600™ cabinet, was successfully achieved across all major jurisdictions. Whilst this affected average selling prices and volumes to some degree, the impact was confined to 2016. Business activity in the primary markets of New South Wales and Queensland during the reporting period was solid following the launch of the new A600™ cabinet. However with the launch of a range of innovative new games at the Australasian Gaming Exhibition in August 2016, expectations are positive for the domestic business in FY17. The NSW hotels market again proved challenging during the period although the additional focus on market-attuned concepts such as the new 243 Way games, are forecast to provide a meaningful improvement in future periods.

In Victoria, the introduction of voluntary pre-commitment in December 2015 had some impact on the amount of capital available to customers for the purchase of gaming machines. The efforts of Service Providers to the Victorian market to renew service agreements with hotels and clubs also stifled demand to some degree during the reporting period. In South Australia, the introduction of the $5 maximum bet legislation from 1 January 2017, adversely impacted business activity during the reporting period. This also represents an opportunity for additional business activity in FY17, due to the expected rotation on a large number of non-compliant machines.

In line with the strategy to expand Ainsworth's offshore operations, international revenue was $204.0 million compared to $147.6 million in 2015, an increase of 38%. The key growth market of the Americas increased revenue by 40% in the period through the continued product performance of the A560SL™ in North America and the contribution of a Class II gaming product through the Nova Technologies acquisition.

The Americas now constitutes 65% ($185.8 million) of total revenues, up from 55% ($133.0 million) in the prior corresponding period. The Group expects to achieve further increases in international revenue in FY17 from the ongoing release of newly developed hardware and games, combined with the completion of the established operational bases in Las Vegas, Nevada and Florida.

The key market of the Americas contributed 91% of total international revenue, with North America and Latin America representing 60% and 40% respectively. Pleasingly, the North American market realised revenue of $111.0 million in the current period, an increase of 34% on the $82.7 million in 2015. The continued high performance of the A560SL™ within North America provided additional revenue opportunities with game brands such as Sweet Zone™ and Gold Awards Series™, among others. The previous granting of licenses and the progression of product approvals in additional US States contributed to further revenue growth in the current period. The relatively new markets of Louisiana, Maryland, New York and Wisconsin contributed to 21% of total unit sales from North America compared to 4% in the previous corresponding period in 2015.

Further revenue growth was achieved in the established markets of California where unit sales grew by 24% compared to 2015. Additional unit sales were achieved through the Group's East Coast distributor in the current period.

In conjunction with the revenue increase from outright sales the Group maintained a consistent base of gaming units under participation arrangements in the reporting period. At the reporting date the Group had 1,281 units under gaming operations excluding Class II and III products through the recent Nova Technologies (Nova) acquisition in North America, a decrease of 35 units from those at the start of the financial year. The successful acquisition of Nova provided an additional 1,511 units under gaming operation at the reporting date. The release of new hardware such as the A640™ as a dedicated participation product only, is expected to further increase the installed base of products under participation in this market.

Revenue from Latin America was $74.8 million, an encouraging increase of 49% on the corresponding period in 2015. In addition to the above, the Group has increased its footprint and at the reporting date has 1,794 units under gaming operations in this market. This represents an increase of 37% compared to the 1,311 units under gaming operations as at 30 June 2015. Continued high performance of products such as the Multi Win™ multi game range and Quad Shots™, along with strategies previously undertaken have driven the Group's growth within this geographical region. The Company is well positioned to build on its reputation as a provider of high performing gaming products and expects to continue to expand its established footprint of products under gaming operation.

Revenue from other international markets ("Rest of World" segment) of New Zealand, Europe, Asia and on-line contributed $18.2 million representing an increase of 25% compared to the prior corresponding period in 2015. These results were primarily achieved through the Skycity Auckland shipment in the first half of FY16 contributing 29% of total revenue for this segment. Further orders for new openings in Asia were shipped post reporting period and will be realised in the first half of FY17.

Operating costs

Gross margin of 60% was achieved for the full year FY16, which was consistent with the first half of FY16 and down from the 63% in 2015. As noted at the half year, margins within domestic markets were impacted by higher componentry costs through product transition to the A600™, adverse currency movements, aggressive promotional initiatives and reduced corporate and casino activity. The maintenance of gross margin was achieved through an increased contribution of international sales and favourable currency movements in the period. Continued cost reduction initiatives combined with higher sales volumes, production efficiencies, and a greater concentration of premium progressive recurring revenue games are expected to assist in off-setting potential negative margin impacts. International revenues are expected to continue to increase their contribution to total revenue of the Group.

Operating costs, excluding cost of sales, other expenses and financing costs were $100.4 million, an increase of 21% over 2015. These costs include additional overheads following the integration of Nova into the Group's operations for the period since completion. This increase was primarily due to selling and marketing costs; additional sales representation in America in line with revenue increases and new licenses achieved in the period; increased expenditure on new product initiatives and the full year depreciation impact of the gaming machines under gaming operations. Operating costs relating to global expansion are continually assessed to ensure these costs are aligned to the achievement of revenue growth before being incurred.

Research and development (R&D) expense was $28.6 million, an increase of $3.2 million over 2015 which represented 10% of revenue (2015: 11%).

Administration costs were $19.8 million, an increase of $1.2 million compared to 2015. These overhead costs as a percentage of total revenue were 7% (2015: 8%) and are consistent with prudent resource and cost control.

Financing income and costs

Net financing income was $7.0 million in the current period, a reduction of $21.7 million on the net financing income of $28.7 million in 2015. This reduction was primarily a result of lower foreign exchange gains of $4.7 million compared to $25.6 million in 2015, an unfavourable change of $20.9 million.

Directors' Report (continued)

for the year ended 30 June 2016

Review of financial condition

Capital structure and treasury policy

The Company currently has on issue 327,716,274 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 regularly 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 in the current period and draw-downs of US dollar denominated borrowings were utilised to assist in providing a partial natural hedge against future movements.

Cash flows from operations

The Group continues to generate positive cashflows from operating activities. Net cash inflows from operations for the year ended 30 June 2016 was $52.9 million, an increase from $20.2 million in the corresponding period in 2015. It is expected that increased cashflows will be achieved within the first half of FY17 as the cash conversion of receivables and inventory reductions occur through sales.

Liquidity and funding

In addition to cash and term deposits held of $26.4 million (2015: $41.3 million), the Group has in place a $90 million facility with a leading Australian bank. This facility will allow the Group to pursue traditional financing alternatives, including the ability to minimise working capital investment through cash reserves and ability to utilise US dollar borrowings.

The Group utilised borrowings under its established facility to fund the acquisition of Nova Technologies. The net debt ((debt less cash)/EBITDA) at the reporting date was 0.43 times which was considered within an acceptable range of gearing for the Group.

The cash used in investing activities included payments to complete Nova Technologies LLC acquisition in January 2016 and investment in new facilities in Las Vegas and Florida.

The Group actively monitors its working capital requirements and has increased its investment particularly through the entry into Class II gaming products enabling it to increase machines under gaming operation and provide a greater proportion of recurring revenue in the Americas under participation arrangements.

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

The following dividends were declared by the Company for year ended 30 June 2016:

	Cents per share	Total amount $'000	Date of payment
Declared and paid during the year 2015			
Final 2015 ordinary (franked)	5.0	16,117	29 September 2015
Interim 2016 ordinary (franked)	5.0	16,128	2 May 2016
Total amount		32,245	

Declared after end of year

The dividends have not been provided and there are no income tax consequences. After the balance sheet date the following dividend was declared by the directors.

	Cents per share	Total amount $'000	Date of payment
Final ordinary (franked)	5.0	16,386	7 November 2016
Total amount		16,386	

The financial effect of this dividend has not been brought to account in the consolidated financial statements for the year ended 30 June 2016 and will be recognised in subsequent financial reports, and there are no income tax consequences.

Dividends have been dealt with in the financial report as:

	Note	$'000
- Dividends		32,245
- Noted as a subsequent event	*19(c)*	16,386

7. EVENTS SUBSEQUENT TO REPORTING DATE

After the reporting date, the Company declared a franked dividend of 5.0 cents per ordinary share amounting to $16,386,000 with an expected payment date of 7 November 2016. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2016 and will be recognised in subsequent financial reports.

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 pursue development initiatives and the necessary product approvals to help ensure sustainable revenue growth and continued financial improvement in future periods.

Further execution of strategies through the investment in a social on-line gaming company is expected to provide complementary revenue gains within on-line social and "Real Money" gaming segments in future periods. This strategy is aimed at achieving increased market share in selected geographical business sectors so as 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 LH Ainsworth[1]	176,008,132	–
Mr GJ Campbell	300,000	–
Mr MB Yates	26,600	–
Mr CJ Henson	127,838	–
Ms HA Scheibenstock	–	–
Mr DE Gladstone	51,136	400,592

(1) Included in shareholding above of Mr LH Ainsworth are 172,100,823 ordinary shares which are subject to a proposed sale to Novomatic AG as approved at a General Meeting of Shareholders held on 27 June 2016. The completion of this share sale transaction requires necessary gaming regulatory approvals as detailed in the Notice of Meeting dated 4 May 2016.

10. SHARE OPTIONS/PERFORMANCE RIGHTS

Unissued shares under performance right

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

Expiry date	Instrument	Exercise price	Number of shares
22 July 2018	Rights	$Nil	1,192,027
17 March 2020	Rights	$Nil	2,239,234
			3,431,261

There are no other shares of the Group under performance right.

All performance rights expire on the earlier of their expiry date or termination of the employee's employment. In addition, the ability to exercise the performance rights is conditional on the Group achieving annual growth in Earnings Per Share of at least eight per cent each year over four years and ranking according to Total Shareholder Return in the fiftieth percentile compared to companies in the ASX300 index with the same Consumer Services GICS industry sector as the Group. Further details about share based payments to directors and KMP 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

During or since the end of the financial year, the Group issued ordinary shares of the Company as a result of the exercise of options under the Employee Share Option Trust (ESOT) as follows (there are no amounts unpaid on the shares issued):

Number of shares	Amount paid on each share
227,345	$0.225

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:

	2016 $
Services other than audit and review of financial statements:	
Other regulatory audit services	
Controlled entity audit	35,000
Other services	
Transaction support services	36,077
	71,077
Audit and review of financial statements	255,000
Total paid to KPMG	**326,077**

13. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 84 and forms part of the directors' report for the financial year ended 30 June 2016.

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 – AUDITED

15.1 Principles of compensation – audited

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the 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.

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 market place. A senior executive's compensation is also reviewed on promotion and performance.

The RNC undertook a review of fixed compensation levels in 2016 using the review undertaken by an independent remuneration consultant in the previous year to assist with determining an appropriate mix between fixed and performance linked compensation for senior executives of the Group during the year.

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 an independent remuneration consultant on behalf of 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.

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 FY16 were Group 'profit before tax' excluding foreign currency gains / (losses) and any specific extra-ordinary items as assessed by the RNC. These financial performance targets were assessed by the RNC for all key management personnel (excluding Mr LH Ainsworth and non-executive directors) and it was determined that the Group did not achieve the 'profit before tax' minimum target and no STI was payable in the current year.

The non-financial objectives 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 (other than Mr Danny Gladstone, the Chief Executive Officer (CEO)) were assessed however it was determined that no STI for these criteria would be awarded in the current period as the minimum Group 'profit before tax' financial target was not achieved.

The RNC assesses the actual performance of the Group, the relevant segment and individual against the KPI's set at the beginning of the financial year. A pre-determined maximum amount is capable of being awarded for stretch performance. No stretch bonus was awarded as overall performance fell below the minimum performance established. The performance evaluation in respect of the year ended 30 June 2016 has taken place in accordance with this process.

The RNC recommends the cash incentive to be paid to the individuals for approval by the board. The method of assessment was chosen as it provides the Committee with an objective assessment of the individual's performance. Based on remuneration practices the STI was determined for key management personnel and senior executives. Following a recommendation by the independent remuneration consultant it was established that should a STI amount be awarded 75% of the STI would be payable in cash and 25% be deferred for a 12 month period. The deferred component established for the 2015 financial year has been accrued at 30 June 2016 and is subject to service conditions. The deferred component in the current year represented $99,238 for key management personnel.

Currently, the performance linked component of compensation comprises approximately 3% (2015: 9%) of total payments to key management personnel due to forfeitures under the STI during the current period.

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.

Of each tranche that vest, 70% vest subject to Earnings Per Share (EPS) targets and 30% vest subject to Total Shareholder Return (TSR) targets. The relevant weighting of performance conditions of 70% EPS and 30% TSR were determined as appropriate due to the following:

- EPS is more reflective of the Group's underlying performance in terms of long term sustainable growth;
- To ensure relevance of the LTI for international employees;
- International expansion requires looking beyond ASX listed companies for a more meaningful performance comparison;
- Inherent volatility of the gaming industry makes TSR less relevant and reflective of underlying performance; and
- There are limited numbers of gaming industry companies in the ASX.

15. REMUNERATION REPORT – AUDITED (continued)

15.1 Principles of compensation – audited (continued)

EPS growth is an absolute performance measure that refers to consolidated results of operating activities. Relative TSR measures the Group's notional return in the form of share price increases and dividends over the term against a comparison group of companies in the ASX300 that have the same Consumer Service GICS industry sector as the Company.

The Board believes that these two performance hurdles, in combination, serve to align the interests of the individual executives and employees with the interests of the Company's shareholders, as EPS growth is a key driver of company long-term share price performance, and relative TSR compared to the ASX300 comparator companies provides a comparison of the entities performance against potential alternative shareholder investment.

Vesting on each tranche is as follows:

Tranche 1		Tranche 2	
EPS growth	Vesting outcome	Company TSR percentile ranking	Vesting outcome
Less than 8.0% per annum	Nil vesting	Below 50th percentile	Nil vesting
8.0% per annum	25% vesting plus 1.25% for each 0.1% increase in EPS	50th percentile	50% vesting
10.0% per annum	50% vesting plus 2.0% for each 0.1% increase in EPS	Between 50th and 75th percentile	Pro-rata (sliding scale) percentage vesting
12.5% per annum or more	100% vesting	At or above 75th percentile	100% vesting

Rights that do not vest at the end of the vesting periods 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. No adjustments to reported results from operating activities are made when the remuneration committee determines whether the EPS hurdle is achieved.

Short-term and long-term incentive structure

The RNC considers that the above performance-linked remuneration structure is generating the desired outcome. The evidence of this is:

- the growth in profits in recent years;
- the strong growth in international revenue;
- the performance-linked element of the structure appears to be appropriate because senior executives achieved a level of performance which qualifies them for performance limited incentives; and
- the high levels of retention among senior executives and key personnel.

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.

	2016	2015	2014	2013	2012
Profit attributable to owners of the company	$55,703,000	$70,353,000	$61,570,000	$52,202,000	$64,275,000
Dividends paid/declared	$32,245,000	$32,227,000	$32,211,000	$9,661,000	$–
Change in share price	**($0.41)**	**($1.17)**	**($0.29)**	**$1.93**	**$1.74**

Profit is considered as one of the financial performance targets in setting the short-term incentive bonus. Profit amounts for 2012 to 2016 have been calculated in accordance with Australian Accounting Standards (AASBs).

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.

Service contracts

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 12 months' notice and that the Group retains the right to terminate the contracts immediately, by making payment equal to 12 months' pay in lieu of notice.

The Group has entered into service contracts with each Australian key management person that provide for the payment of benefits where the contract is terminated by the Group. The key management persons are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any 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 Danny Gladstone, Executive Director and Chief Executive Officer (CEO), has a contract of employment dated 5 February 2007 and amended on 7 December 2010 with the Company. The contract specifies the duties and obligations to be fulfilled by the CEO and provides that the board and CEO will early in each financial year, consult and agree objectives for achievement during that year.

The CEO has no entitlement to 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.

Non-executive directors

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 is 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 are reimbursed as incurred.

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

The Executive Chairman, 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 and are set out below.

POSITION	$ (per annum)
Australian resident non-executive director	120,000
Lead Independent non-executive director	10,000
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. REMUNERATION REPORT – AUDITED (continued)

15.1 Principles of compensation – audited (continued)

In addition to the above fees a special purpose Transaction Committee (TC) was formed in the current period to review all requirements of the General Meeting of Shareholders held on 27 June 2016 for the approval of the sale of ordinary shares held by Mr LH Ainsworth and entities controlled by him to Novomatic AG. The TC met seven (7) times during the current period and these additional services were considered to be outside the current remuneration for independent non-executive directors. An additional one-off fee was paid of $20,000 to the Chairman, being the lead independent non-executive director and $15,000 to each independent non-executive director as members for their services on the TC.

Services from remuneration consultants

The RNC, comprising of independent non-executive directors only, secured the services of an independent remuneration consultant (Remuneration Strategies Group Pty Ltd) to consider compensation levels for the participation by the non-executive directors on the TC. RSG stated that it was normal and acceptable practice for the members of the TC to receive an additional fee for the services provided. An assessment by RSG confirmed the fees noted above were reasonable and relatively moderate given the significant responsibilities undertaken by the TC. This review by the independent remuneration consultant was assessed and confirmed by the RNC and Board and a total of $1,850 was paid during the year for this service.

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.

15.2 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 %
Directors												
Current												
Mr GJ Campbell	2016	187,000	–	–	187,000	17,765	–	–	–	204,765	–	–
	2015	167,000	–	–	167,000	15,865	–	–	–	182,865	–	–
Mr MB Yates	2016	167,186	–	–	167,186	15,883	–	–	–	183,069	–	–
	2015	155,000	–	–	155,000	14,725	–	–	–	169,725	–	–
Mr CJ Henson	2016	156,000	–	–	156,000	14,820	–	–	–	170,820	–	–
	2015	141,000	–	–	141,000	13,395	–	–	–	154,395	–	–
Ms HA Scheibenstock (appointed 18 January 2016)	2016	72,209	–	–	72,209	6,860	–	–	–	79,069	–	–
	2015	–	–	–	–	–	–	–	–	–	–	–
Former												
Mr DH Macintosh (resigned 27 March 2015)	2016	–	–	–	–	–	–	–	–	–	–	–
	2015	106,400	–	–	106,400	10,108	–	–	–	116,508	–	–
Sub-total non-executive directors' remuneration	2016	582,395	–	–	582,395	55,328	–	–	–	637,723	–	–
	2015	569,400	–	–	569,400	54,093	–	–	–	623,493	–	–

Directors' Report (continued)

for the year ended 30 June 2016

15. REMUNERATION REPORT – AUDITED (continued)

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

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												
Mr LH Ainsworth (Executive Chairman)	2016	305,000	–	30,000	335,000	28,975	–	–	–	363,975	–	–
	2015	305,000	–	30,000	335,000	28,975	–	–	–	363,975	–	–
Mr DE Gladstone (Chief Executive Officer)	2016	750,000	47,511	93,282	890,793	75,765	70,192	–	46,265	1,083,015	4%	4%
	2015	750,000	171,039	100,171	1,021,210	87,499	70,192	–	161,530	1,340,431	13%	12%
Total directors' remuneration	2016	1,637,395	47,511	123,282	1,808,188	160,068	70,192	–	46,265	2,084,713	2%	2%
	2015	1,624,400	171,039	130,171	1,925,610	170,567	70,192	–	161,530	2,327,899	7%	7%
Executives												
Mr ML Ludski – Chief Financial Officer/Company Secretary	2016	338,406	24,298	101,643	464,347	34,457	31,671	–	7,223	537,698	5%	1%
	2015	338,406	87,472	100,676	526,554	40,458	31,671	–	67,871	666,554	13%	10%
Mr V Bruzzese – General Manager Technical Services	2016	275,189	9,489	24,000	308,678	27,044	25,755	–	(6,030)	355,447	3%	–
	2015	275,189	34,160	24,000	333,349	29,388	25,755	–	46,607	435,099	8%	11%
Mr I Cooper – General Manager Manufacturing	2016	241,968	8,442	24,503	274,913	23,789	22,646	–	(4,796)	316,552	3%	–
	2015	241,968	30,393	24,498	296,859	25,874	22,646	–	41,128	386,507	8%	11%

Directors' Report (continued)

for the year ended 30 June 2016

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 %
Former Executives												
Mr PS Clarebrough - Group General Manager Strategy and Development (resigned 22 December 2015)	2016	226,731	9,498	19,178	255,407	22,441	17,441	–	(83,833)	211,456	4%	–
	2015	472,897	92,041	40,000	604,938	53,669	36,377	–	84,781	779,765	12%	11%
Total executives remuneration	2016	1,082,294	51,727	169,324	1,303,345	107,731	97,513	–	(87,436)	1,421,153	4%	–
	2015	1,328,460	244,066	189,174	1,761,700	149,389	116,449	–	240,387	2,267,925	11%	11%
Total directors' and executive officers' remuneration	2016	2,719,689	99,238	292,606	3,111,533	267,799	167,705	–	(41,171)	3,505,866	3%	–
	2015	2,952,860	415,105	319,345	3,687,310	319,956	186,641	–	401,917	4,595,824	9%	9%

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 2016 financial year uses the criteria set out on pages 24 and 25. The amount was considered on 21 June 2016 by the RNC who recommended that no bonuses be paid for the current period. In accordance with the FY15 short term incentive program, 25 percent of the FY15 bonus is expected to be paid to senior executives in August 2016 provided the senior executive is in employment with the Company at that date. The current expense included as short term basis represents 83% of the 25% FY15 bonus that was deferred, unless otherwise stated.

B. The fair value of performance rights with the relative TSR and EPS conditions is calculated at the date of grant using the Black Scholes Merton simulation model after taking into account the impact of the TSR and EPS 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. In accordance with Australian Accounting Standards previous expenses recognised for these applicable tranches have been reversed in the current year.

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 on pages 24 to 26. Short term incentive bonuses have been provided to the extent that these are payable as at 30 June 2016.

15. REMUNERATION REPORT – AUDITED (continued)

15.3 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 2015 and 2016 are detailed below:

	Short term incentive bonus					
	Included in remuneration $ (A)		% Vested in year (B)		% Forfeited in year (C)	
Director	30 Jun 2015	30 Jun 2016	30 Jun 2015	30 Jun 2016	30 Jun 2015	30 Jun 2016
Mr DE Gladstone	47,511	–	83%	–	–	100%
Executives						
Mr ML Ludski	24,298	–	83%	–	–	100%
Mr V Bruzzese	9,489	–	83%	–	–	100%
Mr I Cooper	8,442	–	83%	–	–	100%
Mr PS Clarebrough[D]	9,498	–	83%	–	–	100%

A. Amounts included in remuneration for the 2015 financial year represent the amount accrued in the current year for a portion of the 25% short term incentive bonus achieved in FY15. No short term incentive was awarded in the current period.
B. The amount vested in the 2015 year represented 83% of the 25% STI amount awarded and deferred, subject to service conditions.
C. The amounts forfeited are due to the performance criteria not being met in relation to the current financial year.
D. The STI amount included is for the period Mr PS Clarebrough was a key management person.

15.4 Equity instruments – audited

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 ESOT and RST plans.

15.4.1 Rights over equity instruments granted as compensation – audited

No rights over ordinary shares in the Company were granted as compensation to any key management person during the reporting period.

15.4.2 Modification of terms of equity-settled share-based payment transactions – audited

No terms of equity-settled share-based payment transactions (including performance rights 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.

15.4.3 Exercise of options granted as compensation – audited

During the reporting period 227,345 shares (2015: 145,700 shares) were issued under the ESOT plan on the exercise of options previously granted as compensation. Options under the ASOT plan exercised during 2016 were 300,764 (2015: 285,935) which were transferred to the ASOT on behalf of employees from the Company’s Executive Chairman, Mr LH Ainsworth.

15.4.4 Details of equity incentives affecting current and future remuneration – audited

Details of vesting profiles of rights 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 DE Gladstone	Rights	137,536	22 July 2013	– %	– %	2017-2018
	Rights	263,056	17 March 2015	– %	– %	2018-2019
Mr ML Ludski	Rights	61,084	22 July 2013	– %	– %	2017-2018
	Rights	95,773	17 March 2015	– %	– %	2018-2019
Mr V Bruzzese	Rights	44,911	22 July 2013	– %	– %	2017-2018
	Rights	52,490	17 March 2015	– %	– %	2018-2019
Mr I Cooper	Rights	39,490	22 July 2013	– %	– %	2017-2018
	Rights	46,953	17 March 2015	– %	– %	2018-2019
Mr PS Clarebrough[1]	Rights	77,178	22 July 2013	– %	– %	2017-2018
	Rights	115,715	17 March 2015	– %	– %	2018-2019

(1) Mr PS Clarebrough resigned on 22 December 2015 and ceased to be a key management person as at this date.
A. The % forfeited in the year represents the reduction from the maximum number of rights available to vest.

15.4.5 Analysis of movements in equity instruments – audited

The movement during the reporting period, by value, of rights 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 $
Mr DE Gladstone	–	–	–	–
Mr ML Ludski	–	–	–	–
Mr V Bruzzese	–	–	–	–
Mr I Cooper	–	–	–	–
Mr PS Clarebrough[1]	–	–	–	–

(1) Mr PS Clarebrough resigned on 22 December 2015 and ceased to be a key management person as at this date.
A. No rights were exercised during the year.

15. REMUNERATION REPORT – AUDITED (continued)

15.4.6 Rights over equity instruments – audited

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

	Held at 1 July 2015	Granted as compensation	Exercised	Held at 30 June 2016	Vested during the year	Vested and exercisable at 30 June 2016
Rights						
Mr DE Gladstone	400,592	–	–	400,592	–	–
Mr ML Ludski	156,857	–	–	156,857	–	–
Mr V Bruzzese	97,401	–	–	97,401	–	–
Mr I Cooper	86,443	–	–	86,443	–	–
Mr PS Clarebrough(1)	192,893	–	–	192,893	–	–

(1) Mr PS Clarebrough resigned on 22 December 2015 and ceased to be a key management person as at this date.

Rights held by key management personnel that are vested and exercisable at 30 June 2016 were Nil (2015: Nil). No rights or options were held by related parties of key management personnel.

Movements in shares

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

	Held at 1 July 2015	Received on exercise of options/rights	Sales on exercise of options under ASOT plan	DRP allotment	Other changes(3)	Held at 30 June 2016
Mr LH Ainsworth	203,248,149	–	(300,764)	4,559,288	1,617,451	209,124,124
Mr GJ Campbell	300,000	–	–	–	–	300,000
Mr MB Yates	22,400	–	–	–	4,200	26,600
Mr CJ Henson	100,000	–	–	2,838	25,000	127,838
Mr DE Gladstone	28,000	–	–	1,136	22,000	51,136
MS HA Scheibenstock(1)	–	–	–	–	–	–
Mr M Ludski	10,000	–	–	–	–	10,000
Mr V Bruzzese	10,500	–	–	239	–	10,739
Mr I Cooper	6,000	–	–	137	–	6,137
Mr PS Clarebrough(2)	15,385	–	–	–	–	15,385

(1) Ms HA Scheibenstock was appointed a director on 18 January 2016.
(2) Mr PS Clarebrough resigned on 22 December 2015 and ceased to be a key management person as at this date.
(3) Other changes represent shares that were purchased or sold during the year.

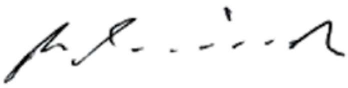
No shares were granted to key management personnel during the reporting period as compensation in 2016 or 2015.

Directors’ Report (continued)

for the year ended 30 June 2016

There were no changes in key management 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:



LH Ainsworth
Executive Chairman
Dated at Sydney this 23rd day of August 2016

Consolidated Statement of Financial Position

as at 30 June 2016

In thousands of AUD	*Note*	2016	2015
Assets			
Cash and cash equivalents	*18*	26,433	41,300
Receivables and other assets	*17*	118,800	110,722
Inventories	*16*	55,717	58,424
Prepayments		7,112	6,177
Investments		–	4,557
Total current assets		**208,062**	**221,180**
Receivables and other assets	*17*	37,903	36,312
Deferred tax assets	*15*	1,569	2,771
Property, plant and equipment	*12*	109,493	55,279
Intangible assets	*13*	74,124	33,090
Equity-accounted investee	*14*	4,831	–
Total non-current assets		**227,920**	**127,452**
Total assets		**435,982**	**348,632**
Liabilities			
Trade and other payables	*24*	30,298	29,391
Loans and borrowings	*21*	118	175
Employee benefits	*22*	6,950	9,202
Current tax liability		9,527	12,960
Provisions	*25*	813	754
Total current liabilities		**47,706**	**52,482**
Loans and borrowings	*21*	67,777	9,250
Employee benefits	*22*	679	905
Deferred tax liabilities	*15*	3,933	5,508
Total non-current liabilities		**72,389**	**15,663**
Total liabilities		**120,095**	**68,145**
Net assets		**315,887**	**280,487**
Equity			
Share capital		193,754	182,360
Reserves		133,610	116,385
Accumulated losses		(11,477)	(18,258)
Total equity		**315,887**	**280,487**

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

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2016

In thousands of AUD	*Note*	2016	2015
Revenue	7	285,477	240,643
Cost of sales		(113,779)	(88,640)
Gross profit		**171,698**	**152,003**
Other income	8	887	445
Sales, service and marketing expenses		(52,028)	(38,943)
Research and development expenses		(28,580)	(25,431)
Administrative expenses		(19,781)	(18,606)
Other expenses		(4,413)	(3,815)
Results from operating activities		**67,783**	**65,653**
Finance income	11	7,679	28,712
Finance costs	11	(689)	(46)
Net finance income		**6,990**	**28,666**
Share of profit of equity accounted investee		365	–
Profit before tax		**75,138**	**94,319**
Income tax expense	15	(19,435)	(23,966)
Profit for the year		**55,703**	**70,353**
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Foreign operations – foreign currency translation differences		951	5,428
Total other comprehensive income		**951**	**5,428**
Total comprehensive income for the year		**56,654**	**75,781**
Profit attributable to owners of the Company		**55,703**	**70,353**
Total comprehensive income attributable to the owners of the Company		**56,654**	**75,781**
Earnings per share:			
Basic earnings per share (AUD)	20	$0.17	$0.22
Diluted earnings per share (AUD)	20	$0.17	$0.22

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

Consolidated Statement of Changes in Equity

for the year ended 30 June 2016

	Attributable to owners of the Company						
In thousands of AUD	Issued capital	Equity compensation reserve	Fair value reserve	Translation reserve	Profits reserve	Accumulated losses	Total equity
Balance at 1 July 2014	**182,327**	**2,426**	**9,684**	**401**	**61,980**	**(21,516)**	**235,302**
Total comprehensive income for the period							
Profit	–	–	–	–	–	70,353	70,353
Transfer between reserves	–	–	–	–	67,159	(67,159)	–
Other comprehensive income							
Foreign currency translation reserve	–	–	–	5,428	–	–	5,428
Total other comprehensive income	–	–	–	5,428	–	–	5,428
Total comprehensive income for the period	–	–	–	5,428	67,159	3,194	75,781
Transactions with owners, recorded directly in equity							
Issue of ordinary shares on exercise of share options	33	–	–	–	–	–	33
Dividends to owners of the Company	–	–	–	–	(32,227)	–	(32,227)
Share-based payment transactions	–	1,598	–	–	–	–	1,598
Share based payment adjustment on non-vesting options	–	(64)	–	–	–	64	–
Total transactions with owners	33	1,534	–	–	(32,227)	64	(30,596)
Balance at 30 June 2015	**182,360**	**3,960**	**9,684**	**5,829**	**96,912**	**(18,258)**	**280,487**
Balance at 1 July 2015	**182,360**	**3,960**	**9,684**	**5,829**	**96,912**	**(18,258)**	**280,487**
Total comprehensive income for the period							
Profit	–	–	–	–	–	55,703	55,703
Transfer between reserves	–	–	–	–	49,063	(49,063)	–
Other comprehensive income							
Foreign currency translation reserve	–	–	–	951	–	–	951
Total other comprehensive income	–	–	–	951	–	–	951
Total comprehensive income for the period	–	–	–	951	49,063	6,640	56,654
Transactions with owners, recorded directly in equity							
Issue of ordinary shares on exercise of share options	52	–	–	–	–	–	52
Issue of ordinary shares under the Dividend Reinvestment Plan	11,342	–	–	–	–	–	11,342
Dividends to owners of the Company	–	–	–	–	(32,245)	–	(32,245)
Share-based payment transactions	–	(403)	–	–	–	–	(403)
Share based payment adjustment on non-vesting options	–	(141)	–	–	–	141	–
Total transactions with owners	11,394	(544)	–	–	(32,245)	141	(21,254)
Balance at 30 June 2016	**193,754**	**3,416**	**9,684**	**6,780**	**113,730**	**(11,477)**	**315,887**

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

Consolidated Statement of Cash Flows

for the year ended 30 June 2016

In thousands of AUD	*Note*	2016	2015
Cash flows from operating activities			
Cash receipts from customers		300,713	234,551
Cash paid to suppliers and employees		(223,888)	(196,996)
Cash generated from operations		76,825	37,555
Income taxes paid		(23,283)	(17,305)
Borrowing costs paid		(689)	(47)
Net cash from operating activities	*18(a)*	**52,853**	**20,203**
Cash flows used in investing activities			
Proceeds from sale of equipment		56	–
Interest received		2,974	3,358
Acquisitions of property, plant and equipment		(49,123)	(15,301)
Payment for business acquisition	*34*	(54,224)	–
Acquisition of equity-accounted investee		(2,045)	–
Acquisition of investment		–	(1,606)
Development expenditure	*13*	(6,204)	(9,430)
Acquisition of other intangibles		–	(5,551)
Net cash used in investing activities		**(108,566)**	**(28,530)**
Cash flows generated from/(used in) financing activities			
Proceeds from issue ordinary shares options		52	33
Proceeds from borrowings		68,824	9,142
Repayment of borrowings		(7,617)	–
Dividend paid		(20,903)	(32,227)
Payment of finance lease liabilities		(115)	(294)
Net cash generated from/(used in) financing activities		**40,241**	**(23,346)**
Net decrease in cash and cash equivalents		(15,472)	(31,673)
Cash and cash equivalents at 1 July		41,300	71,929
Effect of exchange rate fluctuations on cash held		605	1,044
Cash and cash equivalents at 30 June		**26,433**	**41,300**

The notes on pages 40 to 80 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 2016

Notes to the Financial Statements

for the year ended 30 June 2016

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 2016 comprise 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 comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 23 August 2016.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for loans and borrowings with a Director related entity, 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). As of 1 January 2014, The Company's US branch activities became a foreign operation.

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 dated 1 April 2016 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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).

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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 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-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 prior to 1 July 2004

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

vi. 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.

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.

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

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.

The assessment amount of current and non-current receivable involves reviewing 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 on payment trend.

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.

ii. Non-derivative financial liabilities

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

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 expire.

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.

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.

iii. 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” 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.

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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

During the year, management re-evaluated the useful lives of capitalised development costs to better reflect the expected pattern of consumption of the future economic benefit embodied in this class of asset, for costs capitalised from 1 July 2015. As a result, development costs that are capitalised from 1 July 2015 onwards are amortised over 5 years.

f. Leased assets

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

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

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not otherwise consider and indications that a debtor will enter bankruptcy.

Financial assets measured at amortised cost

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific and collective level. All individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic, industry and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in profit or loss and reflected in an allowance account against receivables. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss.

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, CGU or group of CGUs. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "CGU or group of CGUs"). The goodwill acquired in a business combination for the purpose of impairment testing, is allocated to CGUs or group of CGUs that are 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 or group of CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU or group of CGUs 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 or group of CGUs on a pro rata basis.

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

i. Employee benefits

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 government 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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i. Goods sold

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.

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.

ii. Services

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

iii. 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

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, foreign currency losses and impairment losses recognised on financial assets. 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.

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 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. New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods. Those which may have a significant impact to the Group are set out below. The Group does not plan to adopt these standards early.

AASB 9 Financial Instruments (2014)

AASB 9 (2014), published in December 2014, replaces the existing guidance AASB 9 (2009), AASB 9 (2010) and AASB 139 Financial Instruments: Recognition and Measurement and is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The key changes introduced in AASB 9 (2014) are:

i. requirements for impairment of financial assets based on a three-stage 'expected loss' approach;

ii. limited amendments to classification and measurement of financial assets to add a third measurement category for debt instruments. The new category of fair value through other comprehensive income is added to the existing categories for debt instruments, i.e. amortised cost and fair value through profit or loss; and

iii. amendments to AASB 7 Financial Instruments: Disclosures that significantly expand the disclosures required in relation to credit risk.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9 (2014).

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, including in respect of multiple element arrangements. It replaces existing revenue recognition guidance, AASB 111 Construction Contracts, AASB 118 Revenue and AASB 1004 Contributions. AASB 15 is effective from annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15.

AASB 16 Leases

AASB 16 removes the classification of leases as either operating leases or finance leases – for the lessee - effectively treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. In particular, companies will not recognise a front-loaded pattern of expenses for most leases, even when they pay constant rentals.

Lessor accounting remains similar to current practice i.e. lessors continue to classify leases as finance and operating leases.

AASB 16 is effective from annual reporting periods beginning on or after 1 January 2019, with early adoption permitted for entities that also adopt AASB 15.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 16.

No other new standards, amendments to standards and interpretations are expected to affect the Group's consolidated financial statements.

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.

i. Intangible assets

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

ii. 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.

iii. 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.

iv. Loans and borrowings

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

v. 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.

vi. 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 Audit Committee, which is responsible for developing and monitoring risk management policies. The Committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the 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.

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

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

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

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 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.

Guarantees

The Group's policy is to provide financial guarantees only for wholly-owned subsidiaries. At 30 June 2016 no guarantees were outstanding (2015: 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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

5. FINANCIAL RISK MANAGEMENT (continued)

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 primarily denominated is in USD for the Australian business operations. The Group regularly monitors and reviews, dependent on available facilities, the hedging of net assets denominated in a foreign currency. The Group has previously utilised currency call options to hedge its currency risk, most with a maturity of less than six months. 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

Information reported to the Group's Chief Executive Officer (CEO) for the purposes of resource allocation and assessment of performance is focused on the geographical location of customers of gaming machines. The primary geographical location of customers and therefore the Group's reportable segments under AASB 8 are outlined in the table on the following page.

The NSW and North and South America segments include the aggregation of the Group's other operating segments that are not separately reportable. Included in the NSW and North and South America segments are the results of the operating segments related to the servicing of gaming machines in those geographical regions. These operating segments are considered to have similar economic characteristics as the nature of the products and services is complementary and the nature of the regulatory environment and type of customer are consistent. 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 result only takes into account directly attributable costs, which management believes is the most relevant approach in evaluating segment performance.

The Group has a large and dispersed customer base. The Group's largest customer accounts for only 2.27% of the total reportable revenue.

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

A reconciliation of segment result to net profit after tax is also included below.

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 2016

	Australia				Americas					
In thousands of AUD	NSW	QLD	VIC/TAS	South Aust/ N.T.	North America	South America	Asia	New Zealand	Europe/ Other	Total
Reportable segment revenue	42,405	19,270	17,550	2,243	111,037	74,797	4,790	10,253	3,132	285,477
Result										
Segment result	11,060	7,109	9,991	817	49,314	34,010	2,276	6,146	1,551	122,274
Interest revenue not allocated to segments										189
Interest expense										(689)
Foreign currency gain										4,705
Share of profit of equity-accounted investee										365
R & D expenses										(28,580)
Corporate and administrative expenses										(19,781)
Other expenses										(3,345)
Profit before tax										75,138
Income tax expense										(19,435)
Net profit after tax										55,703

Non-current assets, other than financial instruments and deferred tax assets, located in the entity's county of domicile (Australia) as at 30 June 2016 are $49,016 thousand (2015: $42,382 thousand). Non-current assets, other than financial instruments and deferred tax assets, located in foreign countries as at 30 June 2016 total $134,757 thousand (2015: $45,987 thousand), of which $125,691 thousand (2015: $38,345 thousand), are located in North America.

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

6. OPERATING SEGMENTS (continued)

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 2015

	Australia				Americas					
In thousands of AUD	NSW	QLD	VIC/TAS	South Aust/ N.T.	North America	South America	Asia	New Zealand	Europe/ Other	Total
Reportable segment revenue	46,939	23,263	19,873	2,975	82,753	50,265	8,921	4,508	1,146	240,643
Result										
Segment result	19,683	12,475	12,757	1,596	38,122	20,198	5,105	2,796	622	113,354
Interest revenue not allocated to segments										1,386
Interest expense										(46)
Foreign currency gain										25,555
R & D expenses										(25,431)
Corporate and administrative expenses										(18,606)
Other expenses										(1,893)
Profit before tax										94,319
Income tax expense										(23,966)
Net profit after tax										70,353

Non-current assets, other than financial instruments and deferred tax assets, located in the entity's county of domicile (Australia) as at 30 June 2015 are $42,382 thousand (2014: $31,732 thousand). Non-current assets, other than financial instruments and deferred tax assets, located in foreign countries as at 30 June 2015 total $45,987 thousand (2014: $24,913 thousand), of which $38,345 thousand (2014: $22,682 thousand), are located in North America.

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

7. REVENUE

In thousands of AUD	*Note*	2016	2015
Sale of goods		243,464	213,278
Rendering of services		7,670	6,919
Rental and participation revenue		34,343	20,446
		285,477	240,643

8. OTHER INCOME

In thousands of AUD	2016	2015
Royalties income	798	364
Rental income from lease of machinery	76	76
Other income	13	5
	887	445

9. EXPENSES BY NATURE

In thousands of AUD		2016	2015
Changes in raw material and consumables, finished goods and work in progress	*16*	101,342	77,387
Employee benefits expense	*10*	54,540	51,938
Depreciation and amortisation expense	*12,13*	23,000	16,419
Legal expenses		1,584	1,362
Evaluation and testing expenses		6,919	6,271
Marketing expenses		3,735	3,954
Operating lease expenses	*27*	3,217	2,843
Impairment loss		2,170	1,245
Other expenses		22,074	14,016
		218,581	175,435

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

10. EMPLOYEE BENEFIT EXPENSES

In thousands of AUD	*Note*	2016	2015
Wages and salaries		50,455	43,368
Short term incentives		–	2,973
Contributions to defined contribution superannuation funds		3,350	3,034
Increase in liability for annual leave	*22*	752	97
Increase in liability for long service leave	*22*	351	850
Termination benefits		35	20
Equity settled share-based payment transactions		(403)	1,596
		54,540	51,938

11. FINANCE INCOME AND FINANCE COSTS

In thousands of AUD	2016	2015
Interest income on trade receivables	2,785	1,562
Interest income on bank deposits	189	1,386
Interest income on investment	–	209
Net foreign exchange gain	4,705	25,555
Finance income	7,679	28,712
Interest expense on financial liabilities	(689)	(46)
Finance costs	(689)	(46)
Net finance income recognised in profit or loss	6,990	28,666

12. PROPERTY, PLANT AND EQUIPMENT

In thousands of AUD	*Note*	Land and buildings	Plant and equipment	Leasehold improvements	Total
Cost					
Balance at 1 July 2014		7,833	45,054	4,291	57,178
Re-classification of inventory to plant and equipment		–	18,346	–	18,346
Additions		8,768	4,258	2,473	15,499
Disposals		–	(8,691)	–	(8,691)
Effect of movements in foreign exchange		1,287	4,853	431	6,571
Balance at 30 June 2015		17,888	63,820	7,195	88,903
Balance at 1 July 2015		17,888	63,820	7,195	88,903
Re-classification of inventory to plant and equipment		–	18,381	–	18,381
Additions		41,385	7,669	69	49,123
Additions through business combinations	*34*	–	8,485	–	8,485
Disposals		–	(14,277)	(2,195)	(16,472)
Effect of movements in foreign exchange		612	634	93	1,339
Balance at 30 June 2016		59,885	84,712	5,162	149,759
Depreciation and impairment losses					
Balance at 1 July 2014		–	21,150	932	22,082
Depreciation charge for the year		14	11,331	850	12,195
Disposals		–	(2,970)	–	(2,970)
Effect of movements in foreign exchange		–	2,168	149	2,317
Balance at 30 June 2015		14	31,679	1,931	33,624
Balance at 1 July 2015		14	31,679	1,931	33,624
Depreciation charge for the year		663	13,904	811	15,378
Disposals		–	(6,693)	(1,849)	(8,542)
Effect of movements in foreign exchange		1	(327)	132	(194)
Balance at 30 June 2016		678	38,563	1,025	40,266
Carrying amounts					
At 1 July 2014		7,833	23,904	3,359	35,096
At 30 June 2015		17,874	32,141	5,264	55,279
At 30 June 2016		59,207	46,149	4,137	109,493

Disposals in the table above includes sale of gaming machines previously under participation or rental agreements of $7,078 thousand (2015: $5,582 thousand) at net book value.

Leased plant and equipment

The Group leases plant and equipment and motor vehicles under hire purchase agreements. At the end of each of these agreements the Group has the option to purchase the equipment at a beneficial price. The leased equipment and guarantees by the Group secure lease obligations. Acquisition of plant and equipment including computer equipment and motor vehicles, by means of hire purchase agreements amounted to $nil thousand (2015: $38 thousand). At 30 June 2016, the net carrying amount of leased plant and equipment was $314 thousand (2015: $618 thousand).

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

13. INTANGIBLE ASSETS

In thousands of AUD	Note	Goodwill	Development costs	Intellectual property	Nevada licence costs	Technology and software	Customer relationships	Tradenames and trademarks	Service contracts	Total
Cost										
Balance at 1 July 2014		2,436	27,639	836	1,583	–	–	–	433	32,927
Additions		–	9,430	5,551	–	–	–	–	–	14,981
Effects of movements in foreign exchange		–	–	959	–	–	–	–	–	959
Balance at 30 June 2015		2,436	37,069	7,346	1,583	–	–	–	433	48,867
Balance at 1 July 2015		2,436	37,069	7,346	1,583	–	–	–	433	48,867
Additions		–	6,204	–	–	–	–	–	–	6,204
Additions through business combinations	34	21,922	–	–	–	10,628	11,838	743	–	45,131
Developed costs fully amortised and written off		–	(740)	–	–	–	–	–	–	(740)
Effects of movements in foreign currency		(1,411)	–	223	–	(684)	(762)	(48)	–	(2,682)
Balance at 30 June 2016		22,947	42,533	7,569	1,583	9,944	11,076	695	433	96,780
Amortisation and impairment losses										
Balance at 1 July 2014		–	10,791	587	–	–	–	–	–	11,378
Amortisation for the year		–	2,061	2,018	–	–	–	–	145	4,224
Effects of movements in foreign currency		–	–	175	–	–	–	–	–	175
Balance at 30 June 2015		–	12,852	2,780	–	–	–	–	–	15,777
Balance at 1 July 2015		–	12,852	2,780	–	–	–	–	145	15,777
Amortisation for the year		–	3,332	2,793	–	609	635	109	144	7,622
Developed costs fully amortised and written off		–	(740)	–	–	–	–	–	–	(740)
Effects of movements in foreign currency		–	–	21	–	(11)	(11)	(2)	–	(3)
Balance at 30 June 2016		–	15,444	5,594	–	598	624	107	289	22,656
Carrying amounts										
At 30 June 2014		2,436	16,848	249	1,583	–	–	–	433	21,549
At 30 June 2015		2,436	24,217	4,566	1,583	–	–	–	288	33,090
At 30 June 2016		22,947	27,089	1,975	1,583	9,346	10,452	588	144	74,124

Impairment testing for development costs

The carrying amount of the Group's development costs amounts to $27,089 thousand (2015: $24,217 thousand), comprising of $23,016 thousand in development costs relating to product development and $4,073 thousand in development costs relating to online development activities. The impairment testing for these different development costs are performed separately as they generate or are expected to generate independent cash flows and are therefore allocated to separate cash-generating units ('CGUs'). The disclosure relating to the product development costs of $27,089 thousand are outlined below.

Product development costs

The determination of CGUs for the purposes of testing product 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.

Product development costs include development costs relating to products 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, primarily property, plant and equipment, are allocated to the individual CGUs to which they relate. Assets that cannot be allocated to individual CGUs are allocated to the minimum collection of CGUs ('Groups of CGUs') to which they can be allocated on a reasonable and consistent basis.

The three main CGUs or Group of CGUs are: Development, Australia and other (comprised of the New South Wales, Queensland, South Australia, Victoria, Tasmania, Asia, New Zealand, South Africa and Europe individual CGUs), and Americas (comprised of the North and South America individual CGUs).

The recoverable amount of each CGU or Group of CGUs was estimated based on its value in use. Value in use for each individual CGU and Group of CGUs was determined by discounting the future cash flows generated from continuing use of the product development costs over a four 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:

CGU/Groups of CGUs	Discount rate(1)	Average annual revenue growth rate(2)
Development	26.5%	15.7%
Australia and other	19.9%	19.1%
Americas	24.1%	20.4%
North America	*21.5%*	*19.1%*
South America	*27.1%*	*22.4%*

(1) Discount rates are pre-tax discount rates, which are based on the weighted average cost of capital.

(2) The average annual revenue growth rate presented above is calculated based on forecast revenue for 2017 to 2018, having regard to Board approved budgets, the Group's two year business plan, historical experience, actual operating results and strategic initiatives. Australia and other CGU revenue growths for the third, fourth and fifth year were forecasted at 3%. Americas CGU revenue growths for the third, fourth and fifth year were forecasted at 18.3%, 16.4% and 14.0% respectively.

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

13. INTANGIBLE ASSETS (continued)

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

CGU/Groups of CGUs	Goodwill/ indefinite useful life intangible assets '$000	Capitalised development costs '$000	Other assets '$000	Recoverable amount '$000
Development	–	23,016	6,344	49,826
Australia and other	2,436	–	16,547	108,855
Americas	22,094	–	114,174	155,430
North America	*22,094*	–	*40,778*	*105,429*
South America	–	–	*16,240*	*50,001*

The recoverable amount of the Americas CGU exceeded its carrying amount by $19,162 thousand. The Americas CGU is particularly sensitive to changes in the following key assumptions:

- An increase of 2.9 percent in the discount rate used would cause the recoverable amount of the CGU to equal its carrying amount; and
- A 4.1 percent reduction in annual revenue growth rates would cause the recoverable amount of the CGU to equal its carrying amount.

Impairment testing for goodwill acquired through business combinations

This goodwill relates to the purchase of Nova Technologies during the year. 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 29.6% used is a pre-tax rate, which is based on the weighted average cost of capital;
- Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity of 2.5% has been determined based on growth prospects of this CGU industry and the overall economy; and
- The projected average revenue growth rate over the five years is 24.0% based on past experience, adjusted for anticipated revenue growth in the Class II markets in which this CGU operates.

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

14. EQUITY-ACCOUNTED INVESTEE

On 4 August 2015, the Group converted its convertible note investment for a 40% interest in 616 Digital LLC ("616") resulting in a joint venture arrangement. The convertible note investment was previously recognised as a current investment asset. This conversion has resulted in a de-recognition of this current investment asset, followed by recognition of a non-current asset as an equity-accounted investee.

616 is an online social platform provider established in Delaware, USA and operates from Romania and Australia. This arrangement allows 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 has also been established where the Group has the ability to purchase the remaining 60% interest in 616 at a future date. The investment in equity accounted investee for the Group comprise the following:

In thousands of AUD	Ownership 30-Jun-16	Ownership 30-Jun-15	Carrying amount 30-Jun-16	Carrying amount 30-Jun-15
616 Digital LLC	40%	–	4,831	–

The Group's share of profit of equity accounted investee is $365 thousand (2015: nil). During the current year, the Group did not receive dividends from its investments in equity accounted investee.

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	2016	2015
Non-current assets	1	–
Current assets (including cash and cash equivalents)	1,865	–
Current financial liabilities (excluding trade and other payables and provisions)	13	–
Income	2,575	–
Expenses	(2,280)	–
Elimination of upstream purchases	601	–
Profit	896	–

15. TAXES

Current tax expense

In thousands of AUD	2016	2015
Tax recognised in profit or loss		
Current tax expense		
Current year	(29,019)	(33,570)
Prior year adjustments	(594)	165
Recognition of R & D tax credits	9,091	9,518
	(20,522)	(23,887)
Deferred tax benefit		
Timing differences movement	1,087	(79)
	1,087	(79)
Total income tax expense	(19,435)	(23,966)

Reconciliation of effective tax rate

In thousands of AUD	2016	2016	2015	2015
Profit before income tax		75,138		94,319
Income tax expense using the Company's domestic tax rate	(30.00%)	(22,541)	(30.00%)	(28,296)
Effective tax rates in foreign jurisdictions	(0.87%)	(656)	(1.11%)	(1,046)
Non-deductible expenses	(7.75%)	(5,824)	(6.25%)	(5,892)
Non-assessable income and concessions	12.10%	9,091	10.09%	9,518
Other tax concessions	0.00%	–	1.76%	1,663
Prior year adjustments	(0.80%)	(592)	0.18%	165
Recognition of previously unrecognised tax losses and timing differences	1.45%	1,088	(0.08%)	(78)
	(25.87%)	(19,435)	(25.41%)	(23,966)

15. TAXES (continued)

Recognised deferred tax assets/liabilities

In thousands of AUD	2016 Deferred tax assets	2015 Deferred tax assets	2016 Deferred tax liabilities	2015 Deferred tax liabilities
Employee benefits	374	711	2,205	1,624
Provisions	1,789	2,221	459	319
Unrealised foreign exchange gain	–	–	(6,139)	(7,930)
Other items	(738)	(305)	(458)	479
Tax loss carry-forwards	144	144	–	–
Net tax assets/liabilities	1,569	2,771	(3,933)	(5,508)

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.

Management has assessed that the carrying amount of the deferred tax assets of $1,569 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	2016	2015
Raw materials and consumables	13,958	12,731
Finished goods	34,966	40,688
Stock in transit	6,793	5,005
Inventories stated at the lower of cost and net realisable value	55,717	58,424

During the year ended 30 June 2016 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to $101,342 thousand (2015: $77,387 thousand).

A re-classification from inventory to property, plant and equipment of $18,381 thousand (2015: $18,346 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 2016, the write down of inventories to net realisable value amounted to $30 thousand (2015: $402 thousand). The write down is included in cost of sales.

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

17. RECEIVABLES AND OTHER ASSETS

In thousands of AUD	*Note*	2016	2015
Current			
Trade receivables		122,054	112,061
Less impairment losses	*26*	(3,349)	(1,762)
		118,705	110,299
Other assets		1	423
Amount receivable from director/shareholder controlled entities		94	–
		118,800	110,722
Non-current			
Trade receivables		37,903	36,312
		37,903	36,312

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	2016	2015
Minimum lease payments under finance leases are receivable as follows:		
Within one year	3,555	2,793
Later than one year but not later than 5 years	4,105	3,103
	7,660	5,896
Unearned finance income		
Within one year	313	232
Later than one year but not later than 5 years	350	349
	663	581
The present value of minimum lease payments is as follows:		
Within one year	3,242	2,561
Later than one year but not later than 5 years	3,755	2,754
	6,997	5,315
Lease receivables are classified as follows:		
Within one year	3,242	2,561
Later than one year but not later than 5 years	3,755	2,754
	6,997	5,315

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

18. CASH AND CASH EQUIVALENTS

In thousands of AUD	2016	2015
Bank balances	26,433	27,573
Cash deposits	–	13,727
Cash and cash equivalents in the statement of cash flows	26,433	41,300

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	2016	2015
Cash flows from operating activities			
Profit for the period		55,703	70,353
Adjustments for:			
Depreciation	*12*	15,378	12,195
Impairment losses on trade receivables	*26*	2,094	1,245
Amortisation of intangible assets	*13*	7,622	4,224
Net finance income	*11*	(6,990)	(28,666)
Loss on sale of property, plant and equipment		891	678
Unrealised currency translation movements		997	10,136
Equity-settled share-based payment transactions	*10*	(403)	1,596
Income tax expense	*15*	19,435	23,966
Operating profit before changes in working capital and provisions		**94,727**	**95,727**
Change in trade and other receivables	*17*	(16,249)	(34,251)
Change in inventories	*16*	429	(18,109)
Change in other assets		191	(4,773)
Change in trade and other payables		5,015	812
Change in provisions and employee benefits		(7,288)	(1,851)
		76,825	37,555
Interest paid		(689)	(47)
Income taxes paid		(23,283)	(17,305)
Net cash from operating activities		**52,853**	**20,203**

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

19. CAPITAL AND RESERVES

a. Share capital

In thousands of shares	Ordinary shares 2016	2015
In issue at 1 July	322,339	322,193
Exercise of share options	227	146
Shares issued under dividend reinvestment plan	5,150	–
In issue at 30 June – fully paid	327,716	322,339

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, 227 thousand ordinary shares were issued as a result of the exercise of vested options arising from the ESOT. Options were exercised at a price of $0.225 per option (see Note 23).

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 declared and paid by the Company for the year:

In thousands of AUD	2016	2015
10.0 cents per qualifying ordinary share (2015: 10.0 cents)	32,245	32,227

After the reporting date, the following dividends were proposed by the board of directors. The dividends have not been recognised as liabilities and there are no tax consequences.

In thousands of AUD	2016	2015
5.0 cents per qualifying ordinary share (2015: 5.0 cents)	16,386	16,117

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

20. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2016 was based on the profit attributable to ordinary shareholders of $55,703 thousand (2015: $70,353 thousand) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2016 of 323,299 thousand (2015: 322,255 thousand), calculated as follows:

Profit attributable to ordinary shareholders

In thousands of AUD	*Note*	2016	2015
Profit for the period		55,703	70,353
Profit attributable to ordinary shareholders		55,703	70,353

Weighted average number of ordinary shares

In thousands of shares			
Issued ordinary shares at 1 July	*19*	322,339	322,193
Effect of shares issued		960	62
Weighted average number of ordinary shares at 30 June		323,299	322,255
Total basic earnings per share attributable to the ordinary equity holders of the Company		$0.17	$0.22

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2016 was based on the profit attributable to ordinary shareholders of $55,300 thousand (2015: $71,949 thousand) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 326,745 thousand (2015: 324,586 thousand), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

In thousands of AUD	2016	2015
Profit attributable to ordinary shareholders	55,703	70,353
Amortisation of performance rights (RST)	(403)	1,596
Profit attributable to ordinary shareholders (diluted)	55,300	71,949

Weighted average number of ordinary shares (diluted)

In thousands of shares		
Weighted average number of ordinary shares at 30 June	323,299	322,255
Effect of rights and options on issue	3,446	2,331
Weighted average number of ordinary shares (diluted) at 30 June	326,745	324,586
Total diluted earnings per share attributable to the ordinary equity holders of the Company	$0.17	$0.22

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	2016	2015
Current		
Finance lease liabilities	118	175
Non-current		
Finance lease liabilities	53	111
Unsecured bank loan	–	9,139
Secured bank loan	67,724	–
	67,777	9,250

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				2016		2015	
In thousands of AUD	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Finance lease liabilities	AUD	0.90-8.39%	2018	180	171	298	286
Unsecured bank loan	USD	LIBOR+0.65%	2016	–	–	9,139	9,139
Secured bank loan	USD	LIBOR+0.65%	2018	67,724	67,724	–	–
Total interest-bearing liabilities				67,904	67,895	9,437	9,425

The bank loan is secured by fixed and floating charges over identified assets of the Company and certain of its Australia and US wholly owned subsidiaries, and imposes certain customary financial covenants measured on a six-monthly basis.

Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

In thousands of AUD	Future minimum lease payments 2016	Interest 2016	Present value of minimum lease payments 2016	Future minimum lease payments 2015	Interest 2015	Present value of minimum lease payments 2015
Less than one year	125	7	118	184	9	175
Between one and five years	55	2	53	114	3	111
	180	9	171	298	12	286

The Group leases plant and equipment under finance leases with terms expiring from two to three years. At the end of the lease term, there is the option to purchase the equipment at a discount to market value, a price deemed to be a bargain purchase option.

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

22. EMPLOYEE BENEFITS

In thousands of AUD	2016	2015
Current		
Accrual for salaries and wages	380	752
Accrual for short term incentive plan	131	3,340
Liability for annual leave	3,761	3,009
Liability for long service leave	2,678	2,101
	6,950	9,202
Non-current		
Liability for long service leave	679	905
	679	905

23. SHARE-BASED PAYMENTS

a. Description of share-based payment arrangements

i. Performance rights programmes (equity-settled)

On 22 July 2013 a new employee incentive plan was established whereby performance rights were granted to all eligible Group employees under the Rights Share Trust (RST). On 17 March 2015, a further grant on similar terms was offered to all eligible Group employees under the 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.

The key terms and conditions related to the grants under these programmes are as follows; all rights are to be settled by the physical delivery of shares.

Grant date/employee entitled	Number of instruments	Vesting conditions	Contractual life of options
Rights grant to key management at 22 July 2013	283,021	Four years service and performance hurdles from grant date as per RST below	5 years
Rights grant to senior and other employees at 22 July 2013	911,284	Four years service and performance hurdles from grant date as per RST below	5 years
Rights grant to key management at 17 March 2015	458,272	Four years service and performance hurdles from grant date as per RST below	5 years
Rights grant to senior and other employees at 17 March 2015	1,794,297	Four years service and performance hurdles from grant date as per RST below	5 years
Total rights RST	**3,446,874**		

To be eligible to participate in the RST the employee was selected by the directors and reviewed by the remuneration and nomination committee. The RST provide for employees to receive shares for no consideration. Each right is convertible to one ordinary share. Right holders have no voting or dividend rights. On conversion from right 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.

All vesting conditions of the share performance rights issued on 22 July 2013 and 17 March 2015 under the RST are detailed below.

The vesting conditions of the performance rights issued on 22 July 2013 under the RST are as follows:

Date	Vesting condition (% of Rights vesting)
1 September 2016	50%
1 September 2017	50%

In addition to the vesting conditions on rights granted under the RST, specific performance hurdles relative to Total Shareholder Return (TSR) relative targets and Earnings per Share (EPS) targets are required to be met as follows:

Vesting date of 1 September 2016:

- 30% vest subject to the TSR target below with a fair value at grant date of $2.4349;
- 70% vest subject to the EPS target below with a fair value at grant date of $3.2375; and

The remaining 50% of the rights vest on 1 September 2017, of which:

- 30% vest subject to the TSR target below with a fair value at grant date of $2.3892; and
- 70% vest subject to the EPS target below with a fair value at grant date of $3.1693.

The vesting conditions of the performance rights issued on 17 March 2015 under the RST are as follows:

Date	Vesting condition (% of Rights vesting)
17 March 2018	50%
17 March 2019	50%

In addition to the vesting conditions on rights granted under the RST, specific performance hurdles relative to Total Shareholder Return (TSR) relative targets and Earnings per Share (EPS) targets are required to be met as follows:

Vesting date of 17 March 2018:

- 30% vest subject to the TSR target below with a fair value at grant date of $1.9974;
- 70% vest subject to the EPS target below with a fair value at grant date of $2.3164; and

The remaining 50% of the rights vest on 17 March 2019, of which:

- 30% vest subject to the TSR target below with a fair value at grant date of $1.9290; and
- 70% vest subject to the EPS target below with a fair value at grant date of $2.2289.

The TSR and EPS targets for all performance rights granted are as follows:

Total Shareholder Return (TSR) Relative Targets

TSR rank	Proportion of TSR rights that vest
Less than 50% percentile	0%
50th percentile	50%
Between 50th and 75th percentile	Pro-rata (sliding scale) percentage
At or above 75th percentile	100%

The Comparison Group of Companies for the TSR hurdle is companies in the ASX 300 Index that have the same Consumer Services GICS industry sector as Ainsworth.

23. SHARE-BASED PAYMENTS (continued)

EPS Targets

EPS achievement	Proportion of EPS rights that vest
Less than 8.0% p.a.	0%
8.0% p.a.	25% plus 1.25% for each 0.1% increase in EPS
10% p.a.	50% plus 2.0% for each 0.1% increase in EPS
12.5% p.a.	100%

(b) Reconciliation of outstanding share options and rights

ESOT plan

The number and weighted average exercise prices of Group issued share options under ESOT is as follows:

In thousands of options	Weighted average exercise price 2016	Number of options 2016	Weighted average exercise price 2015	Number of options 2015
Outstanding at the beginning of the period	$0.225	227	$0.225	373
Forfeited during the period		–		–
Cancelled during the period		–		–
Exercised during the period	$0.225	(227)	$0.225	(146)
Granted during the period		–		–
Outstanding at the end of the period		–	$0.225	227
Exercisable at the end of the period		–		227

The weighted-average share price at the dates of exercise for share options exercised in 2016 was $2.35 (2015: $2.81).

ASOT plan

The share options granted under the ASOT to Australian employees on 1 March 2011 totalled 9,899,182. During the year no previously granted share options were cancelled and 300,764 were exercised with no share options outstanding as at 30 June 2016. The weighted-average share price at the dates of exercise for share options exercised in 2016 was $2.34 (2015: $3.22).

RST plan

The rights granted under the two grants under the RST to all eligible Group employees totalled 4,046,289. During the year 490,791 were cancelled with 3,446,874 rights outstanding as at 30 June 2016. No rights were exercisable as at 30 June 2016.

(c) Measurement of fair values

The fair value of the performance rights granted on 22 July 2013 under the RST were as follows:

Fair value at grant date	TSR Target	EPS Target
– Vesting date 1 September 2016	$2.43	$3.24
– Vesting date 1 September 2017	$2.39	$3.17

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	$3.46
Exercise price	–
Expected volatility	40.3%
Expected life	5 years
Expected dividends	2.1%
Risk-free interest rate (based on Treasury Bonds)	2.6%

The fair value of the performance rights granted on 17 March 2015 under the RST were as follows:

Fair value at grant date	TSR Target	EPS Target
– Vesting date 17 March 2018	$2.00	$2.32
– Vesting date 17 March 2019	$1.93	$2.23

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	$2.60
Exercise price	–
Expected volatility	24.1%
Expected life	5 years
Expected dividends	3.9%
Risk-free interest rate (based on Treasury Bonds)	2.5%

The estimate of the fair value of the services received is measured based on the Black Scholes Merton model. The fair value of services received in return for share options and rights granted are measured by reference to the fair value of share options and rights granted. The contractual life of the option and right is used as an input into this model. Expectations of early exercise are incorporated into these models. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options or rights), adjusted for any expected changes to future volatility due to publicly available information.

d. Expense recognised in profit or loss

For details on the related employee benefit expenses, see Note 10.

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

24. TRADE AND OTHER PAYABLES

In thousands of AUD	2016	2015
Current		
Trade payables	11,496	8,008
Other payables and accrued expenses	18,649	21,129
Amount payable to director/shareholder controlled entities	153	254
	30,298	29,391

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 2015	738	16	754
Provisions made during the year	746	67	813
Provisions used during the year	(738)	(16)	(754)
Balance at 30 June 2016	746	67	813

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*	2016	2015
Receivables	*17*	156,608	146,611
		156,608	146,611

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

In thousands of AUD	2016	2015
Australia	27,923	39,848
Americas	124,199	98,781
Europe	832	241
New Zealand	2,059	1,991
Asia	4,944	7,512
	159,957	148,373

The Group's concentration of credit risk arises from its two most significant receivable amounts represented by a customer in North America and a customer in Latin America. They account for $14,571 thousand (2015: $5,422 thousand) and $7,781 thousand (2015: $7,843 thousand) of the trade receivables carrying amount at 30 June 2016 respectively.

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

Cash and cash equivalents

The Group held cash of $26,433 thousand at 30 June 2016 (2015: $27,573 thousand) and no cash deposits at 30 June 2016 (2015: $13,727 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

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

In thousands of AUD	Gross 2016	Impairment 2016	Gross 2015	Impairment 2015
Not past due	103,832	–	102,305	–
Past due 0-30 days	26,456	–	26,120	–
Past due 31-120 days	22,671	209	12,383	–
Past due 121 days to one year	980	8	3,733	1,376
More than one year	6,018	3,132	3,832	386
	159,957	3,349	148,373	1,762

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

In thousands of AUD	2016	2015
Balance at 1 July	1,762	2,105
Impairment loss written off	(566)	(1,864)
Provision during the year	2,094	1,245
Effect of exchange rate fluctuations	59	276
Balance at 30 June	3,349	1,762

The provision of $2,094 thousand (2015: $1,245 thousand) was recognised in other expenses in the income statement.

Based on historic default rates and current repayment plans in place, the Group believes that apart from the above, no 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.

At 30 June 2016, an impairment loss of $1,504 thousand was brought to account in relation to an amount receivable from a Latin American customer that has demonstrated poor payment history. The remaining balance net of provisioning for this customer relates to a negotiated repayment plan.

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.

26. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

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

30 June 2016

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						
Finance lease liabilities	171	(180)	(94)	(31)	(55)	–
Unsecured bank loan	–	–	–	–	–	–
Secured bank loan	67,724	(67,724)	–	–	–	(67,724)
Trade and other payables	30,298	(30,298)	(30,298)	–	–	–
	98,193	(98,202)	(30,392)	(31)	(55)	(67,724)

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

30 June 2015

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						
Finance lease liabilities	286	(297)	(153)	(30)	(108)	(6)
Unsecured bank loan	9,139	(9,139)	–	–	(9,139)	–
Secured bank loan	–	–	–	–	–	–
Trade and other payables	29,391	(29,391)	(29,391)	–	–	–
	38,816	(38,827)	(29,544)	(30)	(9,247)	(6)

Currency risk

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

The Group monitors and assesses under its Treasury Risk policy and facilities available whether hedging of all trade receivables and trade payables denominated in a foreign currency from time to time is considered appropriate. The Group uses foreign currency call options to hedge its foreign currency risk. No foreign currency call options were utilised during the year.

Exposure to currency risk

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

	2016				2015			
In thousands of AUD	USD	Euro	NZD	GBP	USD	Euro	NZD	GBP
Trade receivables	125,642	40	2,052	24	102,593	–	1,281	56
Unsecured bank loan	–	–	–	–	(9,139)	–	–	–
Secured bank loan	(67,724)	–	–	–	–	–	–	–
Trade payables and other payables	(16,691)	(104)	(179)	(2)	(13,961)	(120)	(270)	(42)
Net exposure in statement of financial position	41,227	(64)	1,873	22	79,493	(120)	1,011	14

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
USD	0.7286	0.8377	0.7426	0.7680
Euro	0.6561	0.6965	0.6699	0.6866
NZD	1.0909	1.077	1.0489	1.1294
GBP	0.5162	0.5429	0.5549	0.4885

Sensitivity analysis

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

A 10 percent strengthening of the Australian dollar against the following currencies at 30 June 2016 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 2016		
USD	(21,515)	(17,958)
Euro	6	6
NZD	(170)	(170)
GBP	(2)	(2)
HKD	2	2
30 June 2015		
USD	(10,900)	(8,057)
Euro	11	11
NZD	(92)	(92)
GBP	(1)	(1)
HKD	2	2

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

26. FINANCIAL INSTRUMENTS (continued)

Effect In thousands of AUD	Equity	Profit or (loss)
30 June 2016		
USD	26,299	21,952
Euro	(7)	(7)
NZD	208	208
GBP	2	2
HKD	(2)	(2)
30 June 2015		
USD	13,322	9,848
Euro	(13)	(13)
NZD	112	112
GBP	2	2
HKD	(2)	(2)

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 2016	Fair value 2016	Carrying amount 2015	Fair value 2015
Assets carried at amortised cost					
Receivables and other assets	*17*	156,703	156,703	147,034	147,034
Cash and cash equivalents	*18*	26,433	26,433	41,300	41,300
		183,136	183,136	188,334	188,334

In thousands of AUD		Carrying amount 2016	Fair value 2016	Carrying amount 2015	Fair value 2015
Liabilities carried at amortised cost					
Trade and other payables	*24*	30,298	30,298	29,391	29,391
Unsecured bank loan	*21*	–	–	9,139	9,139
Secured bank loan	*21*	67,724	67,724	–	–
Finance leases	*21*	171	171	286	286
		98,193	98,193	38,816	38,816

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 2016 plus an adequate constant credit spread and are as follows:

	2016	2015
Receivables	6.00% - 9.64%	6.00% - 9.64%
Unsecured bank loan	–	LIBOR + 0.65%
Secured bank loan	LIBOR + 0.65%	–
Leases	0.90% - 8.39%	0.90% - 8.39%

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 $264 thousand and a decrease in 100 basis points would lead to an increase in profit by $264 thousand. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

27. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	2016	2015
Less than one year	2,338	2,470
Between one and five years	8,315	8,983
More than five years	–	1,190
	10,653	12,643

The Group leases a number of warehouse and office facilities under operating leases. The leases typically 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 rent reviews at stipulated dates. None of the leases include contingent rentals.

During the year $3,217 thousand was recognised as an expense in profit or loss in respect of operating leases (2015: $2,843 thousand).

The warehouse and office lease are combined leases of land and buildings. Since the land title does not pass, the rent paid to the landlord for the building is increased to market rent at regular intervals, and the Group does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the building are with the landlord. As such, the Group determined that the leases are operating leases.

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

28. CAPITAL AND OTHER COMMITMENTS

In thousands of AUD	2016	2015
Plant and equipment		
Contracted but not yet provided for and payable:		
Within one year	899	2,856
Employee compensation commitments		
Key management personnel		
Commitments under non-cancellable employment contracts not provided for in the financial statements and payable:		
Within one year	1,902	2,466

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 GJ Campbell

Mr MB Yates

Mr CJ Henson

Ms HA Scheibenstock (subject to regulatory approval)

Executives

Current

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

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

Mr I Cooper (General Manager, Manufacturing, Ainsworth Game Technology Limited)

Former

Mr S Clarebrough (Group General Manager, Strategy and Development, Ainsworth Game Technology Limited) resigned on 22nd December 2015 and ceased to be a key management personnel from this date.

Executive directors

Mr LH Ainsworth (Executive Chairperson)

Mr DE Gladstone (Executive Director and Chief Executive Officer, 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	2016	2015
Short-term employee benefits	3,111,533	3,687,309
Post-employment benefits	267,799	319,957
Share based payments	(41,171)	401,917
Other long term benefits	167,705	186,640
	3,505,866	4,595,823

Individual directors and executives compensation disclosures

Information regarding individual directors and executives 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.

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*	2016	2015	2016	2015
Key management person	**Transaction**					
Mr LH Ainsworth	Leased plant and equipment and other costs	*(i)*	62,400	62,400	–	–
Mr LH Ainsworth	Sales revenue	*(ii)*	1,511,963	1,381,806	–	48,974
Mr LH Ainsworth	Purchases and other charges payments made on behalf of the Company	*(ii)*	99,857	174,617	–	–
Mr LH Ainsworth	Other charges payments made on behalf of Mr LH Ainsworth	*(ii)*	93,955	–	93,955	–
Mr LH Ainsworth	Operating lease rental costs	*(iii)*	1,580,980	1,582,824	(153,133)	(254,912)

(i) The Company leased associated plant and equipment from an entity controlled by Mr LH Ainsworth on normal commercial terms and conditions.

(ii) Transactions were with Ainsworth (UK) Ltd and Associated World Investments Pty Ltd (AWI), entities controlled by Mr LH Ainsworth. These sales are on normal commercial terms i.e. at arm's length, but purchases are on a direct recharge. On 15th April 2016, Mr LH Ainsworth sold his 100% interest in Ainsworth(UK) held by AWI to Novomatic AG. Any subsequent transaction between the Group and Ainsworth(UK) ceased to be a related party transaction effective from this date. AWI remains a related party of Mr LH Ainsworth and the Group.

(iii) Operating leases rental costs of the premises at Newington from an entity controlled by Mr LH Ainsworth on normal commercial terms and conditions.

In addition to the transactions above, AGT Pty Argentina S.R.L. was incorporated in FY13 with the shareholding currently held in trust by Mr D Gladstone and an officer of Ainsworth Game Technology Inc. on behalf of the Group. This shareholding is in the process of being transferred and was originally structured to facilitate the incorporation within Argentina.

Notes to the Financial Statements (continued)

for the year ended 30 June 2016

29. RELATED PARTIES (continued)

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	2016	2015
Assets and liabilities arising from the above transactions		
Current receivables and other assets		
Amount receivable from director/shareholder controlled entities	93,955	48,974
Current trade and other payables		
Amount payable to director/shareholder controlled entities	153,133	254,912

30. GROUP ENTITIES

	Country of incorporation	Ownership Interest 2016	Ownership Interest 2015
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.A.C.	Peru	100%	100%
AGT Pty Argentina S.R.L.	Argentina	100%	100%
AGT Pty Colombia SAS	Colombia	100%	–
AGT Alderney Limited	Alderney	100%	100%
Ainsworth Game Technology Inc	USA	100%	100%
Ainsworth Interactive Pty Ltd	Australia	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%
RE & R Baker & Associates Pty Ltd	Australia	100%	100%
Bull Club Services Pty Ltd	Australia	100%	100%

31. SUBSEQUENT EVENTS

After the reporting date, the Company declared a franked dividend of 5.0 cents per ordinary share amounting to $16,386,000 with an expected payment date of 7 November 2016. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2016 and will be recognised in subsequent financial reports.

Other than the matters 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 2016

32. AUDITOR'S REMUNERATION

In AUD	2016	2015
Audit and review services		
Auditors of the Company – KPMG		
Audit and review of financial statements	255,000	260,000
Other regulatory audit services	35,000	30,000
	290,000	290,000
Other services		
Auditors of the Company – KPMG		
In relation other assurance, due diligence and taxation	36,077	707,759

33. PARENT ENTITY DISCLOSURES

As at and throughout the financial year ended 30 June 2016 the parent entity of the Group was Ainsworth Game Technology Limited.

In thousands of AUD	2016	2015
Result of parent entity		
Profit for the year	52,235	68,982
Total comprehensive income for the year	52,235	68,982
Financial position of parent entity at year end		
Current assets	156,641	179,743
Total assets	348,926	329,468
Current liabilities	37,573	39,086
Total liabilities	42,346	54,996
Total equity of parent entity comprising of:		
Share capital	193,754	182,360
Equity compensation and translation reserve	9,786	9,061
Fair value reserve	9,684	9,684
Profit reserves	113,730	96,913
Accumulated losses	(20,374)	(23,546)
Total equity	**306,580**	**274,472**

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

In thousands of AUD	2016	2015
Plant and equipment		
Contracted but not yet provided for and payable:		
Within one year	899	2,856

34. BUSINESS COMBINATIONS

On 15 January 2016 the Group acquired 100% of the equity in US based privately-held Nova Technologies LLC ("Nova") at a purchase price of USD38 million. Nova is an innovative manufacturer and proven performer of Class II games and systems in North America. Nova provides the Group with immediate presence in the US Class II markets and offers an opportunity for growth within the Americas with an expanded library of products to an increasingly large addressable market.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

In thousands of AUD

Purchase consideration, fully paid in cash	**54,714**

The fair value of assets and liabilities recognised as a result of the acquisition are as follows:

Cash	490
Receivables	1,411
Inventory	224
Property, plant and equipment	8,485
Intangible assets: trade names and trademarks	743
Intangible assets: developed technology	7,365
Intangible assets: software	3,263
Intangible assets: customer relationships	11,838
Other assets	3
Payables	(1,030)
Net identifiable assets acquired	32,792
Add: goodwill	21,922
Net assets acquired	54,714

The goodwill is attributable to key employees, tax benefits and synergies from combining operations with Nova. The total amount of goodwill that is expected to be deductible for tax purposes is $21,922 thousand.

i. Acquired receivables

The fair value of total trade receivables on acquisition was $1,411 thousand. The gross contractual amounts receivables was $1,411 thousand. It is estimated that all receivables as at the date of acquisition will be collected.

ii. Acquisition related costs

The total acquisition related costs amounting to $581 thousand have been recognised as an expense in the statement of comprehensive income, within the 'other expenses' line item.

iii. Revenue and profit contribution

The acquired business contributed revenues of $6,153 thousand and a net profit of $1,550 thousand to the Group for the period from 15 Jan 2016 to 30 June 2016.

If the acquisition had occurred on 1 July 2015, the consolidated pro-forma revenue and net profit for the year ended 30 June 2016 would have been $11,930 thousand and $2,484 thousand respectively.

iv. Purchase consideration - cash outflow

In thousands of AUD

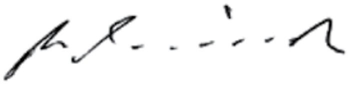
Outflow of cash to acquire subsidiary	54,714
Less: Cash acquired	(490)
Outflow of cash - investing activities	54,224

Directors' Declaration

for the year ended 30 June 2016

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 36 to 80 and the Remuneration report in sections 15.1 to 15.4 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 2016 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 2016.
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:



LH Ainsworth
Executive Chairman

Dated at Sydney this 23rd day of August 2016.

Independent Auditor's Report

for the year ended 30 June 2016

KPMG

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

Report on the financial report

We have audited the accompanying financial report of Ainsworth Game Technology Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2016, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 34 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company and the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report. We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of their performance.

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

Independence

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

Independent Auditor’s Report

for the year ended 30 June 2016

KPMG

Independent auditor’s report to the members of Ainsworth Game Technology Limited (continued)

Auditor’s opinion

In our opinion:

(a) the financial report of the Group is 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 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the Remuneration Report included in 15.1 to 15.4 of the directors’ report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor’s opinion

In our opinion, the remuneration report of Ainsworth Game Technology Limited for the year ended 30 June 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Tony Nimac

Partner

Sydney

23 August 2016

Lead Auditor's Independent Declaration

for the year ended 30 June 2016

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 audit for the financial year ended 30 June 2016 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.

KPMG

KPMG

Tony Nimac

Partner

Sydney

23 August 2016

Corporate Directory

CORPORATE DIRECTORY

Executive Chairman
Mr LH Ainsworth

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

Chief Executive Officer and Executive Director
Mr DE Gladstone

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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www.agtslots.com (The Americas)

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Fax: +61 3 9473 2500

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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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