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

Appendix 4E and Annual Financial Report
30 June 2005

Ainsworth Game Technology Limited and its controlled entities

Results for announcement to the market

	Up / Down	% Change		Full Year ended 30 June 2005 A$'000
Revenues from ordinary activities	up/~~down~~	29%	to	82,470
Loss from ordinary activities after tax and before significant items attributable to members		N/A	to	(5,828)
Significant items				(4,812)
Loss from extraordinary items after tax attributable to members	Gain (loss)			-
Net loss for the period attributable to members		N/A	to	(10,640)

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend Interim dividend	-¢ -¢	-¢ -¢
Previous corresponding period	-¢	-¢

Record date for determining entitlements to the dividend	Not applicable

Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:

Refer Review and Results of Operations section within the attached Directors' Report.

NTA backing	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	$0.19	$0.26

ANNUAL MEETING

The annual meeting will be held as follows:	
Place	Parramatta Leagues Club 13-15 O'Connell Street PARRAMATTA NSW 2150
Date	Wednesday 16th November 2005
Time	10.00am
Approximate date the annual report will be available	14th October 2005

Ainsworth Game Technology Limited and its controlled entities

Directors' report

The directors present their report together with the financial report of Ainsworth Game Technology Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2005 and the auditor's report thereon.

DIRECTORS

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

Name	***Experience and special responsibilities***
CURRENT	
Mr Leonard Hastings Ainsworth Chairman Executive Director	▪ Fellow of the Institute of Company Directors in Australia and the Australian Institute of Management ▪ Fifty one years gaming industry experience ▪ Founder of Aristocrat Leisure Limited ▪ Chairman of Nomination Committee from 25 June 2004 ▪ Director and Chairman since March 1995 - appointed Executive Chairman August 2003
Mr Stewart Lawrence Wallis AO Lead Independent Non-Executive Director	▪ Fellow of the Institute of Engineers, Australia ▪ Advisory Board member of St Hilliers Pty Limited ▪ Representative of St Hilliers Pty Limited on Joint Venture Management Committee for Kingston Foreshore Development, ACT ▪ Former Chief Executive and Director of Leighton Holdings Limited ▪ Chairman of Remuneration Committee from 21 August 2003 and member of Audit Committee from appointment ▪ Member of Regulatory Compliance Committee from 9 March 2005 ▪ Member of Nomination Committee and Technology Committee from 25 June 2004 and 20 July 2004 respectively ▪ Director since February 2002
Mr Andrew Richard Amer Independent Non-Executive Director	▪ Bachelor of Arts, Master of Science, Master of Business Administration and Diploma from Australian Institute of Company Directors ▪ Fellow of Australian Institute of Company Directors ▪ Over twenty years general management experience in senior executive positions in such diversified industries as chemicals, management consulting, finance and retail ▪ Former Managing Director of Amoco Australia, part of the BP Group worldwide ▪ Chairman of Audit Committee and member of Remuneration Committee from appointment ▪ Member of Nomination Committee and Chairman of Technology Committee from 25 June 2004 and 20 July 2004 respectively ▪ Chairman of Regulatory Compliance Committee from 21 February 2005 ▪ Director since October 2003
Mr Vivian Bernard Matthews Non-Executive Director	▪ Fellow of the Institute of Chartered Accountants ▪ Thirty years in public practice as a Chartered Accountant and registered auditor ▪ Over twenty years experience in auditing gaming machine manufacturers and entities in the hospitality and club industries ▪ Member of Audit Committee from appointment ▪ Member of Nomination Committee from 25 June 2004 ▪ Director since August 2003

DIRECTORS (continued)

Name	*Experience and special responsibilities*
FORMER	
Mr John Michael Cowling Executive Director	▪ Bachelor of Science (Economics) from University of Wales, United Kingdom ▪ Fellow of Australian Institute of Management, Australian Institute of Company Directors and Institute of Chartered Accountants ▪ Associate member of Securities Institute of Australia ▪ Former senior executive and Board member of Burns, Philp & Company Limited ▪ Former CEO of Rail Infrastructure Corporation ▪ Chairman of Regulatory Compliance Committee from appointment until 21 February 2005 ▪ Member of Nomination Committee and Technology Committee from 25 June 2004 and 20 July 2004 respectively until 21 February 2005 ▪ Director since August 2003 - appointed Executive Director 1 September 2004 ▪ Resigned as director on 21 February 2005

COMPANY SECRETARY

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

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

Ainsworth Game Technology Limited and its controlled entities

Directors' report (continued)

DIRECTORS' MEETINGS

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

DIRECTOR	BOARD MEETINGS		NOMINATION COMMITTEE MEETINGS		TECHNOLOGY COMMITTEE MEETINGS		AUDIT COMMITTEE MEETINGS		REMUNERA-TION COMMITTEE MEETINGS		REGULATORY & COMPLIANCE COMMITTEE MEETINGS	
Current	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Mr LH Ainsworth	12	12	2	2	-	-	-	-	-	-	-	-
Mr SL Wallis	12	12	2	2	3	3	2	2	3	3	1	1
Mr AR Amer	12	12	2	2	3	3	2	2	3	3	1	1
Mr VB Matthews	10	12	2	2	-	-	2	2	-	-	-	-
Former												
Mr JM Cowling	8	8	2	2	3	3	-	-	-	-	2	2

A – Number of meetings attended.
B – Number of meetings held during the time the director held office during the year.

A Technology Committee was established on 20 July 2004. Since 30 June 2005 a review of the Committees established by the Board was undertaken. The Technology Committee was considered no longer necessary as its functions were more appropriately covered by the management of the Company.

The Nomination Committee has been combined with the Remuneration Committee as one sub-committee reporting to the Board.

PRINCIPAL ACTIVITIES

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

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

REVIEW AND RESULTS OF OPERATIONS

INTRODUCTION

During the period under review, the consolidated entity achieved an increase in revenue resulting from the introduction of new products and further access to international markets.

The Australian market for gaming machines continued to be difficult, however with further sales through conversions and linked products, the consolidated entity's overall market share increased during the period under review. A continued focus and concentration on international markets through the introduction of new products resulted in increased sales revenue for the period.

REVIEW AND RESULTS OF OPERATIONS (continued)

INTRODUCTION (continued)

Significant rationalisation of the organisation occurred during the period including investment in further research and development of current and new products, progressing plans for licensing within international markets and establishing a regional distribution network for the consolidated entity within key international markets. These initiatives are expected to further benefit the overall sales growth planned for future years.

Highlights include:

- Total revenue $82.5 million, up 29% on the previous year;
- Internationally sales revenue of $58.5 million was achieved compared to $41.0 million in 2004, an increase of 44%. This was achieved through distributor relationships in the Americas, Asia, Europe and South Africa during the year under review and repeat orders within previously established markets.

FINANCIAL RESULTS

Revenue

Sales revenue of $82.0 million was achieved compared to $63.7 million for the previous corresponding year. This represented an increase of $18.3 million (29%).

Further growth in international sales resulted in international sales revenue now representing 71% of total sales compared to 64% in the corresponding period in 2004.

Domestic sales revenue increased by 3% during the period with significant improvements in revenue from the primary markets of New South Wales and Queensland. New South Wales sales revenue included service revenue for the period under review of $1.0 million through the acquisition of NSW venue maintenance businesses.

Difficult market conditions within South Australia continue with the reduction of gaming machines by 3,000 and the continued heavy regulations which restricts the innovation of product development.

A further growth opportunity within domestic markets is expected through additional product approvals and supply of product within the Victorian market during the coming year.

Internationally the consolidated entity achieved $58.5 million in sales revenue, a $17.6 million increase on the corresponding period in 2004. Significant growth was experienced within the Americas, resulting in an increase of $23.0 million during the period under review. This market now represents 54% of total international sales revenue compared to 20% in 2004.

Foreign currency

The consolidated entity's risk management process identified foreign currency fluctuations as a significant financial exposure, particularly with the growth in international sales. The consolidated entity monitors and reviews this exposure within limits established by the Board so as to ensure any adverse impact is minimised. The consolidated entity recorded a net exchange loss of $1.6 million for the period which included $0.8 million for the cost of foreign exchange contracts.

REVIEW AND RESULTS OF OPERATIONS (continued)

Operating costs

Cost of sales during the period under review were $46.7 million resulting in a gross margin of 43%, the same as the corresponding period in 2004.

Operating costs, excluding cost of sales, totalled $46.3 million compared to $25.7 million for the corresponding period in 2004. Included in operating costs for the period under review were $4.8 million in one-off costs in relation to restructuring expenses, discontinued merger discussions with the Unicum Group and costs associated with legal matters.

After taking into effect the above one-off costs the increases in operating costs are as follows:

- Sales, service and marketing costs increased by $9.0 million during the current period. Included in this increase were additional costs of $4.8 million in relation to the America's and Europe. These markets contributed to 60% of total revenue during the period under review.

  Service costs incurred in relation to recent acquisitions during the year amounted to $1.0 million. Additional technical support costs of $0.5 million in relation to servicing international markets.

  Marketing costs during the period were $3.3 million, an increase of $0.7 million over the previous corresponding period in 2004.

- Further investment in research and development costs of $10.3 million, an increase of $2.1 million over the prior year. Research and development represented 12.5% of total revenue compared to 12.6% in the corresponding period in 2004. All expenditure on research and development was expensed as incurred, however under International Financial Reporting Standards development costs may be able to be capitalised if certain criteria are met. Refer note 31 within the Annual Financial Report for further details.

- Administration costs increased to $6.5 million, an increase of $1.3 million primarily as a result of additional compliance and licensing expenses.

- Borrowing costs increased by $2.0 million in the period under review. This increase related to interest on convertible notes issued on 20 December 2004 and further interest on loan funds provided to the Company.

Income tax

The Australian companies within the consolidated entity incurred no income tax during the period under review due to the tax losses incurred. Income tax expense resulted from tax payable by an offshore controlled entity.

Operating loss after income tax

The loss from ordinary activities after income tax for the year ended 30 June 2005 was $10.6 million, compared to a profit of $2.1 million in the corresponding period in 2004. Included in this result was $4.8 million in significant items as identified above.

Directors' report (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

Cash flow

The cash outflow from operations for the year ended 30 June 2005 was $32.5 million compared to $17.4 million in the corresponding period in 2004. Included in the above net cash outflow was a $35.3 million investment in working capital due to the build up of inventory levels to meet increased future demand and increased receivables as a result of extended credit terms offered to some international customers.

Subsequent to 30 June 2005, additional loan facilities have been established with an entity controlled by Mr LH Ainsworth as discussed later in this report.

Proposed Capital Raising

As previously announced, the Company is proposing a rights issue to raise additional funds to support its planned growth and expansion. The Company is anticipating raising $20 million which will be fully underwritten by Mr Ainsworth and family members. Further details in relation to the terms and entitlements of the issue are currently being completed and will be announced once finalised.

Convertible Note Issue

On 20 December 2004 the company issued 19,714,717 convertible notes at an issue price of $1.30 per convertible note.

The interest rate on the convertible notes is fixed at 8.0% per annum. Interest is payable semi-annually on each 30 June and 31 December until 31 December 2009, unless the convertible note is earlier redeemed or converted, in which case interest will be paid up until the date of such conversion or redemption. The first interest payment date is 30 June 2005 and interest accrues from the issue date.

The conversion dates will occur on 31 December 2007 and at the maturity date on 31 December 2009. Conversion dates could also occur under certain trigger events as outlined in the Prospectus dated 22 November 2004. The Company will redeem the convertible notes on the maturity date unless the convertible notes are converted or redeemed earlier. The convertible notes will be redeemed for the issue price of $1.30 per convertible note.

If converted, the note holder receives one ordinary share for each note held with the same voting rights as all other shareholders.

The notes do not give their holders any voting rights at shareholders' meetings. The notes are unsecured debt obligations of the Company ranking equally with other ordinary unsecured creditors of the Company.

LOOKING FORWARD

The consolidated entity remains focussed on achieving the objective of becoming a leading supplier of technologically innovative and superior gaming machines and related equipment and services globally.

The current plans and resources are focussed on achieving:

- Continued development of leading edge technology for gaming machines;
- Consolidation of the current product range within Australia and strengthening of the domestic market position;
- Increased focus on developing market share in strategically placed international markets;
- Selective entry into new international markets through distributors or direct sales channels; and
- Prudent focus on management of working capital and achievement of significant reduction in costs of production and overheads.

Market conditions

The market conditions within Australia continued to present challenges during the year under review. Legislative changes and uncertainty regarding proposed changes have adversely affected customer demand for gaming equipment and products.

This will have an impact on future performance, although the consolidated entity remains focussed on increasing its domestic market share and capitalising on the significant opportunities available in international markets.

DIVIDENDS

No dividends were paid or declared by the Company since the end of the previous financial year. The directors do not recommend that any dividends be paid in respect of the 2005 financial year.

STATE OF AFFAIRS

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

- The Company issued 19,714,717 convertible notes at an issue price of $1.30 per convertible note;
- Acquisitions of venue maintenance service companies during the year have increased the Company's revenue opportunities within the New South Wales market;
- Further rationalisation and re-structuring costs occurred following a review by the Company; and
- The discontinued merger negotiations with the Unicum Group resulted in $1.5 million in one-off costs being expensed in the current period under review.

ENVIRONMENTAL REGULATION

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

EVENTS SUBSEQUENT TO REPORTING DATE

For reporting periods beginning on or after 1 July 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 31 to the financial statements.

Since 30 June 2005 the Company has amended the loan facility agreement with an entity controlled by Mr LH Ainsworth. The facility has been increased from $30 million to $40 million.

The new terms of the facility are that effective 1 August 2005 the interest rate applicable on these loan funds has been increased and capped at 8.0% per annum. These terms are more favourable than those that could be achieved from the Company's bankers and at arms length in the open market. All other terms and conditions are similar to those previously reported.

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 consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

LIKELY DEVELOPMENTS

The Company continues to work to satisfy regulatory authorities to ensure that the consolidated entity achieves the necessary licences to support its operations within Australia and overseas. The granting of such licences will allow the consolidated entity to expand its operations into currently unavailable markets.

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

REMUNERATION REPORT

DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the consolidated entity.

The policy of the Company is to ensure that remuneration packages properly reflect the person's duties and responsibilities and level of performance achieved and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Senior executives may receive bonuses based on the achievement of specific goals related to the performance of the individual and the consolidated entity. The Company also issues share options to staff and management, with the ability to exercise the options being conditional on the consolidated entity achieving certain performance hurdles. The Remuneration Committee oversees the awarding of bonuses and options.

Ainsworth Game Technology Limited and its controlled entities

Directors' report (continued)

REMUNERATION REPORT (continued)

DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (continued)

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the five named officers of the Company and the consolidated entity receiving the highest remuneration are:

	NOTE	SALARY /FEES	BONUS	SUPER-ANNUATION CONTRI-BUTIONS	OPTIONS ISSUED (A)	OTHER BENEFITS	TOTAL
		$	$	$	$	$	$
DIRECTORS							
Executive							
Current							
Mr LH Ainsworth	(B)	200,000	-	-	-	30,000	230,000
Former							
Mr JM Cowling	(C)	100,000	-	9,000	-	12,500	121,500
Non-executive							
Current							
Mr SL Wallis	(B)	50,000	-	4,500	9,735	-	64,235
Mr AR Amer	(B)	50,000	-	4,500	-	-	54,500
Mr VB Matthews	(B)	50,000	-	-	-	-	50,000
Former							
Mr JM Cowling	(C)	8,333	-	750	-	-	9,083
EXECUTIVE OFFICERS (Excluding Directors)							
The Company							
Current							
Mr DP Creary	(D)	137,564	-	12,381	80,750	11,250	241,945
Mr ML Ludski		180,500	-	16,245	11,932	69,610	278,287
Mr PW Walford	(D)	253,487	-	15,415	14,873	20,833	304,608
Mr K Orchard		473,503	-	-	7,784	24,065	505,352
Ms J Trembath		170,000	-	15,300	-	14,328	199,628
Consolidated							
Current							
Mr DP Creary	(D)	137,564	-	12,381	80,750	11,250	241,945
Mr ML Ludski		180,500	-	16,245	11,932	69,610	278,287
Mr PW Walford	(D)	253,487	-	15,415	14,873	20,833	304,608
Mr G Steiner		637,050	-	79,497	30,051	85,924	832,522
Mr K Orchard		473,503	-	-	7,784	24,065	505,352

REMUNERATION REPORT (continued)

DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (continued)

NOTES:

(A) Details concerning share options are included in Notes 25, 26 and 28 to the financial statements. The fair value of options issued has been determined in accordance with the Australian Securities and Investments Commission (ASIC) 'Guidelines to valuing options in annual Directors Reports' dated 30 June 2004. The options were valued using a Black Scholes model with the valuations completed at the date the options were granted or shareholder approval received, where applicable. The key parameters used in the valuations are a risk free rate in the range of 5.66% to 5.84% per annum, a volatility factor in the range of 40% to 60% per annum, no dividends and an option term of 5 years.

The fair value of these options has been allocated equally over the vesting period and the amount applicable to the current year has been included as remuneration in the table above. In accordance with Australian Accounting Standards these amounts are not required to be expensed in the Statement of Financial Performance.

(B) Directors for the entire financial year ended 30 June 2005. Mr LH Ainsworth was appointed Executive Chairman on 21 August 2003.

(C) Mr JM Cowling was a Director until 21 February 2005. He held the position of Executive Director from 1 September 2004 until retirement.

(D) Mr DP Creary was appointed Chief Executive Officer on 15 February 2005. Mr PW Walford initially commenced with the Company on 24 August 2004 and was appointed Group General Manager – Global Sales on 16 March 2005.

OPTIONS

Options granted to Directors and Officers of the Company

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

	NUMBER OF OPTIONS GRANTED	EXERCISE PRICE	EXPIRY DATE
OFFICERS			
The Company			
Mr DP Creary	1,000,000	$1.00	15 February 2010
Mr PW Walford	70,000 70,000	$1.00 $0.50	31 August 2009 31 August 2009
Mr ML Ludski	50,000	$0.50	31 August 2009

Included in the share options granted to Mr Creary were 500,000 share options which were only capable of being exercised on the achievement of short term performance hurdles for the financial year ended 30 June 2005. These performance hurdles were not met and 500,000 share options will lapse on 31 August 2005.

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

Unissued shares under option

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

EXPIRY DATE	EXERCISE PRICE	NUMBER OF SHARES
7 December 2006	$1.00	1,340,000
18 December 2006	$1.00	4,000,000
25 November 2007	$1.15	900,000
1 November 2008	$1.00 $0.50	200,000 100,000
1 April 2009	$1.00 $0.50	75,000 75,000
31 August 2009	$1.00 $0.50	585,000 930,000
15 February 2010	$1.00	1,000,000

OPTIONS (continued)

Unissued shares under option (continued)

The options above have vesting and performance conditions, which must be satisfied prior to any of the options being exercised. The vesting condition is set with reference to the anniversary of the issue date of the option. All options expire on the earlier of their expiry date or termination of the option holders' employment unless otherwise approved by shareholders. The exceptions to this are that the third and final vesting date for the share options granted to former directors Mr JM O'Mahony, Mr JG Drews and to the financial advisor to the Initial Public Offering (refer Note 17). The share options in respect of former directors Messrs DC Hall, J Kehoe, AE Vrisakis and Mr JM O'Mahony have vested as approved by shareholders at the Annual General Meetings (AGM's) of the Company held on 25 November 2002 and 18 November 2003.

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

Shares issued on exercise of options

There were no shares issued as a result of the exercise of options during or since the end of the financial year. Refer Notes 17, 25 and 26 to the financial statements for further information.

DIRECTORS' INTERESTS

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

	AINSWORTH GAME TECHNOLOGY LIMITED		
	ORDINARY SHARES	CONVERTIBLE NOTES	OPTIONS OVER ORDINARY SHARES
Current			
Mr LH Ainsworth	76,892,858	10,252,382	-
Mr SL Wallis	158,001	113,000	300,000
Mr VB Matthews	71,430	9,524	-
Mr AR Amer	49,000	6,267	-

INDEMNIFICATION AND INSURANCE OF OFFICERS

Indemnification

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

INDEMNIFICATION AND INSURANCE OF OFFICERS (continued)

Insurance premiums

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

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

NON-AUDIT SERVICES

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

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

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and

- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of auditor's remuneration is included in Note 4 of the Financial Report

ROUNDING OFF

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

Dated at Sydney this 25th day of August 2005.

Signed in accordance with a resolution of the directors:

LH Ainsworth
Director

Ainsworth Game Technology Limited and its controlled entities

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 2005 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, 25th August 2005

Statements of financial performance

Ainsworth Game Technology Limited and its controlled entities

For the year ended 30 June 2005

		CONSOLIDATED		*THE COMPANY*	
		2005	**2004**	**2005**	**2004**
	NOTE	**$'000**	**$'000**	**$'000**	**$'000**
Revenue from sale of goods		81,006	63,727	81,006	63,727
Revenue from rendering of services		1,031	-	-	-
	2	82,037	63,727	81,006	63,727
Cost of goods sold		(46,724)	(36,239)	(46,604)	(36,239)
Gross profit		35,313	27,488	34,402	27,488
Other revenues from ordinary activities	2	433	413	433	413
Sales, service and marketing expenses		(22,604)	(11,611)	(20,468)	(11,692)
Research and development expenses		(10,318)	(8,215)	(10,318)	(8,215)
Administrative expenses		(9,371)	(5,230)	(10,075)	(5,230)
Borrowing costs		(2,679)	(683)	(2,679)	(683)
Other expenses from ordinary activities		(1,560)	-	(1,744)	-
Share of net profit of associates accounted for using the equity method	23	203	-	-	-
		(46,329)	(25,739)	(45,284)	(25,820)
(Loss) / profit from ordinary activities before related income tax benefit / (expense)		(10,583)	2,162	(10,449)	2,081
Income tax expense relating to ordinary activities	5(a)	(57)	(40)	-	-
Net (loss) / profit	19	(10,640)	2,122	(10,449)	2,081
Non-owner transaction changes in equity					
Net exchange difference relating to self-sustaining foreign operations	18	8	7	-	-
Total changes in equity from non-owner related transactions attributable to the members of the parent entity		(10,632)	2,129	(10,449)	2,081
Basic earnings per ordinary share		($0.072)	$0.016		
Diluted earnings per ordinary share		($0.072)	$0.016		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 19 to 78

Statements of financial position

Ainsworth Game Technology Limited and its controlled entities

As at 30 June 2005

		CONSOLIDATED		*THE COMPANY*	
		2005	**2004**	**2005**	**2004**
	NOTE	**$'000**	**$'000**	**$'000**	**$'000**
Current assets					
Cash assets	6	752	2,443	588	2,429
Receivables	7	44,188	30,496	43,548	30,496
Inventories	8	35,578	17,612	35,578	17,581
Other	9	790	688	712	585
Total current assets		81,308	51,239	80,426	51,091
Non-current assets					
Receivables	7	5,218	2,436	8,589	2,489
Investments accounted for using the equity method	10	2,203	-	-	-
Property, plant and equipment	11	18,656	18,217	18,491	18,161
Intangible assets	12	3,067	2,000	1,692	2,000
Other	9	606	90	606	90
Total non-current assets		29,750	22,743	29,378	22,740
Total assets		111,058	73,982	109,804	73,831
Current liabilities					
Payables	13	25,399	15,601	24,187	15,458
Interest-bearing liabilities	14	193	1,702	193	1,702
Current tax liabilities		79	40	-	-
Provisions	16	1,685	917	1,482	917
Total current liabilities		27,356	18,260	25,862	18,077
Non-current liabilities					
Payables	13	-	-	246	85
Interest-bearing liabilities	14	49,441	15,280	49,422	15,280
Provisions	16	562	199	445	199
Total non-current liabilities		50,003	15,479	50,113	15,564
Total liabilities		77,359	33,739	75,975	33,641
Net assets		33,699	40,243	33,829	40,190
Equity					
Contributed equity	17	76,895	72,807	76,895	72,807
Reserves	18	15	7	-	-
Accumulated losses	19	(43,211)	(32,571)	(43,066)	(32,617)
Total equity		33,699	40,243	33,829	40,190

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 19 to 78

Statements of cash flows

Ainsworth Game Technology Limited and its controlled entities

For the year ended 30 June 2005

		CONSOLIDATED		*THE COMPANY*	
		2005	**2004**	**2005**	**2004**
	NOTE	**$'000**	**$'000**	**$'000**	**$'000**
Cash flows from operating activities					
Cash receipts in the course of operations		61,618	39,403	60,961	39,403
Cash payments in the course of operations		(93,185)	(56,677)	(93,645)	(56,751)
Interest received		209	50	209	50
Grants and subsidies		163	-	163	-
Borrowing costs paid		(1,183)	(218)	(1,183)	(218)
Net cash used in operating activities	24(b)	(32,378)	(17,442)	(33,495)	(17,516)
Cash flows from investing activities					
Payments for property, plant and equipment		(1,628)	(959)	(1,270)	(899)
Proceeds from sale of non-current assets		26	55	26	55
Payments for acquisition of equity investments		(1,500)	(58)	-	(58)
Payment for controlled entities (net of cash acquired)	22(b)	(83)	-	-	-
Payments to controlled entities		-	-	(974)	-
Payment for acquisition of business assets	22(c)	(1,604)	(1,105)	(1,604)	(1,105)
Net cash used in investing activities		(4,789)	(2,067)	(3,822)	(2,007)
Cash flows from financing activities					
Proceeds from issue of convertible notes		25,629	-	25,629	-
Proceeds from issue of shares		-	13,473	-	13,473
Transaction costs from issue of shares / convertible notes		(1,085)	(500)	(1,085)	(500)
Proceeds from borrowings		26,300	14,700	26,300	14,700
Repayment of borrowings		(15,000)	(6,700)	(15,000)	(6,700)
Hire purchase payments		(248)	(116)	(248)	(116)
Net cash provided by financing activities		35,596	20,857	35,596	20,857
Net (decrease) / increase in cash held		(1,571)	1,348	(1,721)	1,334
Cash at the beginning of the financial year		2,443	1,093	2,429	1,093
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(120)	2	(120)	2
Cash at the end of the financial year	24(a)	752	2,443	588	2,429

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 19 to 78

Notes to the financial statements

Ainsworth Game Technology Limited and its controlled entities

For the year ended 30 June 2005

Notes to the financial statements

Ainsworth Game Technology Limited and its controlled entities

For the year ended 30 June 2005

1 Statement of significant accounting policies

The significant accounting policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year.

(b) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Associates

Associates are those entities over which the consolidated entity exercises significant influence and which are not intended for sale in the near future.

In the consolidated financial statements, investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. The consolidated entity's equity accounted share of the associates' net profit or loss is recognised in the consolidated statement of financial performance from the date significant influence commences until the date significant influence ceases. Other movements in reserves are recognised directly in consolidated reserves.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between the controlled entities are eliminated in full on consolidation.

Unrealised gains resulting from transactions with associates are eliminated to the extent of the consolidated entity's interest. Unrealised gains relating to associates are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence an impairment.

(c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

1 Statement of significant accounting policies (continued)

(c) Revenue recognition (continued)

Sale of goods

Revenue from the sale of goods is recognised (net of rebates, returns, discounts and other allowances) when control of the goods passes to the customer and it is probable that the economic benefits comprising the consideration will flow to the consolidated entity and the amount of revenue can be measured reliably.

Rendering of services

Revenue from rendering services is recognised when the service has been performed.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

(d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the statement of financial position.

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

(e) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change, except where:

- Hedging specific anticipated transactions (see Note 1(f)); and

- Relating to amounts payable or receivable in foreign currency forming part of a net investment in a self-sustaining foreign operation. In this case, the exchange difference, together with any related income tax expense/revenue, is transferred to the foreign currency translation reserve on consolidation.

1 Statement of significant accounting policies (continued)

(e) Foreign currency (continued)

Translation of controlled foreign operations
The assets and liabilities of foreign operations that are self-sustaining are translated at the rates of exchange ruling at reporting date. Equity items are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve until the disposal, or partial disposal, of the operations.

The balance of the foreign currency translation reserve relating to a foreign operation that is disposed of, or partially disposed of, is transferred to retained profits in the year of disposal.

(f) Derivatives

The consolidated entity is exposed to changes in interest rates and foreign exchange rates from its activities. The consolidated entity uses foreign exchange option contracts to hedge the foreign exchange risk when considered necessary. Derivative financial instruments are not held for speculative purposes.

Hedges

Anticipated transactions
Transactions are designated as a hedge of the anticipated specific purchase or sale of goods or services, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

The net amounts receivable or payable under forward rate agreements and the associated deferred gains or losses are recorded in the statement of financial position from the date of inception of the hedge transaction. When recognised the net receivables or payables are then revalued using the foreign currency rate current at reporting date.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains and losses relating to the hedged transaction are recognised immediately in the statement of financial performance.

Net investment in foreign operation
Foreign exchange differences relating to foreign currency transactions hedging a net investment in a self-sustaining foreign operation, together with any related income tax expense/revenue, are transferred to the foreign currency translation reserve on consolidation.

1 Statement of significant accounting policies (continued)

(f) Derivatives (continued)

***Hedges** (continued)*

Other hedges

All other hedge transactions are initially recorded at the relevant rate at the date of the transaction. Hedges outstanding at reporting date are valued at the rates ruling on that date and any gains or losses are brought to account in the statement of financial performance.

Costs or gains arising at the time of entering into the hedge are deferred and amortised over the life of the hedge.

(g) Taxation

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense/(benefit) is calculated on the profit/(loss) from ordinary activities adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses when realisation is virtually certain.

Tax consolidation

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 22. The implementation date for the tax-consolidated group was 1 July 2004. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

(h) Acquisitions of assets

All assets acquired including property, plant and equipment and intangibles, other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Expenditure, other than research and development costs, is only recognised as an asset when the consolidated entity controls future economic benefits as a result of the costs incurred that are probable and can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

1 Statement of significant accounting policies (continued)

(h) Acquisitions of assets (continued)

Research and development costs

Research and development expenditure is expensed as incurred, except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is capitalised.

Subsequent additional costs

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years. Costs that do not meet the criteria for capitalisation are expensed as incurred.

(i) Use and revision of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(j) Receivables

The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful accounts. Trade and other debtors to be settled within 90 days are carried at amounts due. Term debtors are carried at amounts due when a market rate of interest is charged. Where a market interest rate is not charged on amounts not settled within 90 days, the amount receivable is discounted to present value.

(k) Inventories

Raw materials and stores, work in progress and finished goods are carried at the lower of cost allocated and net realisable value.

Cost includes direct materials, direct labour, other direct variable costs and allocated production overheads necessary to bring inventories to their present location and condition, based on normal operating capacity of the production facilities.

Manufacturing activities

The cost of manufacturing inventories and work-in-progress are assigned on a first-in, first-out basis. Costs arising from exceptional wastage are expensed as incurred.

Net realisable value

Net realisable value is determined on the basis of each inventory line's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

1 Statement of significant accounting policies (continued)

(l) Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Refer Note 1(n).

Associates

In the Company's financial statements, investments in unlisted shares of associates are carried at the lower of cost and recoverable amount.

(m) Leased assets

Leases and hire purchase agreements under which the Company or its controlled entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

Leased assets are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Operating leases

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(n) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value.

Notes to the financial statements

Ainsworth Game Technology Limited and its controlled entities

For the year ended 30 June 2005

1 Statement of significant accounting policies (continued)

(o) Depreciation and amortisation

Complex assets

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

Useful lives

All assets including intangibles, have limited useful lives and are depreciated/amortised using the straight-line method over their estimated useful lives, taking into account estimated residual values, with the exception of freehold land and finance lease assets which are amortised over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated or amortised from the date of acquisition. Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

The depreciation/amortisation rates for each class of asset are within the following ranges:

	2005 %	2004 %
Buildings	2.5	2.5
Leasehold improvements	10	-
Plant and equipment	5 - 40	5 - 40
Leased plant and equipment	7-27	7 - 27
Intellectual property	12.5	12.5
Goodwill	5 - 12.5	12.5
Deferred expenditure	12.5 - 20	12.5

(p) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

(q) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits to wages, salaries and annual leave expected to be settled within 12 months represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

1 Statement of significant accounting policies (continued)

(q) Employee benefits (continued)

Long service leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided up to reporting date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government securities at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

Employee option plans

Where share options are issued to employees as remuneration for past services, the difference between fair value of the options issued and the consideration received, if any, from the employee is expensed. The fair value of the shares or options issued is recorded in contributed equity.

Other options issued to employees are recorded in contributed equity at the fair value of the consideration received, if any.

Transaction costs associated with issuing options are recognised in equity subject to the extent of the proceeds received, otherwise expensed. Other administrative costs are expensed.

Bonus plans

A liability is recognised for profit bonus plans when there is no realistic alternative, the benefit calculations are formally documented and determined before signing the financial report and past practice supports the calculation.

Superannuation plan

The consolidated entity contributes to defined contribution employee superannuation plans. Contributions are charged against income as they are made.

(r) Provisions

A provision is recognised when a legal, equitable or constructive obligation arises as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing and amount of which is uncertain. If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, being risk free rates on government bonds most closely matching the expected future payments, except where noted below. The unwinding of the discount is treated as part of the expense related to the particular provision.

(s) Share issue costs

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate.

1 Statement of significant accounting policies (continued)

(t) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit / (loss) attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares) by the weighted average number of ordinary shares of the Company.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares.

(u) Interest-bearing liabilities

Loans are recognised at the principal amount. Interest expense is accrued at the contracted rate and included in payables.

(v) Intellectual property

Intellectual property is carried at cost, being the fair value of consideration provided and is amortised over its estimated useful life, being eight years.

(w) Borrowing costs

Borrowing costs include interest, amortisation of ancillary costs incurred in connection with the arrangement of borrowings and finance charges in respect of hire purchase agreements.

Borrowing costs are expensed as incurred.

Ancillary costs incurred in connection with the arrangement of borrowings are amortised over their life.

(x) Goodwill

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired

For associates, the consolidated financial statements include the carrying amount of goodwill in the equity accounted investment carrying amounts.

(y) Financial instruments issued

Other financial instruments

Where financial instruments, such as convertible notes issued by the Company, give rise to a contractual obligation to deliver cash to the holder, they are classified as liabilities to the extent of the obligation.

Where financial instruments are redeemable at the option of the holder, redeemable at a fixed date or perpetual instruments with cumulative interest obligations, the proceeds received are classified as a liability and related distribution as interest expense.

1 Statement of significant accounting policies (continued)

(y) Financial instruments issued (continued)

Other financial instruments (continued)

Where financial instruments are redeemable but either the holder or the Company has an option to convert them into ordinary shares of the Company, they are classified as compound instruments. The liability component is measured as the present value of the principal and interest obligations, discounted at the prevailing market rate for a similar liability that does not have an equity component. The residual of the net proceeds received on issuing the instrument is classified as equity.

Interest expense on compound instruments is determined based on the liability component and includes the actual interest paid to holders. The liability accrues over the life of the instruments to the original face value if they are not previously converted. There are no dividends associated with the equity component.

2 Revenue from ordinary activities

	CONSOLIDATED		*THE COMPANY*	
	2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**
Sale of goods revenue from operating activities	81,006	63,727	81,006	63,727
Rendering of services revenue from operating activities	1,031	-	-	-
	82,037	63,727	81,006	63,727
Other revenues:				
From operating activities				
Interest – other parties	209	50	209	50
Net foreign exchange gain	-	308	-	308
Sundry income	198	-	198	-
From outside operating activities				
Gross proceeds from sale of non-current assets	26	55	26	55
Total other revenues	433	413	433	413
Total revenue from ordinary activities	82,470	64,140	81,439	64,140

	CONSOLIDATED		*THE COMPANY*	
	2005 **$'000**	**2004** **$'000**	**2005** **$'000**	**2004** **$'000**

3 (Loss) / profit from ordinary activities before income tax benefit / (expense)

(a) Individually significant expenses included in (loss) / profit from ordinary activities before income tax benefit / (expense)

	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Restructuring expenses	2,362	(100)	880	(100)
Discontinued merger negotiations	1,500	-	1,500	-
Legal matters	950	-	950	-
Provision for doubtful debt in respect of controlled entity	-	-	704	-
	4,812	(100)	4,034	(100)

(b) (Loss) / profit from ordinary activities before income tax (expense) / benefit has been arrived at after charging / (crediting) the following items:

	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Depreciation of:				
Buildings	224	224	224	224
Plant and equipment	1,498	1,146	1,249	1,135
Amortisation of:				
Deferred expenditure	22	20	22	20
Leasehold improvements	1	-	1	-
Leased plant and equipment	100	55	100	55
Intangible assets	342	396	308	396
Total depreciation and amortisation	2,187	1,841	1,904	1,830
Borrowing costs:				
Related parties				
- Borrowings	1,253	465	1,253	465
- Interest on Convertible Notes	561	-	561	-
Other parties				
- Finance charges on hire purchase agreements	52	30	52	30
- Interest on Convertible Notes	518	-	518	-
- Interest on deferred business acquisition settlement	42	170	42	170
- Amortisation of deferred expenditure	253	-	253	-
- Other interest costs	-	18	-	18
	2,679	683	2,679	683

3 (Loss) / profit from ordinary activities before income tax benefit / (expense) (continued)

(b) (Loss) / profit from ordinary activities before income tax benefit / (expense) has been arrived at after charging / (crediting) the following items: ***(continued)***

	CONSOLIDATED 2005 $'000	*CONSOLIDATED* 2004 $'000	*THE COMPANY* 2005 $'000	*THE COMPANY* 2004 $'000
Net bad and doubtful debts expense including movements in provision for doubtful debts	745	163	702	163
Net foreign exchange loss/(gain)	1,560	(308)	1,744	(308)
Net gain on disposal of non-current assets	(4)	(7)	(4)	(7)
Operating lease rental expense:				
Minimum lease payments	594	224	486	206
Research and development expenditure:				
Expensed as incurred	10,318	8,215	10,318	8,215

4 Auditor's remuneration

	CONSOLIDATED 2005 $	*CONSOLIDATED* 2004 $	*THE COMPANY* 2005 $	*THE COMPANY* 2004 $
Audit services:				
Audit and review of the financial reports	98,500	85,000	95,000	83,000
Other services:				
Other assurance services	44,159	27,374	44,159	27,374
Transaction due diligence services	480,878	-	480,878	-
Capital raising services	65,000	45,000	65,000	45,000
	590,037	72,374	590,037	72,374
	688,537	157,374	685,037	155,374

	CONSOLIDATED		*THE COMPANY*	
	2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**

5 Taxation

(a) Income tax (benefit) / expense

	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Prima facie income tax (benefit) / expense calculated at 30% (2004: 30%) on the (loss) / profit from ordinary activities	(3,192)	649	(3,135)	624
Change in income tax (benefit) / expense due to:				
Non-deductible expenses	28	36	28	36
Research and development allowance	(581)	(532)	(581)	(532)
Recovery of tax losses not previously bought to account	-	(113)	-	(128)
Future income tax benefit not brought to account	3,802	-	3,688	-
Income tax (benefit) / expense on (loss) / profit from ordinary activities	57	40	-	-

(b) Future income tax benefit not taken to account

A potential future income tax benefit of $12,646,000 (2004: $11,045,000) attributable to tax losses and $1,401,000 (2004: $675,000) attributable to timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt.

The potential future income tax benefit will only be obtained if:

(i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;

(ii) the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

(c) Dividend franking account

There are no franking credits available to shareholders for future financial years.

Notes to the financial statements

Ainsworth Game Technology Limited and its controlled entities

For the year ended 30 June 2005

	CONSOLIDATED		*THE COMPANY*	
	2005 **$'000**	**2004** **$'000**	**2005** **$'000**	**2004** **$'000**
6 Cash assets				
Cash at bank and on hand	752	2,443	588	2,429
7 Receivables				
Current				
Trade debtors	44,802	30,567	44,165	30,567
Less: Provision for doubtful trade debtors	(964)	(219)	(921)	(219)
	43,838	30,348	43,244	30,348
Other debtors	350	148	304	148
	44,188	30,496	43,548	30,496
Non-current				
Term debtors	5,218	2,436	5,218	2,489
Loans to controlled entities	-	-	4,075	-
Less: Provision for doubtful debt in respect of controlled entity	-	-	(704)	-
	5,218	2,436	8,589	2,489
8 Inventories				
Current				
Raw materials and stores – at cost	24,432	11,833	24,432	11,833
Less: Provision for obsolescence	(563)	(321)	(563)	(321)
	23,869	11,512	23,869	11,512
Finished goods – at cost	10,067	5,347	10,067	5,316
Less: Provision for obsolescence	(385)	(179)	(385)	(179)
	9,682	5,168	9,682	5,137
Work in progress – at cost	875	932	875	932
Stock in transit – at cost	1,152	-	1,152	-
	35,578	17,612	35,578	17,581

	Note	CONSOLIDATED 2005 $'000	CONSOLIDATED 2004 $'000	THE COMPANY 2005 $'000	THE COMPANY 2004 $'000
9 Other assets					
Current					
Prepayments		390	688	312	585
Deferred expenditure		400	-	400	-
		790	688	712	585
Non-current					
Deferred expenditure					
At cost		916	125	916	125
Accumulated amortisation		(310)	(35)	(310)	(35)
		606	90	606	90

	Note	CONSOLIDATED 2005 $'000	CONSOLIDATED 2004 $'000	THE COMPANY 2005 $'000	THE COMPANY 2004 $'000
10 Investments accounted for using the equity method					
Associates	23	2,203	-	-	-

	CONSOLIDATED		THE COMPANY	
	2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**
11 Property, plant and equipment				
Freehold land and buildings				
At cost	14,844	14,844	14,844	14,844
Accumulated depreciation	(630)	(406)	(630)	(406)
	14,214	14,438	14,214	14,438
Leasehold improvements				
At cost	11	-	11	-
Accumulated amortisation	(1)	-	(1)	-
	10	-	10	-
Plant and equipment				
At cost	8,299	6,537	8,054	6,470
Accumulated depreciation	(4,295)	(3,111)	(4,215)	(3,100)
	4,004	3,426	3,839	3,370
Leased plant and equipment				
At capitalised cost	610	435	610	435
Accumulated amortisation	(182)	(82)	(182)	(82)
	428	353	428	353
Total property, plant and equipment net book value	18,656	18,217	18,491	18,161

Refer to Note 15 for details of security over freehold land and buildings.

11 Property, plant and equipment (continued)

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	CONSOLIDATED 2005 $'000	CONSOLIDATED 2004 $'000	THE COMPANY 2005 $'000	THE COMPANY 2004 $'000
Freehold land and buildings				
Carrying amount at beginning of year	14,438	14,662	14,438	14,662
Additions	-	-	-	-
Depreciation	(224)	(224)	(224)	(224)
Carrying amount at end of year	14,214	14,438	14,214	14,438
Leasehold improvements				
Carrying amount at beginning of year	-	-	-	-
Additions	11	-	11	-
Amortisation	(1)	-	(1)	-
Carrying amount at end of year	10	-	10	-
Plant and equipment				
Carrying amount at beginning of year	3,426	3,597	3,370	3,597
Additions	2,098	1,023	1,740	956
Disposals	(22)	(48)	(22)	(48)
Depreciation	(1,498)	(1,146)	(1,249)	(1,135)
Carrying amount at end of year	4,004	3,426	3,839	3,370
Leased plant and equipment				
Carrying amount at beginning of year	353	219	353	219
Additions	175	189	175	189
Amortisation	(100)	(55)	(100)	(55)
Carrying amount at end of year	428	353	428	353

	Note	CONSOLIDATED 2005 $'000	CONSOLIDATED 2004 $'000	THE COMPANY 2005 $'000	THE COMPANY 2004 $'000
12 Intangible assets					
Intellectual property					
At cost		1,029	1,029	1,029	1,029
Accumulated amortisation		(323)	(194)	(323)	(194)
		706	835	706	835
Goodwill					
At cost		2,841	1,432	1,432	1,432
Accumulated amortisation		(480)	(267)	(446)	(267)
		2,361	1,165	986	1,165
		3,067	2,000	1,692	2,000
13 Payables					
Current					
Trade creditors		11,474	9,705	11,436	9,703
Other creditors and accruals		12,059	5,207	10,885	5,066
Revenue in advance		72	136	72	136
Amount payable to director/shareholder controlled company		1,794	553	1,794	553
		25,399	15,601	24,187	15,458
Non-current					
Amount payable to controlled entity		-	-	246	85
14 Interest-bearing liabilities					
Current					
Hire purchase liabilities	21	193	98	193	98
Amount payable for VGS acquisition		-	1,604	-	1,604
		193	1,702	193	1,702
Non-current					
Hire purchase liabilities	21	354	280	335	280
Amount payable to director/shareholder controlled entity - secured	15	26,300	15,000	26,300	15,000
Convertible notes	17	22,787	-	22,787	-
		49,441	15,280	49,422	15,280

15 Financing arrangements

The consolidated entity has access to the following lines of credit:

	CONSOLIDATED		*THE COMPANY*	
	2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**
Total facilities available:				
Loan from director/shareholder controlled entity	30,000	20,000	30,000	20,000
Letter of credit facility	3,750	1,800	3,750	1,800
	33,750	21,800	33,750	21,800
Facilities utilised at reporting date:				
Loan from director/shareholder controlled entity	26,300	15,000	26,300	15,000
Letter of credit facility	3,004	1,462	3,004	1,462
	29,304	16,462	29,304	16,462
Facilities not utilised at reporting date:				
Loan from director/shareholder controlled entity	3,700	5,000	3,700	5,000
Letter of credit facility	746	338	746	338
	4,446	5,338	4,446	5,338

Loan facility and credit stand-by arrangements

The loan facility is provided by an entity controlled by Mr LH Ainsworth, a director and shareholder of the Company. This facility is secured by a first debenture mortgage over the consolidated entity's freehold land and buildings at 10 Holker Street Newington, NSW, which has a carrying amount of $14,214,000 as at 30 June 2005. Refer Note 11.

Interest on the loan facility is charged at a rate more favourable than that which can be obtained from the consolidated entity's bankers and at arms length in the open market. The weighted average interest rate on the loan facility at 30 June 2005 is 6%. Interest is payable monthly in arrears or otherwise as agreed between the parties.

The loan facility is for an initial term of five years from 13 September 2002 thereafter repayment terms as negotiated between the parties.

15 Financing arrangements (continued)

Letter of credit facility
A letter of credit facility has been established with the consolidated entity's bankers for $3,750,000. Draw downs against this facility of $3,004,000 at 30 June 2005 were included in trade creditors in Note 13. This facility is subject to annual review and is secured by a fixed and floating charge given by the Company.

	Note	CONSOLIDATED 2005 $'000	CONSOLIDATED 2004 $'000	THE COMPANY 2005 $'000	THE COMPANY 2004 $'000
16 Provisions					
Current					
Employee benefits	25	1,685	917	1,482	917
Restructuring expenses		-	-	-	-
		1,685	917	1,482	917
Non-current					
Employee benefits	25	562	199	445	199
Reconciliations					
Reconciliations of the company amounts of each class of provision, except for employee benefits, are set out below:					
Restructuring expenses					
Carrying amount at beginning of year		-	960	-	960
Provisions / (write-backs) made during the year		-	(100)	-	(100)
Payments made during the year		-	(860)	-	(860)
Carrying amount at end of year		-	-	-	-

Notes to the financial statements

Ainsworth Game Technology Limited and its controlled entities

For the year ended 30 June 2005

	Note	2005 Shares	2004 Shares	2005 $'000	2004 $'000
17 Contributed equity					
Share capital					
Ordinary shares, fully paid	(a)	149,185,377	147,860,377	74,053	72,807
Other Contributed equity					
19, 714,717 (2004: Nil) Convertible notes - equity portion	(b)	-	-	2,842	-
		149,185,377	147,860,377	76,895	72,807

(a) Ordinary Shares

Movements in ordinary share capital of the Company during the past two years were as follows:

Date	Details	Number of shares	Issue price	$'000
1 July 2003	Opening balance	115,000,000		59,834
29 December 2003	Issued shares pursuant to rights issue	32,860,377	$0.41	13,473
29 December 2003	Transaction costs from issue of shares	-	-	(500)
13 December 2004	Issued shares on consideration for acquisition	1,200,000	$1.07	1,284
31 December 2004	Adjustment for GST on IPO costs	-	-	(134)
2 March 2005	Issued shares consideration for acquisition	125,000	$0.77	96
30 June 2005		149,185,377		74,053

On 13 December 2004 the Company issued 1.2 million ordinary shares at a value of $1.07 per ordinary share based on the share price on that day, in full settlement for part of the assets and business of Bytecraft (NSW) Pty Ltd. This acquisition represented Bytecraft's Sydney based gaming venue installation and maintenance business in New South Wales.

On 2 March 2005 the Company issued 125,000 ordinary shares with a value of $0.77 per ordinary share based on the share price on that day, in part settlement for all of the issued shares in Bull Club Services Pty Ltd. The remaining settlement was $125,000 in cash.

17 Contributed equity (continued)

(a) Ordinary Shares (continued)

The financial advisor to the Initial Public Offering ("IPO") received 2,300,000 share options following the listing of the Company on the Australian Stock Exchange on 17 December 2001. These share options entitle the financial advisor to one ordinary share for every share option held on exercise, with the exercise price being the Issue Price of the IPO, being $1.00, and have an exercise period of 5 years from the issue date of these options. No share options have been exercised during the financial year ended 30 June 2005. These share options have vested and may be exercised at any time during the exercise period and do not include any performance hurdles.

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds on liquidation.

(b) Convertible notes

Movements during the year

	CONSOLIDATED		*THE COMPANY*	
	2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**
Balance at beginning of year	-	-	-	-
Equity portion of 19,714,717 convertible notes issued during the year	2,842	-	2,842	-
Balance at end of year	2,842	-	2,842	-

On 20 December 2004 the company issued 19,714,717 convertible notes at an issue price of $1.30 per convertible note. The interest rate on the convertible notes is fixed at 8.0% per annum. Interest is payable semi-annually on each 30 June and 31 December until 31 December 2009, unless the convertible note is earlier redeemed or converted, in which case interest will be paid up until the date of such conversion or redemption. The first interest payment date is 30 June 2005 and interest accrues from the issue date.

The conversion dates will occur on 31 December 2007 and at the maturity date on 31 December 2009. Conversion dates could also occur under certain trigger events as outlined in the Prospectus dated 22 November 2004. The Company will redeem the convertible notes on the maturity date unless the convertible notes are converted or redeemed earlier. The convertible notes will be redeemed for the issue price of $1.30 per convertible note.

If converted, the note holder receives one ordinary share for each note held with the same voting rights as all other shareholders. The notes do not give their holders any voting rights at shareholders' meetings. The convertible notes have been accounted for as compound financial instruments in accordance with accounting policy note 1(y).

17 Contributed equity (continued)

(b) Convertible notes (continued)

Terms and conditions

These notes do not give their holders any voting rights at shareholders' meetings, however, the Trustee for the notes has the right to veto any decision prejudicial to the note holders.

In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds on liquidation.

The proceeds received have been accounted for as follows:

	Note	*CONSOLIDATED*		*THE COMPANY*	
		2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**
Non-current interest-bearing liabilities	14	22,787	-	22,787	-
Contributed equity		2,842	-	2,842	-
		25,629	-	25,629	-

	Note	CONSOLIDATED 2005 $'000	CONSOLIDATED 2004 $'000	THE COMPANY 2005 $'000	THE COMPANY 2004 $'000
18 Reserves					
Foreign currency translation	(a)	15	7	-	-
Movements during the year					
(a) Foreign currency translation					
Balance at beginning of year		7	-	-	-
Exchange difference on net investment in foreign operations		8	7	-	-
Balance at end of year		15	7	-	-

Nature and purpose of reserve
Foreign currency translation

The foreign currency translation reserve records the foreign currency difference arising from the translation of self-sustaining foreign operations. Refer to accounting policy Note 1(e).

19 Accumulated losses

	CONSOLIDATED 2005 $'000	CONSOLIDATED 2004 $'000	THE COMPANY 2005 $'000	THE COMPANY 2004 $'000
Accumulated losses at the beginning of year	(32,571)	(34,693)	(32,617)	(34,698)
Net (loss) / profit	(10,640)	2,122	(10,449)	2,081
Accumulated losses at the end of the year	(43,211)	(32,571)	(43,066)	(32,617)

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Ainsworth Game Technology Limited and its controlled entities

For the year ended 30 June 2005

20 Additional financial instruments disclosure

(a) Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below.

	Note	Weighted average interest rate	Floating interest rate $'000	Fixed interest maturing in: 1 year or less $'000	1 to 5 years $'000	more than 5 years $'000	Non-interest bearing $'000	Total $'000
2005								
Financial assets								
Cash assets	6	-	-	-	-	-	752	752
Receivables	7	10.2%	-	17,695	4,284	-	27,427	49,406
			-	17,695	4,284	-	28,179	50,158
Financial liabilities								
Payables	13	6.0%	-	-	1,794	-	23,605	25,399
Loan from director/shareholder	14	6.0%	-	-	26,300	-	-	26,300
Convertible notes	14	8.0%	-	-	22,787	-	-	22,787
Employee benefits	16	5.5%	562	-	-	-	1,685	2,247
Hire purchase liabilities	14	8.2%	-	193	354	-	-	547
			562	193	51,235	-	25,290	77,280
2004								
Financial assets								
Cash assets	6	-	-	-	-	-	2,443	2,443
Receivables	7	12.0%	-	3,505	1,898	-	27,529	32,932
			-	3,505	1,898	-	29,972	35,375
Financial liabilities								
Payables	13	4.5%	1,462	-	-	-	14,139	15,601
Loan from director/shareholder	14	5.0%	-	-	15,000	-	-	15,000
Amount payable on business asset acquisition	14	7.0%	-	1,604	-	-	-	1,604
Employee benefits	16	5.5%	199	-	-	-	917	1,116
Hire purchase liabilities	14	8.5%	-	98	280	-	-	378
			1,661	1,702	15,280	-	15,056	33,699

20 Additional financial instruments disclosure (continued)

(b) Foreign exchange risk

The consolidated entity enters into forward foreign exchange option contracts to hedge a proportion of anticipated purchase and sale commitments denominated in foreign currencies (principally US dollars) expected in each month, within the following year subject to Board approved limits. The amount of anticipated future purchases and sales is forecast in light of current conditions in foreign markets, commitments from customers and experience. All sales and purchases from the first of each month are designated as being hedged until all hedge contracts are fully utilised. Notes 1(e) and 1(f) set out the accounting treatment for these contracts.

The following table sets out the gross value to be received under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the consolidated entity.

	CONSOLIDATED			
	2005	**2004**	**2005**	**2004**
	Weighted average rate		**$'000**	**$'000**
Sell US dollars				
Not later than one year	-	0.73	-	24,540

The net deferred costs on hedges of anticipated foreign currency and sales recognised in other creditors and accruals at Note 13 and the timing of their anticipated recognition as part of sales are:

	CONSOLIDATED Net gains/(losses)	
	2005	**2004**
	$'000	**$'000**
Sell US dollars		
Not later than one year	-	(240)

(c) Credit risk exposures

Credit risk is the loss that would be recognised if counterparties failed to perform as contracted.

Recognised financial instruments

The credit risk on financial assets of the consolidated entity, which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

The consolidated entity attempts to minimise concentrations of credit risk and undertakes to perform due diligence procedures on major new customers.

Concentration of credit risk on trade and term debtors exists from customers. A customer in Russia owed 15% (2004: 39%) and a Mexican customer owed 22% (2004: 6%) of the total trade and term debtors at balance date.

20 Additional financial instruments disclosure (continued)

(c) Credit risk exposures (continued)

Unrecognised financial instruments

Credit risk on derivative contracts which have not been recognised on the statement of financial position is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

(d) Net fair values of financial assets and liabilities

Valuation approach

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following bases:

Recognised financial instruments
Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable on-market yield having regard to the timing of the cash flows. The carrying amounts of cash assets, trade debtors, other debtors, payables, convertible notes, hire purchase liabilities and employee benefits approximate net fair value.

The fair value of the loan from a company controlled by a director/shareholder is $24,159,634 (2004: $13,493,673) with a carrying amount of $26,300,000 (2004: $15,000,000).

Unrecognised financial instruments
The valuation of financial instruments not recognised on the statement of financial position detailed in this note reflects the estimated amounts which the consolidated entity expects to pay or receive to terminate the contracts (net of transaction costs), or replace the contracts at their current market rates as at reporting date. This is based on independent market quotations and determined using standard valuation techniques.

	Note	CONSOLIDATED 2005 $'000	CONSOLIDATED 2004 $'000	THE COMPANY 2005 $'000	THE COMPANY 2004 $'000
21 Commitments					
Hire purchase payment commitments					
Hire purchase commitments are payable:					
Within one year		237	125	231	125
One year or later and no later than five years		374	305	357	305
		611	430	588	430
Less: Future hire purchase finance charges		(64)	(52)	(60)	(52)
		547	378	528	378
Hire purchase liabilities provided for in the financial statements:					
Current	14	193	98	193	98
Non-current	14	354	280	335	280
Total hire purchase liability		547	378	528	378

The consolidated entity acquires plant and equipment under hire purchase agreements expiring from one to three years.

	CONSOLIDATED 2005 $'000	CONSOLIDATED 2004 $'000	THE COMPANY 2005 $'000	THE COMPANY 2004 $'000
Non-cancellable operating lease expense commitments				
Future operating lease commitments not provided for in the financial statements and payable:				
Within one year	428	355	280	284
One year or later and no later than five years	261	294	-	128
	689	649	280	412

The consolidated entity leases property under non-cancellable operating leases expiring from one to three years and generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Leases comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

	CONSOLIDATED		THE COMPANY	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000

21 Commitments (continued)

Employee remuneration commitments

The consolidated entity has entered into employment contracts with certain employees. Those agreements contemplate an initial term of between three and five years, subject to rights of termination.

Specified executives (excluding directors)

Commitments under non-cancellable employment contract not provided for in the financial statements and payable:

	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Within one year	594	661	594	661
One year or later and no later than five years	1,386	2,203	1,386	2,203
	1,980	2,864	1,980	2,864

22 Controlled entities

(a) Particulars in relation to controlled entities

	Country of Incorporation	Ordinary Shares Consolidated Entity Interest 2005 %	2004 %
Parent Company			
Ainsworth Game Technology Limited	Australia	-	-
Controlled entities			
AGT Pty Ltd	Australia	100	100
Ainsworth Game Technology Inc (USA)	USA	100	100
Ainsworth Game Technology (UK) Ltd	UK	100	100
Ainsworth International GmbH	Austria	100	100
Ainsworth Game Technology (NZ) Ltd	New Zealand	100	100
AGT Service Pty Ltd	Australia	100	-
AGT Service (NSW) Pty Ltd	Australia	100	-
Bull Club Services Pty Ltd	Australia	100	-

Notes to the financial statements

Ainsworth Game Technology Limited and its controlled entities

For the year ended 30 June 2005

22 Controlled entities (continued)

(b) Acquisition of controlled entities

During the financial year the consolidated entity purchased 100% of the voting shares of AGT Service (NSW) Pty Ltd and Bull Club Services Pty Ltd. Details of these acquisitions are as follows:

	CONSOLIDATED		*THE COMPANY*	
	2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**
Consideration	1,505	-	-	-
Cash acquired	(42)	-	-	-
Shares issued in lieu of consideration	(1,380)	-	-	-
Outflow of cash	83	-	-	-
Fair value of net assets of entities acquired:				
Cash assets	42	-	-	-
Receivables	279	-	-	-
Inventories	73	-	-	-
Property, plant and equipment	102	-	-	-
Payables	(45)	-	-	-
Hire purchase liabilities	(21)	-	-	-
Employee entitlements provisions	(334)	-	-	-
	96	-	-	-
Goodwill on acquisition	1,409	-	-	-
Consideration	1,505	-	-	-

AGT Service (NSW) Pty Ltd and Bull Club Services Pty Ltd were acquired on 13 December 2004 and 2 March 2005 respectively. The operating results of the entities from these dates have been included in the consolidated operating profit. The entities perform venue maintenance services within New South Wales. For further details refer note 17.

(c) Acquisition of business assets

On 2 January 2003 the consolidated entity acquired the business and intellectual property of Victorian Gaming Systems Manufacturing Pty Ltd, a Victorian based gaming machine manufacturer and distributor for a total potential consideration of $3,268,000. The balance of the maximum possible purchase price of $2,709,000 was deferred of which $1,500,000 was only payable on achieving established performance criteria. This criterion has been achieved and goodwill of $1,432,000 was recorded. The balance of the purchase price of $1,604,000 was paid in the 30 June 2005 financial year.

	Note	*CONSOLIDATED* 2005 $'000	*CONSOLIDATED* 2004 $'000	*THE COMPANY* 2005 $'000	*THE COMPANY* 2004 $'000
23 Investments accounted for using the equity method					
Share of net profits accounted for using the equity method included in the statement of financial performance					
- Associates	(a)	203	-	-	-

(a) Investments in associates

Details of investments in associates are as follows:

Name	Principal Activities	Reporting Date	*Ordinary share Ownership Interest* *CONSOLIDATED AND THE COMPANY* 2005 %	*Ordinary share Ownership Interest* *CONSOLIDATED AND THE COMPANY* 2004 %	*Investment carrying amount* *CONSOLIDATED* 2005 $'000	*Investment carrying amount* *CONSOLIDATED* 2004 $'000	*Investment carrying amount* *THE COMPANY* 2005 $'000	*Investment carrying amount* *THE COMPANY* 2004 $'000
J&A Machines Pty Ltd	Service	30 June	49	-	1,964	-	-	-
RE&R Baker and Associates Pty Ltd	Service	30 June	49	-	239	-	-	-
					2,203	-	-	-

23 Investments accounted for using the equity method (continued)

(a) Investments in associates (continued)

	CONSOLIDATED 2005 $'000	CONSOLIDATED 2004 $'000
Share of post-acquisition retained profits and reserves attributable to associates		
Retained profits		
Share of associates retained profits at beginning of year	-	-
Share of associates net profits accounted for using the equity method	203	-
Share of associates retained profits at end of year	203	-
Movements in carrying amount of investments		
Carrying amount of investments in associates at beginning Of year	-	-
Investments in associates acquired during the year	2,000	-
Share of associates net profit	203	-
Carrying amount of investments in associates at end of year	2,203	-
Contingent liabilities		
Share of associates contingent liabilities		
(i) Guaranteed bank facilities	100	-
(ii) Retirement benefits payable on termination in certain circumstances to directors under service agreements	180	-
	280	-
Summary financial position of associates		
The consolidated entity's share of aggregate assets and liabilities of associates is as follows:		
Current assets	367	-
Non-current assets	550	-
Total assets	917	-
Current liabilities	259	-
Non-current liabilities	13	-
Total liabilities	272	-
Net assets – as reported by associates	645	-
Adjustments arising from equity accounting: Goodwill (net of amortisation)	1,558	-
Net assets – equity adjusted	2,203	-

Notes to the financial statements

Ainsworth Game Technology Limited and its controlled entities

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24 Notes to the statements of cash flows

(a) Reconciliation of cash

For the purpose of the statements of cash flows, cash includes cash on hand and at bank. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:

	Note	*CONSOLIDATED*		*THE COMPANY*	
		2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**
Cash at bank and on hand	6	752	2,443	588	2,429

(b) Reconciliation of (loss) / profit from ordinary activities after income tax to net cash used in operating activities

	2005 $'000	2004 $'000	2005 $'000	2004 $'000
(Loss) / profit from ordinary activities after income tax	(10,640)	2,122	(10,449)	2,081
Add/(less) items classified as investing/financing activities:				
Profit on sale of non-current assets	(4)	(7)	(4)	(7)
Add/(less) non-cash items:				
Depreciation and amortisation	2,440	1,841	2,157	1,830
Amounts set aside to provisions	1,990	(1,587)	2,665	(1,589)
Increase in income taxes payable	39	40	-	-
Share of associates	(203)	-	-	-
Net exchange differences	(100)	-	(108)	-
Net cash (used in) / provided by operating activities before change in assets and liabilities	(6,478)	2,409	(5,739)	2,315
Change in assets and liabilities adjusted for effects of purchase of business during the financial year:				
(Increase)/decrease in trade receivables	(16,940)	(27,236)	(20,558)	(27,289)
(Increase)/decrease in inventories	(18,341)	(3,224)	(18,445)	(3,193)
(Increase)/decrease in other assets	192	(322)	147	(219)
(Decrease)/increase in payables	9,189	10,931	11,100	10,870
Net cash used in operating activities	(32,378)	(17,442)	(33,495)	(17,516)

24 Notes to the statements of cash flows (continued)

(c) Non-cash financing and investment activities

During the year, the consolidated entity acquired plant and equipment by means of hire purchase agreements amounting to $175,000 (2004: $189,000).

During the year the consolidated entity issued 1,325,000 ordinary shares to acquire 100% of the voting shares in AGT Service (NSW) Pty Ltd and Bull Club Services Pty Ltd. Refer note 17.

	Note	*CONSOLIDATED*		*THE COMPANY*	
		2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**
25 Employee benefits					
Aggregate liability for employee benefits, including on-costs					
Current	16	1,685	917	1,482	917
Non-current	16	562	199	445	199
		2,247	1,116	1,927	1,116

	2005	2004	2005	2004
Number of employees				
Number of employees at year end	297	231	292	228

Employee Share Option Plan

The Company has in place an Employee Share Option Plan ("ESOP") approved on 30 July 2001.

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

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

25 Employee benefits (continued)

Employee Share Option Plan (continued)

The vesting and performance conditions of these share options are as follows:

Date	Vesting Condition (% of Options vesting)	Performance Condition (VWAP* must equal or exceed)
First Anniversary of Grant Date	25%	$1.00
Second Anniversary of Grant Date	25%	$1.20
Third Anniversary of Grand Date	50%	$1.40

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

On 31 August 2004 1,885,000 share options were issued. Of these share options issued, 765,000 were at an exercise price of $1.00 and 1,120,000 at an exercise price of $0.50. During the financial year 180,000 share options at $1.00 and 190,000 at $0.50 expired due to cessation of employment. As at 30 June 2005 1,515,000 of these share options were outstanding to 45 employees, being 585,000 at $1.00 and 930,000 at $0.50. As the share options have yet to reach the performance hurdles, no options are available to be exercised or have vested at 30 June 2005.

The Company previously issued 2,560,000 share options to 85 employees on 7 December 2001. These share options have an exercise price of $1.00 and expire on 7 December 2006. During the current period 375,000 share options have expired due to cessation of employment. The share options outstanding at 30 June 2005 are 1,340,000 attributable to 45 employees (2004: 1,715,000). As the share options have yet to reach the performance hurdles, no options are available to be exercised or have vested at 30 June 2005.

The market value of shares under the above options at 30 June 2005 was $0.46.

Superannuation plans
The Company and controlled entity contribute to various defined contribution superannuation plans. The Company and controlled entity have a legally enforceable obligation to contribute to the plans.

26 Director and executive disclosures

Remuneration of specified directors and specified executives by the consolidated entity

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages include a mix of fixed remuneration, including non-monetary benefits, performance-based remuneration, and equity-based remuneration.

The remuneration structures explained below are designed to attract suitably qualified candidates, and to effect the broader outcome of increasing the consolidated entity's net profit.

26 Director and executive disclosures (continued)

Remuneration of specified directors and specified executives by the consolidated entity (continued)

Senior executives may receive cash bonuses based on the achievement of specific performance hurdles. The performance hurdles are a blend of the consolidated entity's and individual performance results. There is no separate profit-share plan.

Options are issued under the Employee Share Option Plan. The ability to exercise the options is conditional on the consolidated entity achieving the above mentioned performance hurdles.

The Board considers that the above performance-linked remuneration structure is generating the desired outcome. The evidence for this is firstly, the very strong growth in the current year, and secondly, the performance-linked element of the structure appears to be appropriate because most but not all of the executives achieve a level of performance which qualifies them for bonuses and options.

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2000 AGM, is not to exceed $500,000 per annum. Directors' base fees are presently up to $50,000 per annum. Non-executive directors do not receive bonuses nor were they issued options on securities during the year as the Directors' Option Plan was suspended. Mr SL Wallis was granted share options under the Directors' Option Plan in the 2003 financial year. Directors' fees cover all main board activities and membership of committees.

Specified executives have employment agreements in place with the consolidated entity. The terms of these employment agreements allow for termination benefits of between 1 – 6 months excluding those disclosed in Note 21 to the financial statements.

The termination benefits within Note 21 are for non-cancellable employment agreements in excess of a 6 month notice period.

Amounts may be payable in excess of the above subject to mutual agreement and negotiation between the parties.

The following table provides the details of all directors of the Company ("specified directors") and the five or more executives of the consolidated entity with the greatest authority ("specified executives") and the nature and amount of the elements of their remuneration for the year ended 30 June 2005.

26 Director and executive disclosures (continued)

Remuneration of specified directors and specified executives by the consolidated entity (continued)

		Primary			Post Employment	Equity	Other compensation		
		Salary & Fees $	Bonus $	Non-monetary benefits $	Super-annuation benefits $	Value of options $	Termination benefits (A) $	Other benefits $	Total (A) $
Specified directors									
Non-executive									
Current									
Mr SL Wallis	2005	50,000	-	-	4,500	9,735	-	-	64,235
	2004	50,000	-	-	4,500	17,594	-	-	72,094
Mr AR Amer	2005	50,000	-	-	4,500	-	-	-	54,500
	2004	37,179	-	-	3,346	-	-	-	40,525
Mr VB Matthews	2005	50,000	-	-	-	-	-	-	50,000
	2004	42,885	-	-	-	-	-	-	42,885
Former									
Mr JM Cowling	2005	8,333	-	-	750	-	-	-	9,083
	2004	42,885	-	-	3,860	-	-	-	46,745
Mr J Kehoe	2005	-	-	-	-	-	-	-	-
	2004	12,500	-	-	1,125	9,461	-	-	23,086
Mr DC Hall	2005	-	-	-	-	-	-	-	-
	2004	12,500	-	-	1,125	25,661	-	-	39,286
Executive									
Current									
Mr LH Ainsworth	2005	200,000	-	-	-	-	-	30,000	230,000
	2004	183,335	-	-	-	-	-	30,000	213,335
Former									
Mr JM Cowling	2005	100,000	-	-	9,000	-	-	12,500	121,500
	2004	-	-	-	-	-	-	-	-
Mr PR James	2005	-	-	-	-	-	-	-	-
	2004	46,433	-	-	4,643	-	555,743	-	606,819
Total, all specified directors	2005	458,333	-	-	18,750	9,735	-	42,500	529,318
	2004	427,717	-	-	18,599	52,716	555,743	30,000	1,084,775

26 Director and executive disclosures (continued)

Remuneration of specified directors and specified executives by the consolidated entity (continued)

		Primary			Post Employment	Equity	Other compensation		
		Salary & Fees $	Bonus $	Non-monetary benefits $	Super-annuation benefits $	Value of options $	Termination benefits (A) $	Other benefits $	Total (A) $
Specified executives									
Current									
Mr DP Creary	2005	137,564	-	-	12,381	80,750	-	11,250	241,945
	2004	-	-	-	-	-	-	-	-
Mr PW Walford	2005	253,487	-	20,833	15,415	14,873	-	-	304,608
	2004	-	-	-	-	-	-	-	-
Mr ML Ludski	2005	180,500	-	36,610	16,245	11,932	-	33,000	278,287
	2004	156,834	29,000	37,713	14,115	18,241	-	33,000	288,903
Mr K Orchard	2005	473,503	-	24,065	-	7,784	-	-	505,352
	2004	273,679	-	20,143	-	7,828	-	-	301,650
Mr G Steiner	2005	637,050	-	85,924	79,497	30,051	-	-	832,522
	2004	415,101	-	40,818	52,305	21,636	-	-	529,860
Former									
Mr SW Eeles	2005	150,000	-	21,823	13,500	-	44,879	9,417	239,619
	2004	146,833	32,000	22,482	13,215	18,241	-	-	232,771
Mr HW Zeidler	2005	171,875	-	20,771	15,469	-	198,962	-	407,077
	2004	277,083	25,000	34,686	24,937	9,315	-	-	371,021
Total, all specified executives	2005	2,003,979	-	210,026	152,507	145,390	243,841	53,667	2,809,410
	2004	1,269,530	86,000	155,842	104,572	75,261	-	33,000	1,724,205

The above amounts do not include insurance premiums paid or payable in respect of Directors' and Officers' liability insurance contracts as disclosure of such amounts is prohibited under the terms of the insurance contract.

Note

(A) Mr SW Eeles and Mr HW Zeidler ceased employment during the financial year and termination benefits include statutory entitlements of $44,879 and $33,016 respectively.

Equity instruments

All options refer to options over ordinary shares of Ainsworth Game Technology Limited, which are exercisable on a one-for-one basis.

26 Director and executive disclosures (continued)

Remuneration of specified directors and specified executives by the consolidated entity (continued)

Equity instruments (continued)

Options and rights over equity instruments granted as remuneration

During the reporting period, the following options over ordinary shares were granted and vested during the current year under the plan:

	Number of options granted during the year	Grant Date	Exercise Price	Expiry Date	Number of options vested during the year	Fair value per option
Specified executives						
Mr DP Creary	1,000,000	15/02/05	$1.00	15/02/10	-	$0.23
Mr ML Ludski	50,000	31/08/04	$0.50	31/08/09	-	$0.06
Mr PW Walford	70,000	31/08/04	$1.00	31/08/09	-	$0.05
	70,000	31/08/04	$0.50	31/08/09	-	$0.06

No options have been granted since the end of the financial year. The options were provided at no cost to the recipients.

All options expire on the earlier of their expiry date or termination of the individual's employment. In addition to a continuing employment service condition, the ability to exercise options is conditional on the consolidated entity achieving certain performance hurdles.

Further details, including grant dates and exercise dates regarding options granted to executives are in note 25.

Exercise of options granted as remuneration

During the reporting period no shares were issued on the exercise of options previously granted.

26 Director and executive disclosures (continued)

Equity instruments (continued)

Option holdings

The movement during the reporting period in the number of options over ordinary shares in Ainsworth Game Technology Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities, is as follows:

	Held at 1 July 2004	**Granted**	**Exercised**	**Other Changes***	**Held at 30 June 2005**	**Vested and exercisable at 30 June 2005**
Specified directors						
Current						
Mr SL Wallis	300,000	-	-	-	300,000	-
Specified executives						
Current						
Mr DP Creary	-	1,000,000	-	-	1,000,000	-
Mr ML Ludski	250,000	50,000	-	-	300,000	-
Mr K Orchard	150,000	-	-	-	150,000	-
Mr G Steiner	300,000	-	-	-	300,000	-
Mr PW Walford	-	140,000	-	-	140,000	-
Former						
Mr HW Zeidler	200,000	-	-	(200,000)	-	-

No options held by specified directors or specified executives are exercisable.

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

Included in the share options granted to Mr Creary were 500,000 share options which were only capable of being exercised on the achievement of short term performance hurdles for the financial year ended 30 June 2005. These performance hurdles were not met and 500,000 share options will lapse on 31 August 2005.

Directors' Option Plan

At the 2003 AGM the Directors' Option Plan was suspended in relation to any further issuing of share options. Detailed below are share options issued prior to the suspension of the Directors' Option Plan.

Messrs DC Hall, SL Wallis and J Kehoe or permitted nominees were each issued 300,000 share options under the Directors' Option Plan. These share options were issued on 25 November 2002 for nil consideration and have an exercise price of $1.15 each. The options have an exercise period of five years and expire on 25 November 2007 or earlier should they cease employment with the company unless otherwise approved by shareholders. These share options have the same terms and conditions as those issued under the ESOP (refer note 25).

Messrs DC Hall and J Kehoe were each issued 300,000 share options to replace the previously issued share options that lapsed on their respective resignations. These share options were approved by the shareholders at the 2003 AGM and are issued under the same terms and conditions of the options that were originally issued.

Notes to the financial statements

Ainsworth Game Technology Limited and its controlled entities

For the year ended 30 June 2005

26 Director and executive disclosures (continued)

Equity instruments (continued)

Directors' Option Plan (continued)

As the share options have yet to reach the performance hurdles, no options are available to be exercised at 30 June 2005. The market value of shares under these options at 30 June 2005 was $0.46.

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of Ainsworth Game Technology Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

	Held at 1 July 2004	Purchases	Movement on exercise of options	Sales	Held at 30 June 2005
Specified directors					
Current					
Mr LH Ainsworth	88,179,727	441,134	(250,000)	(160,000)	88,210,861
Mr VB Matthews	51,430	20,000	-	-	71,430
Mr SL Wallis	158,001	2,000	-	-	160,001
Mr AR Amer	49,000	-	-	-	49,000
Former					
Mr JM Cowling	64,286	-	250,000	(314,286)	-
Specified executives					
Current					
Mr DP Creary	-	20,000	-	-	20,000
Mr K Orchard	9,090	25,437	-	(17,000)	17,527
Former					
Mr HW Zeidler	125,572	-	-	(125,572)	-

Directors' transactions with the Company or its controlled entities

The consolidated entity leased premises in Queensland and associated plant and equipment from an entity controlled by Mr LH Ainsworth. During the year ended 30 June 2005, the consolidated entity paid rent of $94,580 (2004: $87,150) on normal commercial terms and conditions.

Amounts owing to an entity controlled by Mr LH Ainsworth at 30 June 2005 are disclosed in Notes 13 and 14. Terms and conditions of loan amounts provided by an entity controlled by Mr LH Ainsworth are disclosed in Note 15. Interest paid and/or payable during the financial year amounted to $1,253,000 (2004:$528,000).

Interest paid/payable during the financial year to Mr LH Ainsworth and an entity controlled by him for Convertible Notes held was $561,000 (2004: $Nil). This interest was under the same terms and conditions as all Convertible Note holders. Refer note 14.

Mr LH Ainsworth received $230,000 (2004: $213,335) during the financial year for the provision of services under a consultancy agreement for his role as Executive Chairman. These services were in the ordinary course of business and on normal commercial terms and conditions.

27 Segment information

(a) Business segments

Primary reporting

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The consolidated entity operates in one business segment, which is the design, development, manufacturing and distribution of gaming machines.

(b) Geographical segments

Secondary reporting

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

	AUSTRALIA		AMERICAS		EUROPE *		REST OF WORLD		CONSOLIDATED	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
External segment revenue by location of customers	23,521	22,762	31,378	8,346	17,835	22,622	9,303	9,997	82,037	63,727
Segment assets by location of assets	110,479	73,572	82	69	434	289	63	52	111,058	73,982
Acquisitions of non-current assets	3,688	2,388	44	-	31	67	26	-	3,789	2,455

* Europe includes Russia

28 Earnings per share

Classification of securities as ordinary shares

All securities on issue have been classified as ordinary shares and included in basic earnings per share.

Classification of securities as potential ordinary shares

Share options on issue have not been classified as potential ordinary shares as they are not dilutive.

Earnings

Earnings used in the calculation of basic and diluted earnings per share was a net loss of $10,640,000.

28 Earnings per share (continued)

Weighted average number of shares used as the denominator

The number of shares used in the calculation of basic and diluted earnings per share is 148,555,719. The following share options have not been included in the calculation of diluted EPS as they are not dilutive:

- Issue date 7 December 2001 1,340,000
- Issue date 18 December 2001 4,000,000
- Issue date 25 November 2002 900,000
- Issue date 1 September 2003 100,000
- Issue date 1 November 2003 300,000
- Issue date 1 April 2004 150,000
- Issue date 31 August 2004 1,515,000
- Issue date 15 February 2005 1,000,000

Full details of these options are set out in Notes 17, 25 and 26.

29 Contingent liability

The directors are of the opinion that a provision is not required in respect of the matters set out below, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Contingent liability considered remote

Claim under Royalty Agreement

On 5 May 2005 proceedings were commenced in the Federal Court of Australia against the Company over certain claims in connection with a Royalty Agreement. The Company is a party to a royalty agreement with SilkEarl Pty Limited ("SilkEarl") dated 27 July 1999, as amended. The royalty agreement contains a licence of certain gaming machine technology for a period of 99 years. In the proceedings, claims are made for payments under the Royalty Agreement which are disputed by the Company and for damages in relation to alleged misleading and/or unconscionable conduct which are also denied by the Company.

The Company has received legal and technical advice on the claims that have been made. A claim for immaterial amounts has been provided for by the Company. Additional claims for significant amounts have been made. The total amount of such additional claims are not quantified and are not capable of reliable measurement.

Based on the information available to date, the directors have formed the opinion that the above claims have no foundation and will not succeed. If the Company were wrong in its view and the claims are successfully pursued against the Company, the Company may face a liability in an amount that would have a material adverse impact on the Company.

The above matter is now proceeding in accordance with the timetable set by the court.

29 Contingent liability (continued)

Contingent liability considered remote (continued)

Other litigation

An individual who claims to represent a group of problem gamblers has filed an application in the Federal Court of Australia to obtain access to documents held by the Company and other respondents to that action.

The application has also been made in respect of 19 other respondents, including State Governments, Gaming Machine Manufacturers and Industry Associations. The Company is awaiting further information from the applicant as to the basis for the application. The Company and the other respondents will not be required to respond until that further information has been provided. The applicant has also indicated that she may discontinue the application against some respondents, not including the Company.

30 Regulatory matters

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

The Company is the subject of an investigation by the Queensland Office of Gaming Regulation ("QOGR") in relation to the Company's Queensland Licence. The investigation relates to an obligation to notify the QOGR of certain product faults in approved gaming machines. If the QOGR were to make adverse findings on the Company's conduct in relation to this matter a range of sanctions could be imposed on the Company and certain sanctions could have an adverse impact on the objectives and financial performance of the Company in future financial years. The Company is co-operating with the QOGR in relation to these matters. As a result of these matters the Company has sought to improve its compliance systems and the culture of compliance within the Company.

In addition to the above, the Company has received notification that the appointment by the Company of the Chief Executive Officer breached an approval requirement of the Victorian Commission of Gaming Regulation (VCGR). The VCGR are also reviewing certain product related issues identified above. The Company is co-operating with the VCGR in relation to these matters.

31 Impact of adopting Australian equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

Transition management

The Board has established a formal implementation project, monitored by the audit committee, to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the consolidated entity is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

Assessment and planning phase

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures, systems and processes, business structure and staff. This phase included:

- High level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS;
- Assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes;
- Evaluation of the implications for staff, for example training requirements; and
- Preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The assessment and planning phase is complete as at 30 June 2005.

31 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

Design phase

The design phase formulated the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS. The design phase included work on areas such as treasury operations, application of impairment requirements and transitional elections.

The design phase incorporated:

- Formulation of revised accounting policies and procedures for compliance with AIFRS requirements;
- Identification of potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of AIFRS;
- Development of revised AIFRS disclosures;
- Formulation of accounting and business processes to support AIFRS reporting obligations;
- Identification of required changes to financial reporting and business source systems; and
- Development of training programs for staff.

The design phase is complete as at 30 June 2005.

Implementation phase

The implementation phase includes implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff and enables the consolidated entity to generate the required reconciliations and disclosures of AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards.*

This phase is complete as at 30 June 2005.

Impact of transition to AIFRS

The impact of transition to AIFRS, including the transitional adjustments disclosed in the reconciliations from current Australian GAAP to AIFRS, and the selection and application of AIFRS accounting policies are based on AIFRS standards that management expect to be in place, when preparing the first complete AIFRS financial report (being the half-year ending 31 December 2005). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary, therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

31 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

Impact of transition to AIFRS (continued)

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AIFRS, consequently the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this Note.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- Changes in financial reporting requirements that are relevant to the Company's and consolidated entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report;

- Additional guidance on the application of AIFRS in a particular industry or to a particular transaction; and

- Changes to the Company's and consolidated entity's operations.

The rules for first time adoption of AIFRS are set out in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The Standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS. The accounting policies note includes details of the AASB 1 elections adopted.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out below:

(a) Property, plant and equipment

Under AIFRS the gain or loss on the disposal of property, plant and equipment will be recognised on a net basis as a gain or loss rather than separately recognising the consideration received as revenue. For the Company and the consolidated entity an amount of $26,000 is expected to be reclassified from revenue to other expenses for the financial year ended 30 June 2005.

(b) Business combinations

As permitted by the election available under AASB 1, the classification and accounting treatment of business combinations that occurred prior to transition date have not been restated in preparing the opening AIFRS balance sheet. The assets and liabilities are then subject to the other requirements of AASB 1.

31 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

Impact of transition to AIFRS (continued)

(b) Business combinations (continued)

Comparative period

Business combinations that occurred on or after 1 July 2004 will be restated to comply with AIFRS. All business combinations will be accounted for by applying the purchase method. The expected adjustments in the consolidated entity are detailed below. No adjustments are expected for the Company.

In these financial statements for the year ended 30 June 2005 prepared under Australian GAAP the excess of purchase consideration over the fair value of net assets acquired is recorded as goodwill on consolidation. Goodwill was amortised over 20 years from the date of acquisition, resulting in an amortisation charge of $211,000.

Under AIFRS assets acquired in a business combination that meet the definition of an intangible asset must be recorded separately from goodwill. Such intangible assets either arising from contractual or legal rights or that are separable are to be amortised over the period of the expected future benefit.

During the financial year ended 30 June 2005, the consolidated entity acquired two companies (refer note 22(b)). Management determined the fair value of the other intangible assets within these companies by reviewing the existence of other intangible assets and preparing a discounted cash flow analysis. This identified an intangible asset relating to customer contracts on the acquisition of a venue maintenance business of $1,223,000.

The impact of the above is that $1,223,000 was transferred from goodwill to other intangible assets. This balance will be amortised from the date of acquisition over a period of 8 years, being the estimated period of expected future economic benefits. The amortisation charge under AIFRS for the year ended 30 June 2005 amounted to $76,000.

(c) Intangible assets

Goodwill

Goodwill represents the difference between the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

In respect of acquisitions prior to transition date, goodwill is expected to be included on the basis of its deemed cost, which represents the amount recorded under Australian GAAP, adjusted for reclassifications of other intangible assets not meeting the AIFRS recognition criteria. No reclassifications are expected.

Goodwill will be stated at cost less any accumulated impairment losses. Goodwill will be allocated to cash generating units and tested annually for impairment (refer (f) for further details on impairment testing).

31 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

Impact of transition to AIFRS (continued)

(c) Intangible assets (continued)

Research and development
Under Australian GAAP, research and development expenses are expensed as incurred.

Under AIFRS, expenditure on development activities must be capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete the development. Capitalised development expenditure will be stated at cost less accumulated amortisation and impairment losses.

On transition as at 1 July 2004, development expenditure meeting the above criteria for capitalisation that have been expensed previously under AGAAP are expected to be recognised as intangible assets and an adjustment of $5,964,000 is expected to be made to increase assets and decrease accumulated losses of the Company and consolidated entity at 1 July 2004.

Development costs are being reviewed against the recognition criteria and tested for impairment. No impairment losses are expected.

Comparative period
The impact of the above accounting policy on the year ended 30 June 2005 is expected to be as follows:

- Capitalised development costs to be amortised over the period of expected future economic benefits, being 5 years. The amortisation charge for the year amounted to $4,416,000; and

- Development costs of $3,916,000 were capitalised as an asset as they met the designated recognition criteria detailed above.

The net impact of the above adjustments would be expected to decrease earnings by $500,000 for the year ended 30 June 2005.

Other intangible assets
Other intangible assets acquired will be stated at cost less accumulated amortisation and impairment losses.

On transition other intangible assets have been reviewed to ensure they are capable of recognition under AASB 138 *Intangible Assets* and tested for impairment. No reclassifications or impairment losses are expected.

31 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

Impact of transition to AIFRS (continued)

(c) Intangible assets (continued)

Amortisation

Amortisation will be recognised on a straight-line basis over the estimated useful lives of the intangible assets, unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life will not be subject to amortisation but tested for impairment annually. Other intangible assets will be amortised from the date they are available for use. Changes in useful life on transition to AIFRS will be accounted for prospectively. The estimated useful lives at 1 July 2004 are as follows:

	AIFRS	**Current A GAAP**
Capitalised development costs	3-5 years	Expensed
Goodwill	Indefinite	20 years

The impact on the results for the year ended 30 June 2005 is expected to be an increase of $133,000 from the reversal of the goodwill amortisation for the consolidated entity. The impact of the amortisation of capitalised development costs is included above.

(d) Impairment

Under current Australian GAAP the carrying amounts of non-current assets valued on a cost basis are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to the lower amount, with the write-down recognised in the income statement in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under AIFRS, the carrying amount of the consolidated entity's non-current assets, excluding deferred tax assets, goodwill and indefinite life intangible assets will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount.

Goodwill, which is not amortised under AIFRS (refer (c)), and intangible assets that have an indefinite useful life are tested for impairment annually.

If there is any indication that an asset is impaired (or for those tested annually), the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined.

31 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

Impact of transition to AIFRS (continued)

(d) Impairment (continued)

An impairment loss will be recognised whenever the carrying amount of an asset, or its cash generating unit exceeds its recoverable amount. Impairment losses will be recognised in the income statement.

There is no expected impact of this change in this standard at transition date or at 30 June 2005.

(e) Taxation

On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences will not be provided for; goodwill for which amortisation is not tax deductible, the initial recognition of assets and liabilities that affect neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

There is no expected impact of this change in this standard at transition date or at 30 June 2005.

31 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

Impact of transition to AIFRS (continued)

(f) Employee benefits

Share based payments
Under current Australian GAAP no expense is recognised for options issued to employees.

Under AIFRS, the fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value will be measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employee becomes unconditionally entitled to the options. The fair value of options granted will be measured, taking into account the terms and conditions attached to the options. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

For the financial year ended 30 June 2005, employee benefits expense and equity are expected to be increased by $213,000 in the consolidated entity and $213,000 in the Company representing the options expense for the period.

(g) Financial instruments

Ainsworth Game Technology Limited expects to take advantage of the election in AASB 1 to not restate comparatives for AASB 132 *Financial Instruments: Disclosure and Presentation*, and AASB 139 *Financial Instruments: Recognition and Measurement*. There are no expected adjustments in relation to these standards for 1 July 2004 or the financial year ended 30 June 2005 as current Australian GAAP is expected to continue to apply.

The entity has followed Australian GAAP in accounting for financial instruments within the scope of AASB 132 and AASB 139 as described in Note 1 Statement of significant accounting policies.

Impact on future financial years
A Company controlled by Mr LH Ainsworth has extended a loan of $26.3 million to the Company as at 30 June 2005 as disclosed in note 15 to the financial statements.

Under Australian GAAP, the face value of the loan is disclosed as a non-current liability. AIFRS requires that all financial assets and liabilities be recorded at fair value.

The fair value of the loan will be determined with reference to the interest rate that would have been charged on the loan had it been borrowed at a market rate and with a similar credit rating from an unrelated party.

As the transaction is with Mr LH Ainsworth, a controlling shareholder of the Company, the loan is considered to be a transaction with an owner. In this case the difference between the face value of the loan and its fair value is classified as equity. The loan is subsequently measured as amortised cost using the effective interest rate method. The unwinding of the difference is recognised as interest expense over the expected repayment term.

Notes to the financial statements

Ainsworth Game Technology Limited and its controlled entities

For the year ended 30 June 2005

31 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

Impact of transition to AIFRS (continued)

(g) Financial instruments (continued)

In addition, AIFRS requires transaction costs associated with the origination of the convertible notes to be included in the initial measurement of the financial liability. Accordingly, these transaction costs are offset against the convertible notes reducing total non-current liabilities. Under Australian GAAP these transaction costs were recorded as deferred expenditure in non-current assets.

Under AIFRS the transaction costs are expensed using the effective interest rate method whereas under Australian GAAP the expense was amortised on a straight-line basis. The Company has yet to quantify the impact of this difference in the transitional balance sheet or on the 2005 financial year as disclosed later in this Note. Any difference between the two methods will be disclosed in the first time full AIFRS financial report for the half-year ending 31 December 2005

Notes to the financial statements

Ainsworth Game Technology Limited and its controlled entities

For the year ended 30 June 2005

31 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

Summary of transitional adjustments

The following table sets out the expected adjustments to the statements of financial position of the Company and the consolidated entity at transition to AIFRS as at 1 July 2004 and for the AIFRS comparative period balance sheet as at 30 June 2005.

Reconciliation of equity

		CONSOLIDATED 1 July 2004			CONSOLIDATED 30 June 2005			THE COMPANY 1 July 2004			THE COMPANY 30 June 2005		
	Note	AGAAP $'000	Transition impact $'000	AIFRS $'000	AGAAP $'000	Transition impact $'000	AIFRS $'000	AGAAP $'000	Transition impact $'000	AIFRS $'000	AGAAP $'000	Transition impact $'000	AIFRS $'000
ASSETS													
Current Assets													
Cash and cash equivalents		2,443	-	2,443	752	-	752	2,429	-	2,429	588	-	588
Trade receivables		30,496	-	30,496	44,188	-	44,188	30,496	-	30,496	43,548	-	43,548
Inventories		17,612	-	17,612	35,578	-	35,578	17,581	-	17,581	35,578	-	35,578
Other current assets		688	-	688	790	-	790	585	-	585	712	-	712
Total current assets		**51,239**	**-**	**51,239**	**81,308**	**-**	**81,308**	**51,091**	**-**	**51,091**	**80,426**	**-**	**80,426**
Non-current assets													
Receivables		2,436	-	2,436	5,218	-	5,218	2,489	-	2,489	8,589	-	8,589
Investments		-	-	-	2,203	-	2,203	-	-	-	-	-	-
Property, plant & equipment		18,217	-	18,217	18,656	-	18,656	18,161	-	18,161	18,491	-	18,491
Intangible assets	(b), (c)	2,000	5,964	7,964	3,067	5,597	8,664	2,000	5,964	7,964	1,692	5,643	7,335
Other		90	-	90	606	-	606	90	-	90	606	-	606
Total non-current assets		**22,743**	**5,964**	**28,707**	**29,750**	**5,597**	**35,347**	**22,740**	**5,964**	**28,704**	**29,378**	**5,643**	**35,021**
Total assets		**73,982**	**5,964**	**79,946**	**111,058**	**5,597**	**116,655**	**73,831**	**5,964**	**79,795**	**109,804**	**5,643**	**115,447**

Notes to the financial statements

Ainsworth Game Technology Limited and its controlled entities

For the year ended 30 June 2005

31 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

Summary of transitional adjustments (continued)

Reconciliation of equity (continued)

		CONSOLIDATED 1 July 2004			CONSOLIDATED 30 June 2005			THE COMPANY 1 July 2004			THE COMPANY 30 June 2005		
		AGAAP $'000	Transition impact $'000	AIFRS $'000	AGAAP $'000	Transition impact $'000	AIFRS $'000	AGAAP $'000	Transition impact $'000	AIFRS $'000	AGAAP $'000	Transition impact $'000	AIFRS $'000
LIABILITIES													
Current Liabilities													
Payables		15,601	-	15,601	25,399	-	25,399	15,458	-	15,458	24,187	-	24,187
Interest bearing liabilities		1,702	-	1,702	193	-	193	1,702	-	1,702	193	-	193
Current tax liabilities		40	-	40	79	-	79	-	-	-	-	-	-
Provisions		917	-	917	1,685	-	1,685	917	-	917	1,482	-	1,482
Total current liabilities		18,260	-	18,260	27,356	-	27,356	18,077	-	18,077	25,862	-	25,862
Non-current Liabilities													
Payables		-	-	-	-	-	-	85	-	85	246	-	246
Interest bearing liabilities		15,280	-	15,280	49,441	-	49,441	15,280	-	13,774	49,422	-	49,422
Provisions		199	-	199	562	-	562	199	-	199	445	-	445
Total non current liabilities		15,479	-	15,479	50,003	-	50,003	15,564	-	15,564	50,113	-	50,113
Total liabilities		**33,739**	**-**	**33,739**	**77,359**	**-**	**77,359**	**33,641**	**-**	**33,641**	**75,975**	**-**	**75,975**
Net Assets		**40,243**	**5,964**	**46,207**	**33,699**	**5,597**	**39,296**	**40,190**	**5,964**	**46,154**	**33,829**	**5,643**	**39,472**

31 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

Summary of transitional adjustments (continued)

Reconciliation of equity (continued)

		CONSOLIDATED 1 July 2004			CONSOLIDATED 30 June 2005			THE COMPANY 1 July 2004			THE COMPANY 30 June 2005		
	Note	AGAAP $'000	Transition impact $'000	AIFRS $'000	AGAAP $'000	Transition impact $'000	AIFRS $'000	AGAAP $'000	Transition impact $'000	AIFRS $'000	AGAAP $'000	Transition impact $'000	AIFRS $'000
EQUITY													
Contributed equity		72,807	-	72,807	76,895	-	76,895	72,807	-	72,807	76,895	-	76,895
Other equity		-	83	83	-	296	296	-	83	83	-	296	296
Reserves		7	-	7	15	-	15	-	-	-	-	-	-
Accumulated losses		(32,571)	5,881	(26,690)	(43,211)	5,301	(37,910)	(32,617)	5,881	(26,736)	(43,066)	5,347	(37,719)
Total equity		**40,243**	**5,964**	**46,207**	**33,699**	**5,597**	**39,296**	**40,190**	**5,964**	**46,154**	**33,829**	**5,643**	**39,472**

31 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

Summary of transitional adjustments (continued)

Reconciliation of loss for the financial year ended 30 June 2005

The following table sets out the expected adjustments to the statements of financial performance of the Company and the consolidated entity for the year ended 30 June 2005

	NOTE	CONSOLIDATED For the year ended 30 June 2005 AGAAP $'000	Transition Impact $'000	AIFRS $'000	THE COMPANY For the year ended 30 June 2005 AGAAP $'000	Transition Impact $'000	AIFRS $'000
Revenue from sale of goods		81,006	-	81,006	81,006	-	81,006
Revenue from rendering of services		1,031	-	1,031	-	-	-
		82,037	-	82,037	81,006	-	81,006
Cost of goods sold		(46,724)	-	(46,724)	(46,604)	-	(46,604)
Gross profit		35,313	-	35,313	34,402	-	34,402
Other revenues from ordinary activities	(a)	433	(26)	407	433	(26)	407
Sales, service and marketing expenses		(22,604)	-	(22,650)	(20,468)	-	(20,468)
Research and development expenses	(c)	(10,318)	(500)	(10,818)	(10,318)	(500)	(10,818)
Administrative expenses	(c), (f)	(9,371)	(80)	(9,405)	(10,075)	(34)	(10,109)
Borrowing costs		(2,679)	-	(2,679)	(2,679)	-	(2,679)
Other expenses from ordinary activities	(a)	(1,560)	26	(1,534)	(1,744)	26	(1,718)
Share of net profit of associates accounted for using the equity method		203	-	203	-	-	-
		(46,329)	(554)	(46,883)	(45,284)	(508)	(45,792)
(Loss) / profit from ordinary activities before related income tax benefit / (expense)		(10,583)	(580)	(11,163)	(10,449)	(534)	(10,983)
Income tax expense relating to ordinary activities		(57)	-	(57)	-	-	-
Net (loss) / profit		(10,640)	(580)	(11,220)	(10,449)	(534)	(10,983)

31 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

Summary of transitional adjustments (continued)

The impact of the transition to AIFRS on retained earnings as at 1 July 2004 and 30 June 2005 is summarised below:

	CONSOLIDATED *$'000*	*THE COMPANY* *$'000*
Total equity as at 1 July 2004 under AGAAP	40,243	40,190
AIFRS reconciliation:		
- Increase in equity for employee share options	83	83
- Recognition of expense for employee share options	(83)	(83)
- Recognition of intangible asset for development expenditure	5,964	5,964
Total equity as at 1 July 2004 under AIFRS	46,207	46,154
Total equity as at 30 June 2005 under AGAAP	33,699	33,829
AIFRS reconciliation:		
- Increase in equity for employee share options	213	213
- Recognition of intangible asset for development expenditure	5,964	5,964
	6,177	6,177
Adjustments to current year P&L		
- Recognition of expense for employee share options	(213)	(213)
- Amortisation of intangible asset for development expenditure	(4,416)	(4,416)
- Capitalisation of development expenses	3,916	3,916
- De-recognition amortisation of goodwill on VGS acquisition	179	179
- Amortisation of intangible asset for Bytecraft service contracts	(46)	-
Accumulated losses adjustment as at 30 June 2005 under AIFRS	(580)	(534)
Total Equity as at 30 June 2005 under AIFRS	39,296	39,472

32 Events subsequent to reporting date

Funding Facilities

Since 30 June 2005 the Company has amended the loan facility agreement with an entity controlled by Mr LH Ainsworth. The facility now available has been increased from $30 million to $40 million.

The new terms of the facility are that effective 1 August 2005 the interest rate applicable on these loan funds has been increased and capped at 8.0% per annum. These terms are more favourable than those that could be achieved from the Company's bankers and at arms length in the open market. All other terms and conditions are similar to those previously reported.

Directors' declaration

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

   (a) the financial statements and notes, set out on pages 16 to 78 are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

   (ii) complying with Accounting Standards in Australia 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 the Chief Financial Officer for the financial year ended 30 June 2005.

Dated at Sydney this 25th day of August 2005

Signed in accordance with a resolution of the directors:

LH Ainsworth
Director

KPMG

Independent audit report
to the members of Ainsworth Game Technology Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes 1 to 32, and the directors' declaration for both Ainsworth Game Technology Limited (the "Company") and Ainsworth Game Technology Limited and its controlled entities (the "Consolidated Entity"), for the year ended 30 June 2005. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independent audit report

to the members of Ainsworth Game Technology Limited (continued)

Audit opinion

In our opinion, the financial report of Ainsworth Game Technology Limited is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2005 and of their performance for the financial year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

Tony Nimac
Partner

Sydney
25th August 2005