

Gaming Operations Limited  
Report & Financial Statements  
30 June 2020

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## **Directors' report**

The directors present their report and the audited financial statements for the year ended 30 June 2020.

### **Principal activities**

Gaming Operations Limited (the "Company") was registered on the 27 June 2002. The company's core activities are the management and operation of Video Lottery Terminals (VLT's), inclusive also of a fully-fledged sports betting service and commercial bingo which have remained unaltered since last year.

### **Review of business development**

Whilst the Company was consistently growing its product and revenue base, the second half of this financial year was drastically impacted by the Covid-19 pandemic which had both short- and medium-term effects on the business of the Company. In fact, in the first week of March the government started to gradually escalate public health restrictions in relation to the pandemic, which had a materially adverse effect on the business of the Company and also the wider economic activity in the country.

The primary impact of the restrictions was felt when the public health authorities imposed widespread closures across all hospitality, leisure and entertainment facilities, including gaming premises, for a three-months period, resulting in a complete halt of all the Company's revenue streams. Pursuant to the re-opening of the operations, the Company has gradually rebuilt its revenue base, seeking to rebuild to the previous year levels. The negative financial impact of the closure and the wider revenue slowdown was partially softened by the government support in terms of the wage supplement for the Company's employees.

The actual performance trajectory of the Company can be better assessed when one analyses its performance for the first eight months of the year (period July 2019 – February 2020), prior to the introduction of the public health restrictions. For this period, revenues were 8.3% higher than the same period last year, at €7,432,768. Despite having an 11.8% increase in operating expenses, the EBITDA for the period remained consistent as the previous year at €1,935,911 (2019: €1,947,864), clearly reflecting the stability of the business model. EBITDA is calculated as earnings before interest, taxes, depreciation, amortisation, charges from the company's sister company, Pinnacle IP Limited, for use of intellectual property and after reversing the effects of IFRS 16 and taking into account the actual rental charges for the asset.

It is in this context that the Directors consider that the commercial fundamentals of the Company remain unaltered and capable of absorbing the negative impacts of the pandemic, clearly positioning the Company to bounce back as the leader in the land-based gaming operations once the crisis subsides. This is even more so the case since the management utilised the closure period to reinvest in its workforce through retraining them and transferring more knowledge on the Company's operations. This will ensure that our players will be offered the best possible level of service and gaming experience within a safe and regulated establishment where players' safety and protection are principal core values embedded within our operations.

As a direct consequence of the pandemic and the temporarily closure of business, the Company experienced a drop in its total revenue and other income of 16% at €8,650,823. 93% of the total revenue and other income was generated from the company's network of retail shops, with the other revenues derived from the Company's commercial bingo operation.

The EBITDA before gaming taxes (as described above, excluding intercompany charges) for the year under review was registered at €3,617,288, with the net EBITDA closing at €1,749,300, resulting into an EBITDA margin of 20%. This performance clearly reflects the resilience of the financial model, when one considers that the Company had no revenues being generated for a quarter of the year.

In the year under review, the company adopted for the first time to account for all assets (mainly immovable properties from where business activity is carried on) held under a lease arrangement in accordance with IFRS 16 'Leases'. An adjustment of €1,357,489 was posted to the opening balance of retained earnings carried forward from 2019 evidencing the adoption of the said standard from the old accounting standard, namely IAS 17 'Leases'.

During this financial year, apart from adopting a more focused approach on the knowledge augmentation of the Company's talent, the Directors have also strived to strengthen the basis of the Company's strategy by investing further in product development and also in streamlining further the Company's processes across all its functions. This is leading to the attainment of granular efficiencies and the entrenchment of a corporate culture of continuous improvement, which will serve as strong pillars for the Company's internationalisation aspirations.

#### **Future performance and events after the reporting date**

On 3 November 2020, the company agreed with its bankers to renew and increase its borrowing facility to a total of €4,485,000 as part of the Company's financing strategy to strengthen its statement of affairs going forward over the longer term. The facilities are to be repaid over a period of 6 years with interest rate of 3% over the Business Lending Base Rate. The facilities are secured against the assets of the company, its parent company and the ultimate beneficial owner. Such granting of loan facilities by the bank clearly demonstrates how the company is perceived by key stakeholders and is a clear testament of the robustness of its business model in generating economic wealth and value.

#### **Directors**

The following have served as directors of the company during the year under review:

Johann Schembri  
Franco De Gabriele  
Joseph Mallia  
Sergio Cappitta

In accordance with the company's Articles of Association, the present directors remain in office.

#### **Disclosure of information to auditor**

At the date of making this report, the directors confirm the following:

- As far as each director is aware, there is no relevant information needed by the independent auditor in connection with preparing the audit report of which the independent auditor is unaware; and
- Each director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the independent auditor in connection with preparing the audit report and to establish that the independent auditor is aware of that information.

#### **Statement of directors' responsibilities**

The Companies Act, Cap 386 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

- adopt the going concern basis unless it is inappropriate to presume that the company will continue in business;



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- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- value separately the components of asset and liability items; and
- report comparative figures corresponding to those of the preceding accounting year.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements have been properly prepared in accordance with the Companies Act, Cap 386. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Auditor**

The auditor Grant Thornton has intimated its willingness to continue in office and a resolution proposing its reappointment will be put to the Annual General Meeting.



**Johann Schembri**  
Director

Registered address:  
Portomaso Business Tower  
Level 11, Portomaso  
St. Julian's  
Malta



**Joseph Malfa**  
Director

25 February 2021

## Statement of comprehensive income

	Notes	2020 €	2019 €
Net revenue		6,782,835	8,383,797
Direct costs		(4,507,159)	(5,503,220)
<b>Gross profit</b>		<b>2,275,676</b>	<b>2,880,577</b>
Administrative expenses		(2,909,855)	(1,413,663)
Finance costs	6	(297,542)	(32,161)
Other income	7	-	29,190,318
<b>(Loss) / profit before tax</b>	<b>8</b>	<b>(931,721)</b>	<b>30,625,071</b>
Tax income / (expense)	9	243,069	(583,914)
<b>(Loss) / profit for the year</b>		<b>(688,652)</b>	<b>30,041,157</b>


## Statement of financial position

	Notes	2020 €	2019 €
<b>Assets</b>			
<b>Non-current</b>			
Intangible asset	10	49,362	39,825
Property, plant and equipment	11	2,262,652	2,601,472
Right-of-use assets	13	4,044,415	-
Deferred tax asset	12	-	15,661
Other non-current assets	14	21,963	83,422
		<b>6,378,392</b>	<b>2,740,380</b>
<b>Current</b>			
Inventories	15	88,718	89,583
Trade and other receivables	16	38,524,408	37,928,054
Cash and cash equivalents	17	467,530	368,217
		<b>39,080,656</b>	<b>38,385,854</b>
<b>Total assets</b>		<b>45,459,048</b>	<b>41,126,234</b>

## Statement of financial position – continued

	Notes	2020 €	2019 €
<b>Equity</b>			
Share capital	18	1,100,817	1,100,817
Retained earnings		26,563,117	28,609,258
Merger reserve		878,171	878,171
<b>Total equity</b>		<b>28,542,105</b>	<b>30,588,246</b>
<b>Liabilities</b>			
<b>Non-current</b>			
Trade and other payables	20	229,854	1,158,685
Lease liabilities	13	5,214,600	14,459
Deferred tax liability	12	7,363	-
Tax payable		-	93,172
		<b>5,451,817</b>	<b>1,266,316</b>
<b>Current</b>			
Borrowings	19	60,181	104,681
Trade and other payables	20	10,149,648	8,745,685
Lease liabilities	13	742,851	25,325
Tax payable		512,446	395,981
		<b>11,465,126</b>	<b>9,271,672</b>
<b>Total liabilities</b>		<b>16,916,943</b>	<b>10,537,988</b>
<b>Total equity and liabilities</b>		<b>45,459,048</b>	<b>41,126,234</b>

The financial statements on pages 5 to 33 were approved by the board of directors, authorised for issue on 25 February 2021 and signed on its behalf by:

  
**Johann Schembri**  
 Director

  
**Joseph Mallia**  
 Director

## Statement of changes in equity

	Share capital €	Retained earnings €	Merger reserve €	Total equity €
<b>At 1 July 2018</b>	1,100,817	(1,431,899)	878,171	547,089
Profit for the year	-	30,041,157	-	30,041,157
<b>At 30 June 2019</b>	<b>1,100,817</b>	<b>28,609,258</b>	<b>878,171</b>	<b>30,588,246</b>
<b>At 1 July 2019</b>	1,100,817	28,609,258	878,171	30,588,246
Adjustments from adoption of IFRS 16	-	(1,091,396)	-	(1,091,396)
Deferred tax adjustment	-	(266,093)	-	(266,093)
<b>Adjusted balances at 1 July 2019</b>	<b>1,100,817</b>	<b>27,251,769</b>	<b>878,171</b>	<b>29,230,757</b>
Loss for the year	-	(688,652)	-	(688,652)
<b>At 30 June 2020</b>	<b>1,100,817</b>	<b>26,563,117</b>	<b>878,171</b>	<b>28,542,105</b>

Retained earnings includes all current and prior year results as disclosed in the statement of comprehensive income.

In accordance with the Companies Act, Cap 386, the merger reserve is non-distributable.

## Statement of cash flows

	Notes	2020 €	2019 €
<b>Operating activities</b>			
(Loss) / profit before tax		(931,721)	30,625,071
Adjustments	21	1,937,015	(28,175,473)
Net changes in working capital	21	257,667	(1,547,256)
Tax paid		-	(1,613)
<b>Net cash generated from operating activities</b>		<b>1,262,961</b>	<b>900,729</b>
<b>Investing activities</b>			
Payments to acquire intangible asset		(25,000)	-
Payments to acquire property, plant and equipment		(618,029)	(828,876)
Security deposit		632	(902)
Key monies and laudemium		-	(60,886)
Bank guarantee		-	(10,020)
<b>Net cash used in investing activities</b>		<b>(642,397)</b>	<b>(900,684)</b>
<b>Financing activities</b>			
Payment of bank loans		(44,500)	(75,139)
Interest paid on lease obligations		(6,980)	(22,379)
Payments made on lease obligations		(469,771)	(54,249)
<b>Net cash used in financing activities</b>		<b>(521,251)</b>	<b>(151,767)</b>
Net change in cash and cash equivalents		99,313	(151,722)
Cash and cash equivalents, beginning of year		368,217	519,939
<b>Cash and cash equivalents, end of year</b>	17	<b>467,530</b>	<b>368,217</b>

## **Notes to the financial statements**

### **1 Nature of operations**

Gaming Operations Limited (the 'company') was registered on 27 June 2002. The company's principal activity is the operation of gaming activities licensed under the Lotteries and Other Games Act, Chapter 438 of the Laws of Malta.

### **2 General information and statement of compliance with International Financial Reporting Standards (IFRSs) and going concern assumption**

Gaming Operations Limited, a private limited liability company, is incorporated and domiciled in Malta. The address of the company's registered office, which is also its principal place of business, is Level 11, Portomaso Business Tower, St. Julian's, Malta. The parent company is Pinnacle Gaming Group Limited with the same registered office and principal place of business. The parent company prepares consolidated financial statements including the results of the company which are available for public inspection at the Registry of Companies in Malta.

The financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU), and in accordance with the Companies Act, Cap 386. They have been prepared under the assumption that the company operates on a going concern basis.

The financial statements are presented in euro (€), which is also the company's functional currency. The amounts presented in the financial statements have been rounded to the nearest euro.

### **3 Changes in accounting policies**

#### **3.1 New Standards adopted as at 1 July 2019**

##### **IFRS 16 'Leases'**

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the company recognising right-of-use assets and related lease liabilities in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 July 2019.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 5.26%.

The company has opted to show present right-of-use assets separately. There were therefore no changes to the group's property, plant and equipment and a further reconciliation is not required.

The company has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments at 30 June 2019 to the lease liabilities recognised at 1 July 2019:

	€
Total operating lease commitments as at 30 June 2019	7,890,010
Recognition exemptions	-
Operating lease liabilities before discounting	<u>7,890,010</u>
Discounted using incremental borrowing rate	<u>(1,654,131)</u>
<b>Total lease liabilities recognised under IFRS 16 at 1 July 2019</b>	<b><u>6,235,879</u></b>

### **3.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the company**

At the date of authorisation of these financial statements, certain new standards, interpretations and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the company. Information on those expected to be relevant to the company's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the company's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the company's financial statements.



## **4 Summary of accounting policies**

### **4.1 Overall considerations**

The financial statements have been prepared using the measurement bases specified by IFRSs for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The accounting policies have been consistently applied by the company and are consistent with those used in the previous years.

The financial statements are presented in accordance with IAS 1, *Presentation of Financial Statements* (Revised 2007). The company did not have any items classified as 'other comprehensive income.'

### **4.2 Revenue recognition**

Revenue comprises income from gaming activities.

To determine whether to recognise revenue, the company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

Revenue from contracts with customers is recognised when performance obligations have been satisfied and the consideration to which the company expects to be entitled to can be measured reliably.

The company evaluates all contractual arrangements it enters into and evaluates the nature of the promised goods or services, and rights and obligations under the arrangement, in determining the nature of its performance obligations. Where such performance obligations are capable of being distinct and are distinct in the context of the contract, the consideration the company expects to be entitled under the arrangement is allocated to each performance obligation based on their relative stand-alone selling prices. Revenue is recognised at an amount equal to the transaction price allocated to the specific performance obligation when it is satisfied, either at a point in time or over time, as applicable, based on the pattern of transfer of control.

#### **Gaming revenues**

Revenue is measured by reference to the fair value of consideration received or receivable by the company for goods supplied and services provided, excluding VAT, rebates, and trade discounts.

Revenue is recognised when the amount of revenue can be measured reliably, collection is probable, the costs incurred or to be incurred can be measured reliably, and when the criteria for the company's activities have been met.

The company recognises revenues as the net win from gaming activities, which is the difference between gaming wins and losses.

#### **Bingo**

Revenue from bingo is recognised on the sale of bingo tickets net of gaming taxes and client winnings.

#### Slot machines

Revenue from slot machines is recognised when machine counts are carried out and represents the increase or decrease in each machine's position net of client winnings.

#### Sportsbook

Revenue from sportsbook is recognised on gains and losses in respect of bets placed on sporting event in the year, net of promotional bonuses.

#### Rental income

The company earns rental income from sub-leasing an office space. Rental income is recognised on a straight-line basis over the term of the lease.

#### Other income

During the year ended 30 June 2019 the company sold intangible assets to another group company. Other income is recognised in line with the date of the sales agreement.

### **4.3 Expense recognition**

Expenses are recognised in the statement of comprehensive income upon utilisation of the service or as incurred.

### **4.4 Employee benefits**

Contributions toward the state pension in accordance with local legislation are recognised in the statement of comprehensive income when they are due.

### **4.5 Foreign currency translation**

Foreign currency transactions are translated into the functional currency of the company, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the statement of comprehensive income.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date).

### **4.6 Leases**

As described in note 3.1 the company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

## **Accounting policy adopted from 1 July 2019**

### **The company as a lessee**

For any new contracts entered into on or after 1 July 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the company;
- the company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the company has the right to direct the use of the identified asset throughout the period of use. The company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

#### **Measurement and recognition of leases as a lessee**

At lease commencement date, the company recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets and lease liabilities have been presented separately.

#### **Accounting policy applicable before 1 July 2019**

##### **The company as a lessee**

##### **Finance leases**

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the assets value and whether the company obtains ownership of the asset at the end of the lease term.

Leases of motor vehicle where the company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are classified at the lease's inception at the fair value

of the leased property or, if lower, the present value of minimum lease payments. The corresponding rental obligations, net of finance lease charges, are included in other short-term and long-term trade and other payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The motor vehicles acquired under finance leases are depreciated over the assets' useful lives or over the shorter of the assets' useful lives and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

#### **Operating leases**

All other leases are treated as operating leases. Where the company is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

#### **4.7 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in 'finance costs'.

#### **4.8 Intangible asset**

Intangible asset represents software license which is initially measured at acquisition cost. Subsequently, it is carried at acquisition cost less amortisation and impairment losses.

Amortisation begins when the asset is available for use and continues until the asset is derecognised. Software license will be amortised on a straight-line basis to write down the cost and subject for impairment testing as described in note 4.10. The following useful life is as follows:

	%
Software license	15

Gains or losses arising on the disposal of intangible asset are determined as the difference between the disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income within 'other income' or 'administrative expenses'.

Subsequent expenditures on the maintenance of the software license are expensed as incurred.

#### **4.9 Property, plant and equipment**

Items of property, plant and equipment are carried at acquisition cost less subsequent depreciation and impairment losses.

Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of property, plant and equipment as follows:

	%
Gaming equipment	15
Electronic and computer equipment	15-25
Furniture and electrical fittings	15
Catering equipment	16.67
Motor vehicles	16.67

In the case of leasehold improvements, expected useful lives are determined by reference to comparable owned assets or over the term of the lease, if shorter.

Material residual value estimates and estimates of useful life are updated as required, but at least annually, whether or not the asset is revalued.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in the statement of comprehensive income within 'other income' or 'administrative expenses'.

#### **4.10 Impairment of intangible asset, property, plant and equipment and right-of-use assets**

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating units level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of its fair value less costs to sell and its value in use. To determine the value in use, the company's management estimates expected future cash flows from each cash-generating units and determines a suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating units and reflect their respective risk profiles as assessed by the company's management.

Impairment losses are recognised immediately in the statement of comprehensive income. Impairment losses for cash-generating units are charged pro-rata to the assets in the cash-generating units. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge that has been recognised is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **4.11 Business combinations**

Business combinations of entities not under common control are accounted for by applying the acquisition method in accordance with IFRS 3, *Business Combinations*. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities of the acquiree at the acquisition date, including contingent liabilities regardless of whether or not they were recorded in the financial statements of the acquiree prior to acquisition. On initial recognition, the assets and liabilities of the acquiree are included in the statement of financial position of the company at their fair values, which are also used as the basis for subsequent measurement in accordance with the company's accounting policies. Goodwill is stated after separating out the identifiable intangible assets.

Goodwill represents the excess of acquisition cost over the fair value of the company's share of identifiable net assets of the acquiree at the date of acquisition. If the acquisition cost is less than the fair value of the company's share of identifiable net assets of the acquiree at date of acquisition, the gain on acquisition is recognised immediately in the income statement after reassessment.

A merger of entities under common control is accounted for by applying the pooling of interests method (predecessor accounting). Under this method, the financial statement items of the combining entities for the period in which the combination occurs and for any comparative periods disclosed are included in the financial statements of the company (the acquirer) as if they had been combined from the beginning of the earliest period presented. Any difference between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount recorded for the share capital acquired is adjusted against reserves.

#### **4.12 Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using weighted average cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

#### **4.13 Financial instruments**

##### **Recognition and derecognition**

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

##### **Classification and initial measurement of financial assets**

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the years presented, the company does not have any financial assets categorised as FVTPL and FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets are presented within finance costs or finance income, except for impairment of receivables which is presented within 'administrative expenses'.

### **Subsequent measurement of financial assets**

#### **Financial assets at amortised cost**

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

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

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The company's cash and cash equivalents, trade and other receivables (except prepayments) fall into this category of financial instruments.

#### **Impairment of financial assets**

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements include loans and other debt-type financial assets measured at amortised cost, trade receivables (if any), contract assets recognised and measured under IFRS 15, where applicable.

Recognition of credit losses is no longer dependent on the company first identifying a credit loss event. Instead the company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

#### **Trade and other receivables**

The company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

### **Classification and subsequent measurement of financial liabilities**

The company's financial liabilities include borrowings, lease liabilities and trade and other payables (except statutory liabilities).

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the company designates a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges that are reported in profit or loss are included within finance costs or finance income.

#### **4.14 Income taxes**

Tax expense recognised in the statement of comprehensive income comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from the statement of comprehensive income in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income.

Deferred tax assets and liabilities are offset only when the company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in the statement of comprehensive income, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

#### **4.15 Cash and cash equivalents**

Cash and cash equivalents comprise cash in bank and cash on hand.

#### **4.16 Equity and reserves**

Share capital represents the nominal value of shares that have been issued.

Retained earnings include current and prior period results.

The merger reserve was created on the merger of Pinnacle Catering Limited, a previous wholly-owned subsidiary of Gaming Operations Limited.

#### **4.17 Provisions and contingent liabilities**

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties granted, legal disputes or



onerous contracts. Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

#### **4.18 Significant management judgement in applying accounting policies and estimation uncertainty**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable and reliable in the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

##### **Significant management judgement**

The following are significant management judgements in applying the accounting policies of the company that have the most significant effect on the financial statements.

##### **Recognition of deferred tax assets**

The assessment of the probability of future taxable income in which deferred tax asset can be utilised is based on the company's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, that deferred tax asset is usually recognised in full.

##### **Determining whether an arrangement contains a lease**

The company uses its judgement in determining whether an arrangement contains a lease, based on the substance of the arrangement and makes assessment of whether it is dependent in the use of a specific asset or assets, conveys a right to use the asset and transfers substantially all the risks and rewards incidental to ownership to/from the company.

##### **Leases - Estimating the incremental borrowing rate**

The company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the company's stand-alone credit rating).

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 revision and future periods if the revision affects both current and future periods.

In the opinion of the directors, the accounting and estimates made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised).

## 5 Staff costs

	2020	2019
	€	€
Wages and salaries	1,728,866	1,977,809
Social security costs	123,865	118,113
	<u>1,852,731</u>	<u>2,095,922</u>

Total staff costs is presented in the statement of comprehensive income within 'direct costs' and 'administrative expenses' amounting to € 1,425,945 (2019: € 1,711,044) and € 426,786 (2019: € 384,878), respectively.

The average number of persons employed by the company for the reporting periods presented were:

	2020	2019
	No.	No.
Administrative	9	9
Operations	99	97
	<u>108</u>	<u>106</u>

## 6 Finance costs

The following amounts may be analysed as follows for the reporting periods presented:

	2020	2019
	€	€
Interest on borrowings at amortised cost	6,980	22,379
Interest on lease liabilities	290,562	9,782
	<u>297,542</u>	<u>32,161</u>

## 7 Other income

	2020	2019
	€	€
Gain on sale of intangible assets	-	28,977,234
Insurance claims	-	85,414
Waiver of interest payable	-	127,670
	<u>-</u>	<u>29,190,318</u>

**8 (Loss) / profit before tax**

The (loss) / profit before tax is stated after charging:

	2020	2019
	€	€
Amortisation of intangible asset	15,463	13,275
Depreciation of property, plant and equipment	956,849	880,832
Depreciation of right-of-use assets	667,161	-
Auditor's remuneration	19,910	13,794
Directors' remuneration	110,769	110,770

**9 Tax expense**

The relationship between the expected tax expense based on the effective tax rate of Gaming Operations Limited at 35% (2019: 35%) and the tax expense actually recognised in the statement of comprehensive income can be reconciled as follows:

	2020	2019
	€	€
(Loss) / profit before tax	(931,721)	30,625,071
Tax rate	35%	35%
<b>Expected tax income / (expense)</b>	<b>326,102</b>	<b>(10,718,775)</b>
<b>Adjustments for:</b>		
Non-deductible expenses	(83,033)	(51,855)
Non-taxable income	-	10,186,716
<b>Actual tax expense, net</b>	<b>243,069</b>	<b>(583,914)</b>
<b>Comprising:</b>		
Deferred tax on an adjustment to the opening balance of retained earnings	266,093	-
Deferred tax from origination and reversal of temporary differences	(23,024)	(583,914)
	<b>243,069</b>	<b>(583,914)</b>

Please refer to note 12 for information on the company's deferred tax liability / asset.

**10 Intangible assets**

Details of the company's intangible assets and carrying amounts is as follows:

	Software license €	Trademarks and domains €	Total €
<b>Gross carrying amount</b>			
Balance at 1 July 2018	88,500	-	88,500
Additions	-	22,766	22,766
Disposals	-	(22,766)	(22,766)
<b>Balance at 30 June 2019</b>	<b>88,500</b>	<b>-</b>	<b>88,500</b>
<b>Amortisation</b>			
Balance at 1 July 2018	35,400	-	35,400
Charge for the year	13,275	-	13,275
<b>Balance at 30 June 2019</b>	<b>48,675</b>	<b>-</b>	<b>48,675</b>
<b>Carrying amount at 30 June 2019</b>	<b>39,825</b>	<b>-</b>	<b>39,825</b>
<b>Gross carrying amount</b>			
Balance at 1 July 2019	88,500	-	88,500
Additions	25,000	-	25,000
<b>Balance at 30 June 2020</b>	<b>113,500</b>	<b>-</b>	<b>113,500</b>
<b>Amortisation</b>			
Balance at 1 July 2019	48,675	-	48,675
Charge for the year	15,463	-	15,463
<b>Balance at 30 June 2020</b>	<b>64,138</b>	<b>-</b>	<b>64,138</b>
<b>Carrying amount at 30 June 2020</b>	<b>49,362</b>	<b>-</b>	<b>49,362</b>

Amortisation expense is included within 'administrative expenses' in the statement of comprehensive income.

**11 Property, plant and equipment**

Details of the company's property, plant and equipment and their carrying amounts are as follows:

	Leasehold improvements	Gaming equipment	Electronic and computer equipment	Furniture and electrical fittings	Catering equipment	Work in progress	Motor vehicles	Total
	€	€	€	€	€	€	€	€
<b>Gross carrying amount</b>								
Balance at 1 July 2018	766,032	3,645,373	1,223,531	2,484,592	52,607	18,052	195,539	8,385,726
Additions	65,726	190,544	208,768	261,285	269	102,284	-	828,876
Reclassification	8,244	-	10,902	32,774	-	(51,920)	-	-
<b>Balance at 30 June 2019</b>	<b>840,002</b>	<b>3,835,917</b>	<b>1,443,201</b>	<b>2,778,651</b>	<b>52,876</b>	<b>68,416</b>	<b>195,539</b>	<b>9,214,602</b>
<b>Depreciation and impairment</b>								
Balance at 1 July 2018	474,556	2,166,824	1,067,680	1,888,923	35,185	-	99,130	5,732,298
Charge for the year	70,065	479,840	80,937	208,606	8,794	-	32,590	880,832
<b>Balance at 30 June 2019</b>	<b>544,621</b>	<b>2,646,664</b>	<b>1,148,617</b>	<b>2,097,529</b>	<b>43,979</b>	<b>-</b>	<b>131,720</b>	<b>6,613,130</b>
<b>Carrying amount at 30 June 2019</b>	<b>295,381</b>	<b>1,189,253</b>	<b>294,584</b>	<b>681,122</b>	<b>8,897</b>	<b>68,416</b>	<b>63,819</b>	<b>2,601,472</b>
<b>Gross carrying amount</b>								
Balance at 1 July 2019	840,002	3,835,917	1,443,201	2,778,651	52,876	68,416	195,539	9,214,602
Additions	22,625	155,787	212,872	213,560	987	12,198	-	618,029
Reclassification	53,576	2,100	7,105	17,820	13	(80,614)	-	-
<b>Balance at 30 June 2020</b>	<b>916,203</b>	<b>3,993,804</b>	<b>1,663,178</b>	<b>3,010,031</b>	<b>53,876</b>	<b>-</b>	<b>195,539</b>	<b>9,832,631</b>
<b>Depreciation and impairment</b>								
Balance at 1 July 2019	544,621	2,646,664	1,148,617	2,097,529	43,979	-	131,720	6,613,130
Charge for the year	75,014	511,442	128,135	201,205	8,464	-	32,589	956,849
<b>Balance at 30 June 2020</b>	<b>619,635</b>	<b>3,158,106</b>	<b>1,276,752</b>	<b>2,298,734</b>	<b>52,443</b>	<b>-</b>	<b>164,309</b>	<b>7,569,979</b>
<b>Carrying amount at 30 June 2020</b>	<b>296,568</b>	<b>835,698</b>	<b>386,426</b>	<b>711,297</b>	<b>1,433</b>	<b>-</b>	<b>31,230</b>	<b>2,262,652</b>

Motor vehicles include the following amounts where the company is a lessee (refer to note 13.2).

	2020	2019
	€	€
Motor vehicles		
Cost	108,600	108,600
Accumulated depreciation	(97,856)	(79,515)
<b>Net book value</b>	<b>10,744</b>	<b>29,085</b>

Depreciation expenses are presented within the financial statements through the following classifications:

	2020	2019
	€	€
Direct costs	708,009	667,712
Administrative expenses	248,840	213,120
	<b>956,849</b>	<b>880,832</b>

## **12 Deferred tax liability / asset**

Deferred tax asset arising from temporary differences can be summarised as follows:

	1 July 2019	Recognised in the statement of comprehensive income	30 June 2020
	€	€	€
<b>Non-current assets</b>			
Property, plant and equipment	(276,961)	115,885	(161,076)
Right-of-use asset	-	27,863	27,863
<b>Current liability</b>			
Trade and other payables	266,093	(266,093)	-
<b>Unused tax losses</b>	26,529	768	27,297
<b>Unused capital allowances</b>	-	98,553	98,553
<b>Total</b>	<b>15,661</b>	<b>(23,024)</b>	<b>(7,363)</b>

Deferred tax for the comparative period 2019 can be summarised as follows:

	1 July 2018	Recognised in the statement of comprehensive income	30 June 2019
	€	€	€
<b>Non-current assets</b>			
Property, plant and equipment	(345,111)	68,150	(276,961)
<b>Current liability</b>			
Trade and other payables	250,714	15,379	266,093
<b>Unused tax losses</b>	546,973	(520,444)	26,529
<b>Unused capital allowances</b>	146,999	(146,999)	-
<b>Total</b>	<b>599,575</b>	<b>(583,912)</b>	<b>15,661</b>

**13 Leases**

**13.1 Right-of-use assets**

	2020 €
<b>Cost</b>	
Adjustment on adoption of IFRS 16 on 1 July 2019	4,711,576
Additions	-
<b>At 30 June 2020</b>	<u><b>4,711,576</b></u>
<b>Accumulated depreciation</b>	
At 1 July 2019	-
Charge for the year	667,161
<b>At 30 June 2020</b>	<u><b>667,161</b></u>
<b>Carrying amount at 30 June 2020</b>	<u><b>4,044,415</b></u>

Depreciation expenses are presented within the financial statements through the following classifications:

	2020 €
Direct costs	117,348
Administrative expenses	549,813
	<u><b>667,161</b></u>

**13.2 Leases – company as lessee**

The company leases motor vehicles, an office space and various shops for its video lottery terminal and bingo operations.

The lease liabilities are presented in the statement in the financial position as follows:

	2020 €	2019 €
Current	742,851	25,325
Non-current	5,214,600	14,459
	<u><b>5,957,451</b></u>	<u><b>39,784</b></u>

The future minimum lease payments for these assets held under leases at 30 June are as follows:

	2020 €	2019 €
<b>Minimum lease payments</b>		
- not later than one year	998,602	30,758
- later than one year and not later than five years	2,854,944	16,144
- later than five years	3,711,237	-
	<u><b>7,564,783</b></u>	<u><b>46,902</b></u>

	2020 €	2019 €
<b>Future finance charges</b>		
- not later than one year	255,751	5,433
- later than one year and not later than five years	770,164	1,685
- later than five years	581,417	-
	<u>1,607,332</u>	<u>7,118</u>
<b>Present value of minimum lease payments</b>		
- not later than one year	742,851	25,325
- later than one year and not later than five years	2,084,780	14,459
- later than five years	3,129,820	-
	<u>5,957,451</u>	<u>39,784</u>

#### **14 Other non-current assets**

The company's other non-current assets include the following:

	2020 €	2019 €
Key monies and laudemium	-	60,827
Bank guarantee	15,951	15,951
Security deposits	6,012	6,644
	<u>21,963</u>	<u>83,422</u>

The company paid key monies and laudemium in order to secure certain properties to be rented by the company. These are amortised over the lease terms of the respective properties.

	2020 €	2019 €
Cost	-	109,738
Accumulated amortisation	-	(48,911)
	<u>-</u>	<u>60,827</u>

The movement in key monies and laudemium during the year is summarised as follows:

	2020 €	2019 €
<b>Gross carrying amount</b>		
Balance at beginning of year	109,738	48,852
Additions	-	60,886
Disposals	(109,738)	-
Balance at end of year	<u>-</u>	<u>109,738</u>
<b>Amortisation</b>		
Balance at beginning of year	48,911	45,748
Charge for the year	-	962
Amounts written off	-	2,201
Disposals	(48,911)	-
Balance at end of year	<u>-</u>	<u>48,911</u>
<b>Net carrying amount</b>	<u>-</u>	<u>60,827</u>

Amortisation is included within 'administrative expenses' in the statement of comprehensive income.



**15 Inventories**

Inventories recognised in the statement of financial position comprise slot machine tickets, bingo cards and other gaming consumables.

	2020	2019
	€	€
Slot machine tickets	23,391	28,808
Bingo cards	13,714	23,418
Other gaming consumables	51,613	37,357
	<u>88,718</u>	<u>89,583</u>

**16 Trade and other receivables**

	2020	2019
	€	€
Trade receivables	7,378	3,951
Accrued income	18,546	61,635
Amounts owed by parent company	38,479,200	37,830,901
Other receivables	4,172	-
<b>Financial assets</b>	<u>38,509,296</u>	<u>37,896,487</u>
Prepayments	15,112	31,567
<b>Trade and other receivables</b>	<u>38,524,408</u>	<u>37,928,054</u>

All amounts are short-term. The net carrying values of financial assets are considered a reasonable approximation of fair value.

The amounts owed by parent company are unsecured, interest free and repayable on demand.

**17 Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position and statement of cash flows include the following components:

	2020	2019
	€	€
Cash in bank	52,918	5,634
Cash on hand	414,612	362,583
	<u>467,530</u>	<u>368,217</u>

**18 Share capital**

The share capital of Gaming Operations Limited consists of ordinary shares with par value of € 2.329373.

All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of Gaming Operations Limited.

	2020 €	2019 €
<b>Shares authorised</b>		
1,287,901 ordinary shares of € 2.329373 each	<u>3,000,002</u>	<u>3,000,002</u>
<b>Shares issued and fully paid</b>		
472,581 ordinary shares of € 2.329373 each	<u>1,100,817</u>	<u>1,100,817</u>

**19 Borrowings**

	2020 €	2019 €
Bank loan	-	88,147
Bank overdraft	60,181	16,534
	<u>60,181</u>	<u>104,681</u>

On 14 April 2015, management obtained an agreement with the bank to restructure the loan balance with monthly instalments of € 8,300 due up to June 2020. Interest thereon is set at 5.65% per annum. The loan is secured by a general hypothec over the company's assets by general and hypothecary guarantees given by third parties and guarantees given by related companies.

**20 Trade and other payables**

	2020 €	2019 €
<b>Non-current</b>		
Accrued rent	-	760,267
<b>Financial liabilities</b>	<u>-</u>	<u>760,267</u>
Statutory liabilities	229,854	398,418
	<u>229,854</u>	<u>1,158,685</u>
<b>Current</b>		
Trade payables	1,382,732	865,135
Amounts owed to group companies	5,228,687	4,525,369
Accruals	288,072	337,628
Other payables	35,826	73,208
<b>Financial liabilities</b>	<u>6,935,317</u>	<u>5,801,340</u>
Statutory liabilities	3,214,331	2,944,345
	<u>10,149,648</u>	<u>8,745,685</u>
<b>Total trade and other payables</b>	<u>10,379,502</u>	<u>9,904,370</u>

The carrying values of financial liabilities are considered to be a reasonable approximation of fair value.

The amounts owed to group companies are unsecured, interest free and repayable on demand.

**21 Cash flow adjustments and changes in working capital**

The following cash flow adjustments and changes in working capital have been made to (loss) / profit before tax to arrive at operating cash flow:

	2020	2019
	€	€
<b>Adjustments:</b>		
Depreciation and amortisation	1,639,473	895,069
Interest expense	297,542	32,161
Write-off of interest payable	-	(127,670)
Write-off of other non-current assets	-	2,201
Gain on sale of intangible assets	-	(28,977,234)
	<u>1,937,015</u>	<u>(28,175,473)</u>
<b>Net changes in working capital:</b>		
Change in inventories	865	(400)
Change in trade and other receivables	(1,001,890)	(3,136,067)
Change in trade and other payables	1,258,692	1,589,211
	<u>257,667</u>	<u>(1,547,256)</u>

**22 Related party transactions**

The company's related parties include its parent company, fellow subsidiary companies, companies under common control by its shareholders and key management.

Unless otherwise stated, none of the transactions incorporates special terms and conditions and no guarantees were given or received. Transactions with related parties are generally on cost plus basis. Outstanding balances are usually settled in cash.

Amounts owed by/to related parties are shown separately in notes 16 and 20.

The company entered into the following transactions with its related parties during the year:

	2020	2019
	€	€
Income from sale of intellectual property	-	29,000,000
Charge for the use of intellectual property	(1,622,120)	(310,823)
Expenses paid by the parent company on behalf of the company	(638,938)	(174,018)
Expenses recharged to other group companies	593,911	57,153
Loan interest charged from the parent company	(4,545)	(14,694)

The company considers the only key management personnel to be the directors. Amounts paid to Directors are disclosed separately in note 8.

The ultimate controlling party is considered to be Mr. J. Schembri as 100% shareholder of the parent company.

**23 Contingent liabilities**

	2020	2019
	€	€
Guarantees given in the ordinary course of business	<u>209,980</u>	<u>209,960</u>

## **24 Financial instruments risk**

### **Risk management objectives and policies**

The company is exposed to credit risk, liquidity risk and market risk through its use of financial instruments which result from both its operating and investing activities. The company's risk management is coordinated by the directors and focuses on actively securing the company's short to medium term cash flows by minimising the exposure to financial risk.

The most significant financial risk to which the company is exposed are described in the succeeding pages. See also note 24.4 for a summary of the company's financial assets and liabilities by category.

### **24.1 Credit risk**

The company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	Notes	2020 €	2019 €
<b>Classes of financial assets - carrying amounts:</b>			
Bank guarantee	14	15,951	15,951
Security deposits	14	6,012	6,644
Trade and other receivables	16	38,509,296	37,896,487
Cash and cash equivalents	17	467,530	368,217
		<b>39,011,320</b>	<b>38,287,299</b>

The company continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The company's policy is to deal only with creditworthy counterparties. None of the company's financial assets is secured by collateral or other credit enhancements.

Trade and other receivables comprise amount owed by parent company. The company's concentration to credit risk arising from these receivables are considered limited as there were no indications that these counterparties are unable to meet their obligations. Management considers these to be of good credit quality. Management does not consider these receivables to have deteriorated in credit quality and the effect of management's estimate of the 12-month credit loss has been determined to be insignificant to the results of the company.

The company holds money exclusively with an institution having high quality external credit ratings. The cash and cash equivalents held with such bank are callable on demand. The bank with whom cash and cash equivalents are held forms part of an international group with A-3 credit rating by Standard & Poor's and similar high ratings by other agencies. Management considers the possibility of default to be close to zero and the amount calculated using the 12-month ECL model to be very insignificant. Therefore, no loss allowance has been recognized.

### **24.2 Liquidity risk**

The company's exposure to liquidity risk arises from its obligations to meet its financial liabilities, which comprise interest bearing borrowings, other non-current liabilities and trade and other payables (see notes 19 and 20). Prudent liquidity risk management includes maintaining sufficient cash and committed credit facilities to ensure the availability of an adequate amount of funding to meet the company's obligations when they become due.

The company manages its liquidity needs through yearly cash flow forecasts by carefully monitoring expected cash inflows and outflows on a monthly basis. The company's liquidity risk is not deemed to be significant in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments, as well as the company's committed borrowing facilities that it can access to meet liquidity needs.

As at 30 June 2020, the company's financial liabilities have contractual maturities as summarised below:

	<b>Current</b> <b>Within</b> <b>1 year</b> <b>€</b>	<b>Non-current</b> <b>1 to 5</b> <b>years</b> <b>€</b>	<b>later than</b> <b>5 years</b> <b>€</b>
Borrowings	60,181	-	-
Trade and other payables	6,935,317	-	-
Lease liabilities	742,851	2,084,780	3,129,820
<b>Total</b>	<b>7,738,349</b>	<b>2,858,314</b>	<b>3,695,452</b>

As at 30 June 2019, the company's financial liabilities have contractual maturities as summarised below:

	<b>Current</b> <b>Within</b> <b>1 year</b> <b>€</b>	<b>Non-current</b> <b>1 to 5</b> <b>years</b> <b>€</b>	<b>later than</b> <b>5 years</b> <b>€</b>
Borrowings	104,681	-	-
Trade and other payables	5,801,340	119,834	640,433
Lease liabilities	30,758	16,144	-
<b>Total</b>	<b>5,936,779</b>	<b>135,978</b>	<b>640,433</b>

## **24.3 Market risk**

### **Foreign currency risk**

The company transacts business mainly in euro. Exposure to currency exchange rates arise from the company's sale and purchase of foreign currency to/from clients. However, foreign currency denominated financial assets and liabilities at the end of the financial reporting date under review are deemed negligible. Accordingly, the company's exposure to foreign exchange risk is not significant and a sensitivity analysis for foreign exchange risk disclosing how statement of comprehensive income and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the reporting date is deemed not necessary.

### **Interest rate risk**

The company's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At 30 June 2020, the company's borrowings are at fixed interest rates.

#### **24.4 Summary of financial assets and financial liabilities by category**

The carrying amounts of the company's financial assets and financial liabilities as recognised at the reporting date of the reporting period under review may also be categorised as follows. See note 4.13 for explanations about how the category of financial instruments affects their subsequent measurement.

	Notes	2020 €	2019 €
<b>Non-current assets</b>			
Financial assets at amortised cost:			
- Bank guarantees	14	15,951	15,951
- Security deposits	14	6,012	6,644
<b>Current assets</b>			
Financial assets at amortised cost:			
- Trade and other receivables	16	38,509,296	37,896,487
- Cash and cash equivalents	17	467,530	368,217
		<b>38,998,789</b>	<b>38,287,299</b>
<b>Non-current liabilities</b>			
Financial liabilities measured at amortised cost:			
- Borrowings	19	-	-
- Trade and other payables	20	-	760,267
- Lease liabilities	13	5,214,600	14,459
<b>Current liabilities</b>			
Financial liabilities measured at amortised cost:			
- Borrowings	19	60,181	104,681
- Trade and other payables	20	6,935,317	5,801,340
- Lease liabilities	13	742,851	25,325
		<b>12,952,949</b>	<b>6,706,072</b>

#### **25 Capital management policies and procedures**

The company's capital management objectives are to ensure its ability to continue as a going concern and to provide an adequate return to shareholders through innovation, continuous improvement in quality service, resource utilisation, increasing the market share and flexibility.

The company monitors the level of debt, which includes borrowings and trade and other payables, less the bank balance against total capital on an ongoing basis. The directors consider the company's gearing level at year end to be appropriate for its business.

#### **26 Post reporting date events**

On 3 November 2020, the company agreed with its bankers to renew and increase its borrowing facility to a total of €4,485,000 as part of the Company's financing strategy to strengthen its statement of affairs going forward over the longer term. The facilities are to be repaid over a period of 6 years with interest rate of 3% over the Business Lending Base Rate. The facilities are secured against the assets of the company, its parent company and the ultimate beneficial owner. Such granting of loan facilities by the bank clearly demonstrates how the company is perceived by key stakeholders and is a clear testament of the robustness of its business model in generating economic wealth and value.

## **Independent auditor's report**

To the shareholders of Gaming Operations Limited

### **Report on the audit of the financial statements**

#### **Opinion**

We have audited the financial statements of Gaming Operations Limited set out on pages 5 to 33 which comprise the statement of financial position as at 30 June 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 30 June 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Companies Act, Cap 386 (the "Act").

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap 281 that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Other information**

The directors are responsible for the other information. The other information comprises the Directors' report shown on pages 2 to 4 which we obtained prior to the date of this auditor's report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the directors' report, we also considered whether the directors' report includes the disclosures required by Article 177 of the Act.

Based on the work we have performed, in our opinion:

- The information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the directors' report has been prepared in accordance with the Act.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

#### **Responsibilities of those charged with governance for the financial statements**

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and are properly prepared in accordance with the provisions of the Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the company's financial reporting process.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the company to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on other legal and regulatory requirements**

We also have responsibilities under the Companies Act, Cap 386 to report to you if, in our opinion.

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report to you in respect of these responsibilities.

The engagement partner on the audit resulting in this independent auditor's report is Mark Bugeja.



Mark Bugeja (Partner) for and on behalf of

**GRANT THORNTON**  
**Certified Public Accountants**

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25 February 2021

