

SLI SYSTEMS
INTERIM REPORT

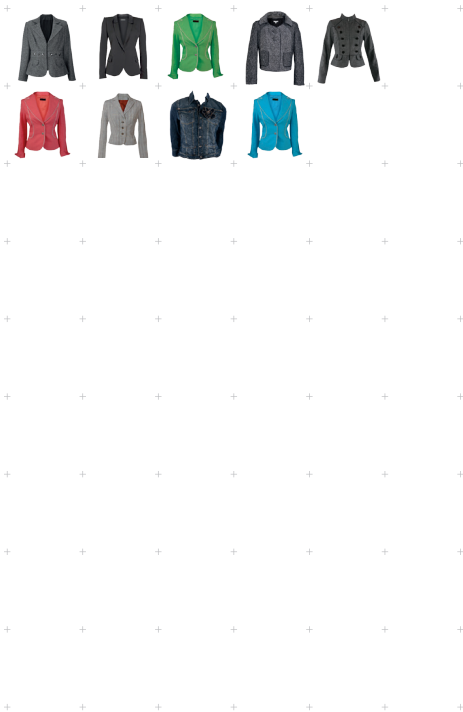
FOR THE SIX MONTHS
ENDED 31 DECEMBER 2013

TATIONERY.CO.NZ 
  //LUXURYITEMS
/ALLBIKES.COM.AU
G INTERIM **REPORT**
//¥PERSTORE.COM
N//FASHIONS//2013
//£HRETAIL.CO.UK

WE'VE FOUND THE ANSWERS.

Search

LADIES TAILORED JACKET



SEARCH,
LEARN AND
IMPROVE.



AND YOU'LL FIND THEM HERE.

CONTENTS.

- 02. 2013 HIGHLIGHTS
- 03. CHAIRMAN AND CHIEF EXECUTIVE'S REPORT
- 07. FINANCIAL STATEMENTS
- 22. A WORLD LEADER
- 24. BOARD AND MANAGEMENT
- 25. DIRECTORY

2013 HIGHLIGHTS

DECEMBER 2013
ANNUALISED RECURRING
REVENUE (ARR)¹ OF \$21.6
MILLION IS IN LINE WITH
FORECAST //

ANNOUNCED
NEW LEARNING
RECOMMENDATIONS
PRODUCT IN
FEBRUARY 2014 //

SET UP JAPANESE OFFICE
AND SUBSIDIARY AND
HAVE SIGNED UP INITIAL
CUSTOMERS //

CUSTOMER RETENTION
RATE OF 91% IN LINE
WITH FORECAST //

SERVED ONE BILLION
QUERIES FOR THE FIRST
TIME IN THE MONTH OF
DECEMBER 2013 //

INTERNATIONALLY-
RENOWNED MARKETER
AND SOCIAL MEDIA
INNOVATOR ANDY LARK
JOINS THE SLI BOARD //

¹ Annualised Recurring Revenue is defined on page 6 of this document. All references to this measure through this document are consistent with this definition.

CHAIRMAN AND CHIEF EXECUTIVE'S REPORT



Greg Cross



Shaun Ryan

Our first half year as a public company has been an exciting period of growth for SLI Systems. We have successfully executed the first seven months of our plan as laid out in the prospectus for our Initial Public Offer (IPO) in May 2013.

We have grown revenue, staff and our product offering, providing the foundation for us to continue to accelerate growth globally.

Our Software as a Service (SaaS) solutions are used by e-commerce companies around the world to increase the revenue generated from their online stores and websites. We make it easier for their customers to find what they're looking for. We have a highly differentiated product, a strong market position and a large opportunity to grow. Our Annualised Recurring Revenue (ARR) grew at 26% compared to the SaaS site search market, which is estimated to have a compound annual growth rate of 19%².

FINANCIAL UPDATE //

We achieved total operating revenue of \$10.6 million and a loss of \$2.3 million for the six months to 31 December 2013. Our cash balance at 31 December 2013 was \$13.6 million. There are no comparative figures for the six months to 31 December 2012 as SLI was incorporated in April of last year. All of these metrics are in line with, or favourable to, internal forecasts.

ARR at 31 December 2013 was \$21.6 million. This result is in line with our internal forecast and represents a 26% increase in the ARR position at 31 December 2012. We will achieve acceleration in ARR growth in the second half of the financial year as we benefit from our investments during the period since listing.

At 31 December 2013 we had 445 customers. While slightly under forecast, this number reflects the company's focus on growing its business with large e-commerce sites. These large customers generate higher average monthly revenue and provide an outstanding opportunity to showcase SLI's capabilities. Notable new customers acquired during the period include popular American sporting goods retailers Sports Authority and Title Nine, the UK's SwimShop, and pop culture toy maker Kidrobot. The period also saw strong adoption of SLI Systems services on customers' mobile sites such as those of Dick Smith, Nike Australia, ChemistDirect, and Fortnum and Mason.

² Technavio insights: Global SaaS-based Site Search Market, 2014-2018



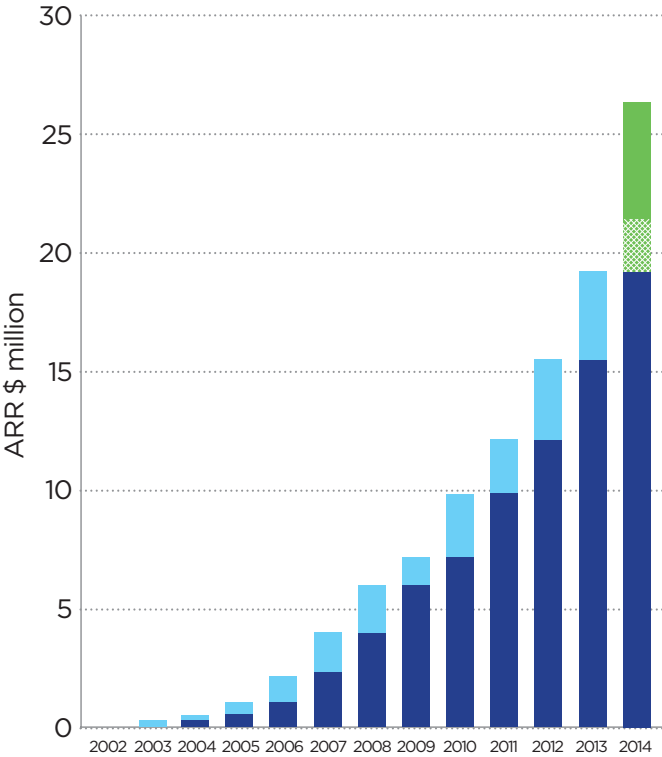
These and other retailers use SLI’s services to make it easier for their website visitors to find what they are looking for and as a result retailers see significantly increased revenue.

Our customer retention rate of 91% for the last 12 months is also in line with forecasts.



Historical and prospective Annualised Recurring Revenue at 30 June

- Previous Year
- Increase
- Forecast increase in 2014 ARR
- Increase 6 months to 31 Dec 2013



EXPANDING OUR TEAM //

Since we completed the IPO we have been applying the capital we raised primarily to employ additional people. Total full time equivalent staff increased from 119 at 30 June 2013 to 137 at 31 December 2013 and we are continuing to hire high-calibre staff aggressively. We have expanded our office space to accommodate our increased staff numbers.

Sales and Marketing

We now have a total of 35 global sales staff and we plan to continue to hire more staff and simultaneously focus on improving sales productivity.

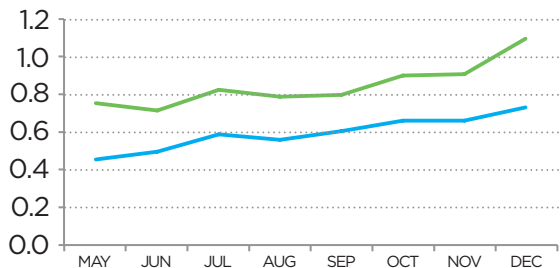
We have strengthened our marketing leadership considerably at the Board and Management level. We appointed experienced marketer Tim Callan as Chief Marketing Officer based in our San Jose office. In addition, internationally-renowned New Zealand marketer and social media innovator Andy Lark has joined SLI's board as a Non-Executive Director.

ONE BILLION QUERIES //

During the month of December 2013, the company for the first time served in excess of one billion queries across our global customer base - a 50% increase in queries over December 2012. Our distributed, fault-tolerant technology infrastructure handled the holiday peaks seamlessly.

Billions of
queries/month

■ 2012
■ 2013



LEARNING RECOMMENDATIONS //

In February 2014 we announced our new Learning Recommendations service. This product uses a range of algorithms to help website visitors find products they may want by showing product recommendations at various places on retailers' websites.

We have been trialling the service with a number of customers over the past six months, and they have reported significant sales of the recommended products. We have just launched Learning Recommendations to customers and will continue to develop this service with their input.

OUR STRATEGY //

We are forecasting to grow ARR in line with the forecasts we set out in our prospectus for our IPO. We will achieve this growth through:

- Selling to more customers with our expanded sales force, both in our existing markets of the US, UK, Australia, New Zealand, and Brazil and in our new market of Japan. We have already significantly built out our global sales team; and
- Up-selling existing and new products to our current customers, increasing the penetration of our products on customers' websites. We will achieve this by having a proportion of our sales force focused on recently-recruited and current customers.

NEXT 12 MONTHS //

For the next twelve months we will be focused on building out and improving our marketing capability to provide qualified leads to our expanded sales team. This effort will include actively marketing our new products to existing and to new customers.

We also plan to significantly increase the size of our development team so we can take advantage of the growing number of opportunities we have to expand and enhance our product offering.

We continue to be very excited about the prospects for SLI.



Greg Cross
Chairman



Shaun Ryan
Chief Executive Officer

ANNUALISED RECURRING REVENUE //

ARR is calculated based on the subscription revenue generated from the existing customer base in the reference month and then annualised. For example, ARR as at 30 June 2013 is calculated with reference to the subscription revenue generated from the existing customer base for the month of June 2013 and multiplying it by 12.

ARR is calculated based on the exchange rates at that time. When ARR is presented for a historical time series all points are calculated on a constant currency basis using the current exchange rates.

This is a non-GAAP financial performance measure used internally by SLI as a basis for its expected forward revenue. ARR does not account for changes in behaviour of customers to that experienced historically (e.g. retention rates, increase/decrease in activity or bad debts). This implied forward looking nature of ARR means it is typically higher than historical reported revenue at the same point in time when revenue is growing.

That is because the ARR at the end of a financial year is the subscription revenue for the month of June multiplied by 12, whereas the reported revenue will comprise all recognised revenue from 1 July of the previous calendar year to 30 June. The constant exchange rate used also smoothes out any foreign exchange fluctuations, providing SLI with a better understanding of the business's underlying performance over time.

ARR only includes revenue from SLI's customers for its Learning Search and related products and its Site Champion product; it does not include revenue from SLI's Related Search product, which it does not actively promote. For the Site Champion component of ARR it is necessary to apply judgement to mitigate the effects of one-off events that impact the base month revenue of the calculation. For example, SLI makes adjustments to revenue at a customer level to account for seasonality, Site Champion revenue growth and customer size.



FINANCIAL STATEMENTS\$

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED BALANCE SHEET

CONSOLIDATED STATEMENT OF CASH FLOWS

NOTES TO THE FINANCIAL STATEMENTS



SLI SYSTEMS LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

| | Unaudited |
|--|---|
| | 6 MONTHS ENDED 31 DECEMBER 2013 \$'000 |
| Operating revenue | 10,596 |
| Other income | 144 |
| Total revenue & other income | 10,740 |
| Delivery costs | (1,088) |
| Administration and other costs | (4,441) |
| Employee entitlements | (7,750) |
| Total operating expenses | (13,279) |
| Operating profit / (loss) before finance costs | (2,539) |
| Finance income | 260 |
| Finance costs | - |
| Net financing income / (costs) | 260 |
| Profit / (loss) before tax | (2,279) |
| Income tax (expense) / credit | (10) |
| Profit / (loss) for the period | (2,289) |
| Profit / (loss) attributable to the shareholders of the company | (2,289) |
| Earnings / (loss) per share | |
| Basic earnings / (loss) per share | (0.039) |
| Diluted earnings / (loss) per share | (0.039) |

The accompanying notes form part of, and should be read in conjunction with these financial statements.

SLI SYSTEMS LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

| | Unaudited |
|---|---|
| | 6 MONTHS ENDED 31 DECEMBER 2013 \$000 |
| Profit / (loss) for the period | (2,289) |
| Other comprehensive income | |
| Currency translation movement | 29 |
| Total comprehensive income / (loss) for the period attributable to the shareholders of the company | (2,260) |

The accompanying notes form part of, and should be read in conjunction with these financial statements.

SLI SYSTEMS LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

| | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited |
|--|---------------------------|-------------------------------------|---------------------------------|-------------------------------------|--------------------------|
| | Share Capital \$000 | Share Option Reserve \$000 | Translation Reserve \$000 | Accum- ulated Losses \$000 | Total Equity \$000 |
| Balance at 1 July 2013 | 16,531 | 995 | 46 | (1,817) | 15,755 |
| Profit / (loss) for the period | - | - | - | (2,289) | (2,289) |
| Currency translation movement | - | - | 29 | - | 29 |
| Total comprehensive income for the period | 16,531 | 995 | 75 | (4,106) | 13,495 |
| Transactions with owners | | | | | |
| Share options | | | | | |
| Share options exercised during period | 916 | (207) | - | - | 709 |
| Share option expense for the period | - | 266 | - | - | 266 |
| Share options expired for the period | - | (13) | - | 13 | - |
| Balance at 31 December 2013 | 17,447 | 1,041 | 75 | (4,093) | 14,470 |

The accompanying notes form part of, and should be read in conjunction with these financial statements.

SLI SYSTEMS LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2013

| | | Unaudited | Audited |
|--|------|---------------------------|-----------------------|
| | NOTE | 31 DECEMBER 2013 \$000 | 30 JUNE 2013 \$000 |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 13,621 | 15,382 |
| Trade and other receivables | | 4,468 | 4,185 |
| Total current assets | | 18,089 | 19,567 |
| Non-current assets | | | |
| Deferred tax assets | | 179 | 167 |
| Property, plant and equipment | 3 | 1,537 | 1,290 |
| Intangible assets | | 134 | 162 |
| Total non-current assets | | 1,850 | 1,619 |
| Total assets | | 19,939 | 21,186 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Taxation payable | | 78 | 76 |
| Trade and other payables | | 3,986 | 3,739 |
| Employee benefits | | 1,352 | 1,573 |
| Total current liabilities | | 5,416 | 5,388 |
| Non-current liabilities | | | |
| Employee benefits | | 53 | 43 |
| Total non-current liabilities | | 53 | 43 |
| Total liabilities | | 5,469 | 5,431 |
| Net assets | | 14,470 | 15,755 |
| EQUITY | | | |
| Share capital | 5 | 17,447 | 16,531 |
| Reserves | | 1,116 | 1,041 |
| Accumulated losses | | (4,093) | (1,817) |
| Total equity | | 14,470 | 15,755 |
| | | 31 DECEMBER 2013 | 30 JUNE 2013 |
| Net tangible asset backing per ordinary security | | \$0.24 | \$0.27 |

The accompanying notes form part of, and should be read in conjunction with these financial statements.

SLI SYSTEMS LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

| | | Unaudited |
|---|-------------|---|
| | | 6 MONTHS ENDED 31 DECEMBER 2013 \$'000 |
| | NOTE | |
| Cash flows from operating activities | | |
| Cash was provided from: | | |
| Receipts from customers | | 10,765 |
| Interest received | | 182 |
| Net GST received | | 73 |
| Government grants | | 273 |
| Cash was applied to: | | |
| Payments made to suppliers and employees | | (13,334) |
| Income tax paid | | (20) |
| Net cash inflow/(outflow) from operating activities | 4 | (2,061) |
| Cash flows from investing activities | | |
| Cash was provided from/(applied to): | | |
| Purchase of property, plant & equipment | | (409) |
| Net cash inflow/(outflow) from investing activities | | (409) |
| Cash flows from financing activities | | |
| Cash was provided from/(applied to): | | |
| Cash received from share options exercised | | 709 |
| Net cash inflow/(outflow) from financing activities | | 709 |
| Net increase/(decrease) in cash and cash equivalents | | (1,761) |
| Cash and cash equivalents at the beginning of the period | | 15,382 |
| Cash and cash equivalents at the end of the period | | 13,621 |

The accompanying notes form part of, and should be read in conjunction with these financial statements.

SLI SYSTEMS LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

SLI Systems Limited (the Company, SLI) and its subsidiaries S.L.I. Systems, Inc., SLI Systems (UK) Limited and SLI Systems (Japan) K.K (together the Group) provide site search and navigation technologies to connect site visitors with products on e-commerce websites. The Group has operations in New Zealand, the United States, Australia, the United Kingdom and Japan.

The consolidated financial statements for the Group for the period ended 31 December 2013 were authorised for issue in accordance with a resolution of the Directors on 26 February 2014.

2. BASIS OF PREPARATION

These general purpose financial statements for the six months ended 31 December 2013 have been prepared in accordance with NZ IAS 34, Interim Financial Reporting. In complying with NZ IAS 34, these consolidated interim financial statements also comply with IAS 34.

These consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited financial statements of SLI Systems Limited and its Subsidiaries for the year ended 30 June 2013 which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

The Company and Group are designed as profit-oriented entities for financial reporting purposes.

All significant accounting policies have been applied on a basis consistent with those used in the audited financial statements of SLI Systems Limited and its Subsidiaries for the year ended 30 June 2013.

The following accounting standards were adopted in the period ended 31 December 2013:

NZ IFRS 13 *Fair Value Measurement* (effective 1 January 2013). NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Group does not use fair value for measuring any assets or liabilities other than establishing the fair value of share options granted. Share based payments under NZ IFRS 2 are specifically scoped out of NZ IFRS 13. Therefore applying the new standard has no impact on any of the amounts recognised in the financial statements and does not impact the type of or extent of information disclosed in the notes to the financial statements.

NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 11 Joint Arrangements, NZ IFRS 12 Disclosure of Interests in Other Entities, and NZ IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2013).

NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 *Consolidated and Separate Financial Statements*, and NZ SIC12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. There is also new guidance on participating and protective rights and on agent/principal relationships. Applying this standard has no impact on the composition of the Group.

NZ IFRS 11 introduces a principles based approach to accounting for joint arrangements. As the Group is not party to any joint arrangements, applying this standard has no impact on the financial statements.

NZ IFRS 12 sets out the required disclosures for entities reporting under the two new standards, NZ IFRS 10 and NZ IFRS 11, and replaces the disclosure requirements currently found in NZ IAS 28. As applying NZ IFRS 10 and NZ IFRS 11 have no impact on the Group, there is no impact on the type of information disclosed in relation to the Group's investments.

Amendments to NZ IAS 28 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The Group does not apply equity accounting to any of its investments and is not party to any joint arrangements therefore applying this standard has no impact on the financial statements.

3. PROPERTY, PLANT AND EQUIPMENT

In the six months to 31 December 2013, \$409,000 of additional property, plant and equipment has been purchased, the majority in relation to office fit outs.

4. RECONCILIATION FROM THE NET (LOSS)/PROFIT AFTER TAX TO THE NET CASH FROM OPERATING ACTIVITIES

| | Unaudited 6 months ended 31 December 2013 \$'000 |
|--|---|
| Net (loss)/profit after tax | (2,289) |
| Adjustments | |
| Depreciation | 164 |
| Amortisation | 28 |
| Loss/(gain) on foreign exchange transactions | 28 |
| Share option expense | 266 |
| Changes in working capital items | |
| (Increase)/decrease in trade receivables & prepayments | 15 |
| (Decrease)/increase in trade & other payables | (332) |
| (Increase)/decrease in GST | 69 |
| (Increase)/decrease in tax | (10) |
| Net cash outflow from operating activities | (2,061) |

5. CONTRIBUTED EQUITY

(a) Ordinary share capital

| | Shares | \$'000 |
|--|------------|--------|
| Ordinary shares 31 December 2013 (unaudited) | 60,046,686 | 17,447 |
| Ordinary shares 30 June 2013 (audited) | | |
| Authorised and issued (no par value) | 58,137,106 | 16,531 |

The total authorised number of ordinary shares is 60,046,686 shares as at 31 December 2013. All shares are fully paid.

| | Number of ordinary shares | \$000 |
|--|------------------------------|---------------|
| Balance at 1 July 2013 (audited) | 58,137,106 | 16,531 |
| Share options exercised | 1,909,580 | 916 |
| Balance at 31 December 2013 (unaudited) | 60,046,686 | 17,447 |

| | Number of ordinary shares | Audited 30 June 2013 \$000 |
|-----------------------------------|------------------------------|----------------------------------|
| Issued on incorporation | 1 | - |
| Shares issued from share exchange | 48,068,531 | 2,292 |
| Shares issued at IPO | 10,000,000 | 15,000 |
| Share options exercised | 68,574 | 30 |
| IPO share costs | - | (791) |
| Balance at 30 June 2013 | 58,137,106 | 16,531 |

(b) Redeemable shares

On 31 May 2013, the Company issued 399,999 unlisted redeemable shares, with an issue price of \$1.50, which were allotted to independent directors, as contemplated in the Prospectus dated 6 May 2013.

On 20 December 2013, the Company issued 107,527 unlisted redeemable shares, with an issue price of \$1.86, to Andrew Lark, an independent director, as approved by Board resolution on the 19 December 2013. The issue of these unlisted redeemable shares is dependent on the approval of shareholders at the next annual general meeting.

The redeemable shares have the same rights and terms, and rank uniformly in all respects with the ordinary shares in the Company.

In satisfaction of the issue price of the redeemable shares, the Company provided loans to the redeemable shareholders of \$800,000 in aggregate. The loans provided are interest free, have recourse only against the redeemable shares and are repayable in full on 31 May 2016 (\$600,000) and 20 December 2016 (\$200,000), or some other date under certain conditions. The substance of these transactions is similar in nature to the issuing of share options and as such are valued in accordance with note 6 using the Blacks-Scholes pricing model. As at 31 December 2013, no cash has been exchanged in relation to these transactions and the loans are not recognised in the financial statements.

The redeemable shares vest immediately. Upon repayment of the loan, the redeemable shares automatically reclassify into ordinary shares in the Company.

The unlisted redeemable shares as at 31 December 2013 are as follows:

| | Unlisted redeemable shares | Loan \$000 |
|--------------|-------------------------------|----------------|
| Greg Cross | 133,333 | 200,000 |
| Sarah Smith | 133,333 | 200,000 |
| Sam Knowles | 133,333 | 200,000 |
| Andrew Lark | 107,527 | 200,000 |
| Total | 507,526 | 800,000 |

6. SHARE OPTIONS

Options to subscribe for shares have been issued to certain directors, employees and some advisors of the Company. The purpose of the plan is to provide an incentive to attract, retain and reward individuals performing services for the Company and to motivate such individuals to contribute to the growth and profitability of the Company.

The options shall be exercisable to the extent of 1/4 of the options as of the one year anniversary after the grant date, then an additional 1/36th of the remaining balance on a monthly basis, so that the options are fully exercisable on the fourth anniversary of the grant date. The options are no longer exercisable on the first to occur of i) the 10th anniversary of the grant date, ii) the last date for exercising the option following termination of the Optionee's Service or (iii) its termination in connection with a change in control in the Company.

The functional and presentation currency of the financial statements is in New Zealand dollars however a significant majority of the options have an exercise price denominated in US dollars so the tables below are presented in USD where appropriate.

| | No. of options 2013 | Weighted average exercise price US\$ 2013 |
|--|---------------------------|--|
| Reconciliation of outstanding options | | |
| Balance at 1 July 2013 | 8,663,574 | 0.46 |
| Expired during the period | (472,897) | 0.68 |
| Exercised during the period | (1,909,580) | 0.30 |
| Issued | 753,927 | 1.57 |
| Balance at 31 December 2013 | 7,035,024 | 0.60 |
| Exercisable at 31 December 2013 | 4,064,276 | 0.39 |

The weighted average of the total options at the end of the period is USD 60 cents which equates to NZD 73 cents at 31 December 2013 exchange rates.

The table above includes the unlisted redeemable shares as detailed in note 5 (b).

Share options outstanding at the end of the period have the following characteristics:

The following options are outstanding at 31 December 2013:

| Number of options | Range of exercise price per share | Weighted average contractual life (years) at 31 December 2013 |
|-------------------|-----------------------------------|---|
| 676,800 | US \$0.29 - \$0.33 | 3.3 |
| 3,832,401 | US \$0.33 | 6.6 |
| 297,000 | US \$0.68 | 8.4 |
| 648,300 | US \$0.75 | 8.7 |
| 324,000 | US \$0.78 | 9.2 |
| 507,396 | NZ \$1.50 | 9.4 |
| 680,127 | NZ \$1.94 | 9.8 |
| 69,000 | NZ \$1.95 - \$2.06 | 9.7 |

Measurement of fair value

The fair value of the options granted was measured based on the Black-Scholes pricing model. Expected volatility is estimated by considering historic average share price volatility and industry peer volatility.

The inputs used in the measurement of the fair values at grant date of the share based payment plans were as follows for USD\$ options:

| USD\$ OPTIONS | 2013 |
|--|------------|
| Fair value at grant date (weighted average USD\$) | 0.10 |
| Share price at grant date (weighted average USD\$) | 0.42 |
| Exercise price (weighted average USD\$) | 0.42 |
| Expected volatility (weighted average) | 20% to 30% |
| Expected life (weighted average) | 4 |
| Risk-free interest rate (weighted average) | 3.0% |

The inputs used in the measurement of the fair values at grant date of the share based payment plans were as follows for NZD\$ options:

| NZD\$ OPTIONS | 2013 |
|--|-------------|
| Fair value at grant date (weighted average NZD\$) | 0.50 |
| Share price at grant date (weighted average NZD\$) | 1.76 |
| Exercise price (weighted average NZD\$) | 1.76 |
| Expected volatility (weighted average) | 30% |
| Expected life (weighted average) | 4 |
| Risk-free interest rate (weighted average) | 3.1% |

Directors

The following directors hold the following number of options as at 31 December 2013:

| | Exercise price | US\$0.33 |
|------------|-----------------------|-----------------|
| Shaun Ryan | US\$0.33 | 49,260 |
| Greg Cross | US\$0.33 | 120,000 |

7. RELATED PARTIES

Parent and ultimate controlling party

The immediate parent and ultimate controlling party of the Group is SLI Systems Limited.

On 18 October 2013, SLI Systems (Japan) K.K was incorporated. SLI Systems (Japan) K.K is a 100% owned subsidiary of SLI Systems Limited.

Related party transactions and balances

Director's holdings of options are disclosed in notes 5 and 6.

Marder Media Group. Inc. (of which Steven Marder is a director) is a shareholder of Delivery Agent which is a customer of S.L.I Systems, Inc.

Group Lark Pty Ltd (of which Andrew Lark is a director) provided consulting services to S.L.I Systems, Inc.

8. INTEREST BEARING LIABILITIES

There are no interest bearing liabilities in the six months to 31 December 2013.

9. CONTINGENCIES

There are no contingencies at 31 December 2013.

10. COMMITMENTS

(a) Operating lease commitments

| | Unaudited 2013 \$000 |
|---|----------------------------|
| Non-cancellable operating lease rentals are payable as follows: | |
| Less than one year | 1,076 |
| Between one and five years | 2,745 |
| More than five years | - |
| | 3,821 |

The Group leases properties. Operating leases held over certain properties give the Group the right to renew the lease subject to a redetermination of the lease rental by the lessor, however potential commitments beyond the renewal dates have not been included in the above commitments.

(b) Capital commitments

There are no material contractual obligations to purchase plant and equipment at 31 December 2013.

11. SEGMENTAL INFORMATION

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the Group, has been identified as the CEO.

The Group currently operates in one business segment providing website search services in New Zealand, United States, Australia, the United Kingdom, Brazil and Japan. Discrete financial information is not produced on a geographical basis and the operating results are reviewed on a group basis.

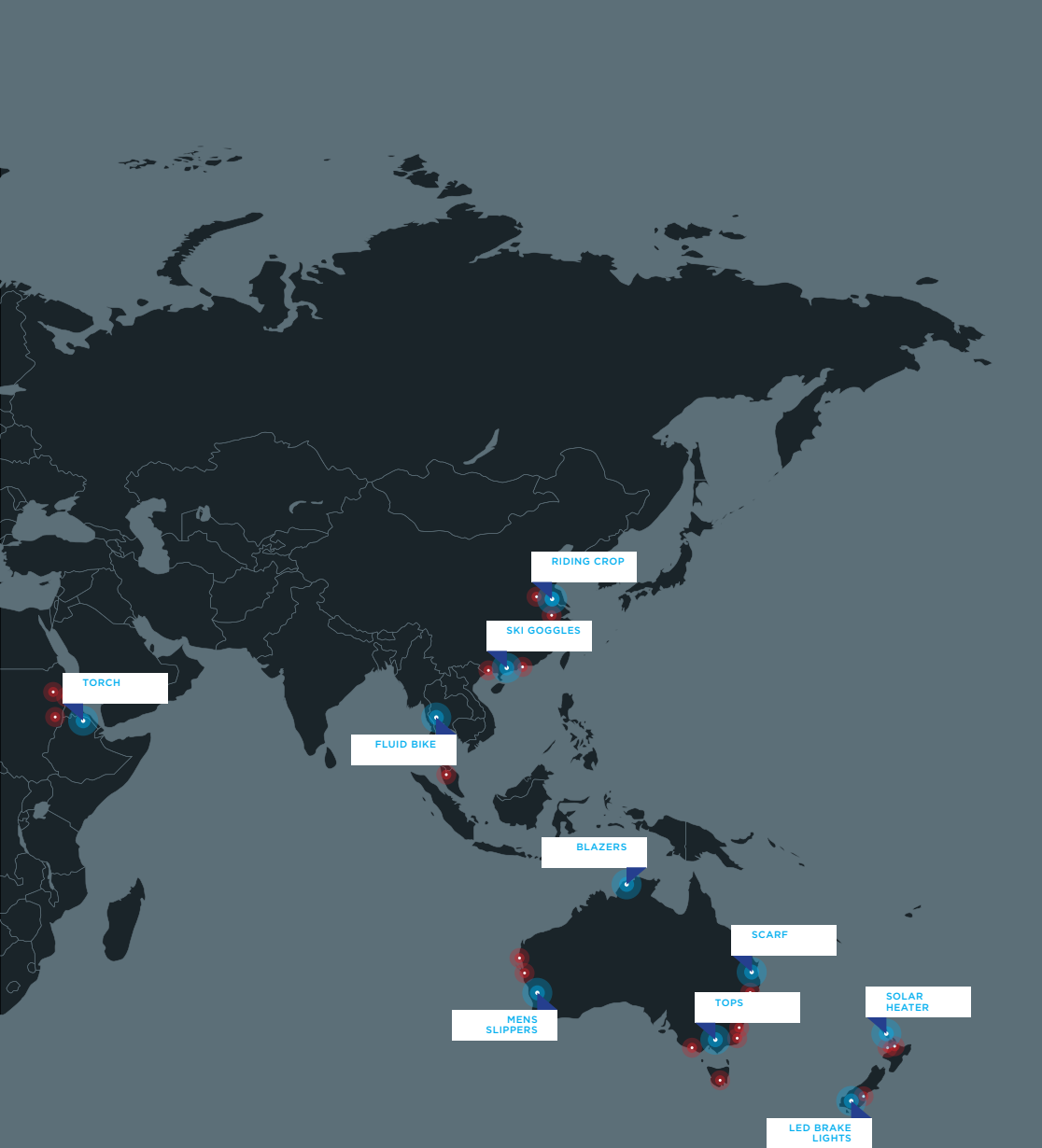
12. EVENTS OCCURRING AFTER 31 DECEMBER 2013

There are no events occurring after 31 December 2013 that materially affect the information within the financial statements.



A WORLD LEADER

SLI continues to be a leading site search provider to e-commerce businesses in the US, UK, Brazil, Australia and New Zealand.



BOARD AND MANAGEMENT

BOARD //

Greg Cross
Independent Chairman

Dr. Shaun Ryan
Chief Executive Officer

Steven E Marder
Non-Executive Director

Matthew Houtman
Non-Executive Director

Sarah Smith
Independent Director

Sam Knowles
Independent Director

Andrew Lark
Independent Director
(Appointed 20 December 2013)

MANAGEMENT //

Dr. Shaun Ryan
Chief Executive Officer and Co-Founder

Dr. Wayne Munro
Chief Technology Officer and Co-Founder

Geoff Brash
Vice President of Business Intelligence and Co-Founder

Ed Hoffman
Vice President of Global Sales and Business Development

Dr. Blair Cassidy
Vice President of Product Management

Rod Garrett
Chief Financial Officer

Chris Riland
Vice President of Customer Success

Michael Grantham
Operations Manager and Co-Founder

Tim Callan
Chief Marketing Officer

DIRECTORY

REGISTERED OFFICE OF THE COMPANY

1st Floor, Epic Centre
78 - 106 Manchester Street
Christchurch, 8011
Phone: 0800 754 797
Facsimile: +64 (3) 961 3262
Email: info@sli-systems.com
Website: www.sli-systems.com

OFFICE DIRECTORY

USA

333 West San Carlos, Suite 1250
San Jose, CA 95110, USA
Toll Free: (866) 240-2812

Europe

Fifth Floor Kemp House
152-160 City Road
London, EC1V 2NP
United Kingdom
United Kingdom Phone: +44 (0)203 217 0321

Australia

L5, Suite 3, 189 Flinders Lane
Melbourne
VIC 3000
Australia
Australia Phone: 1800 139 190

New Zealand

1st Floor, Epic Centre
78 - 106 Manchester Street
Christchurch, 8011
New Zealand
New Zealand Phone: 0800 754 797

Japan

Cerulean Tower
15th Floor, Cerulean Tower
26-1, Sakuragaoka-cho, Shibuya-ku,
Tokyo
150-8512 Japan
Phone: +81 03 5456 5890

SOLICITORS

Chapman Tripp

245 Blenheim Road
Riccarton
Christchurch 8011

AUDITOR

PricewaterhouseCoopers

5 Sir Gil Simpson Drive
Canterbury Technology Park
Christchurch

REGISTRAR

Link Market Services Limited

Level 7, Zurich House
21 Queen Street
Auckland 1010
PO Box 91976
Victoria Street West, Auckland 1142
Telephone: +64 (9) 375 5998
Facsimile: +64 (9) 375 5990
Email: enquiries@linkmarketservices.co.nz
Website: www.linkmarketservices.co.nz

 HOMEWARE//S
ACCE\$SORIES.CO
MOBILESEARCH//
//MERCHANDISIN
CATALOGUE.COM
EST/NAVIGATION
 TECH\$UPPLIES