

Interim Report

31 December 2015

Highlights

› ARR¹ growth of
23%²
to \$35.6m

› Gross margin
76.4%

› Customer retention rate
87%
by value

› Cash
\$5.6m

› Growth of
30%
in half year operating revenue to \$17.4m

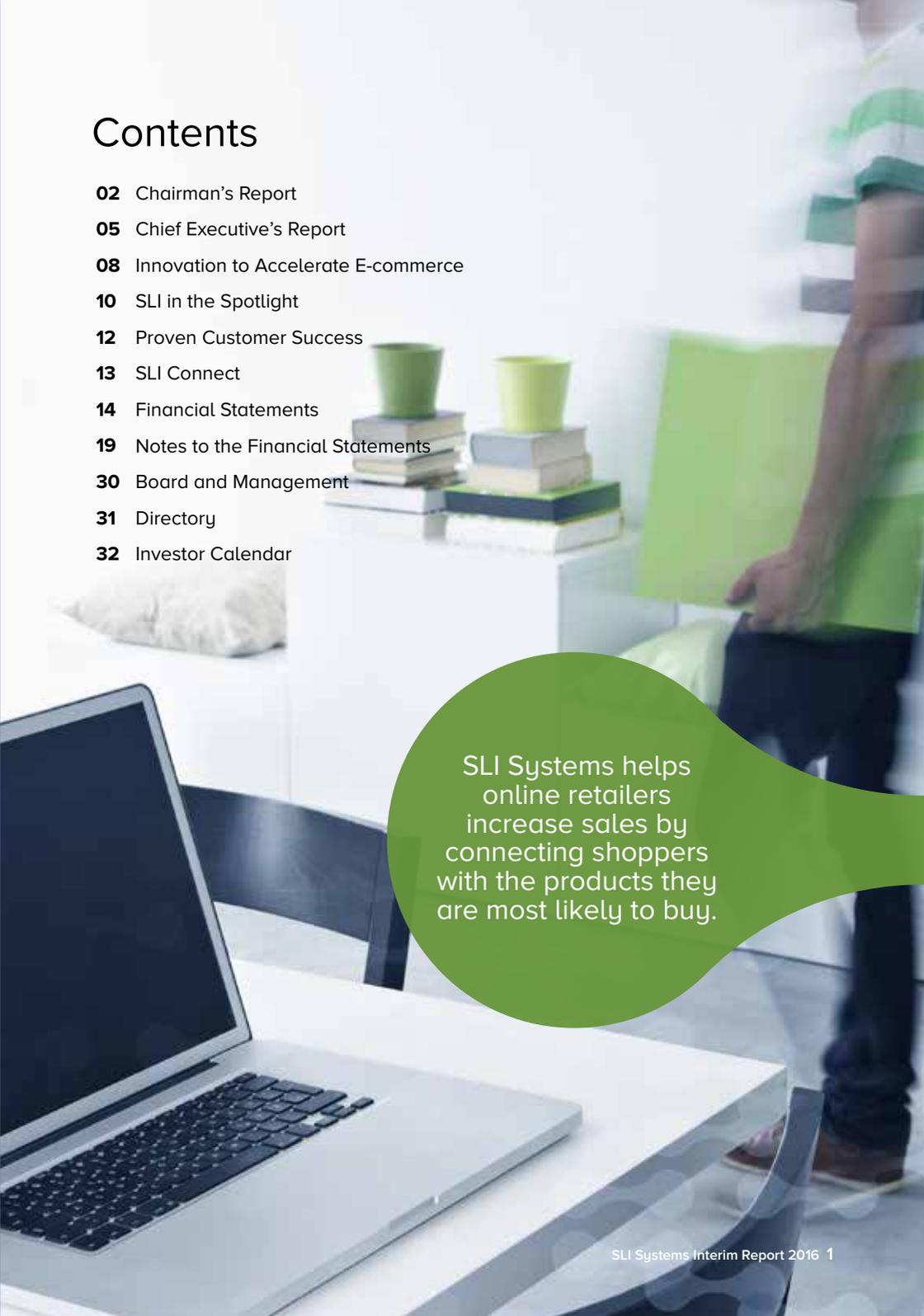
› Cash flow **neutral** in past six months

1. Annualised Recurring Revenue (ARR) is a non-GAAP financial performance measure used internally by SLI as a basis for its expected forward revenue. ARR is calculated based on the subscription revenue from the existing customer base in the reference month and then annualised using exchange rates at the end of the reference month. ARR does not account for changes in behaviour of customers. For the Site Champion component of ARR it is necessary to apply judgement to mitigate the effects of one-off events that impact the reference month revenue of the calculation.

2. 23% is the growth from the reported currency ARR of \$28.9m at Dec 2014. On a constant currency basis the growth over the past 12 months was 10%.

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SLI Systems helps
online retailers
increase sales by
connecting shoppers
with the products they
are most likely to buy.

Chairman's Report



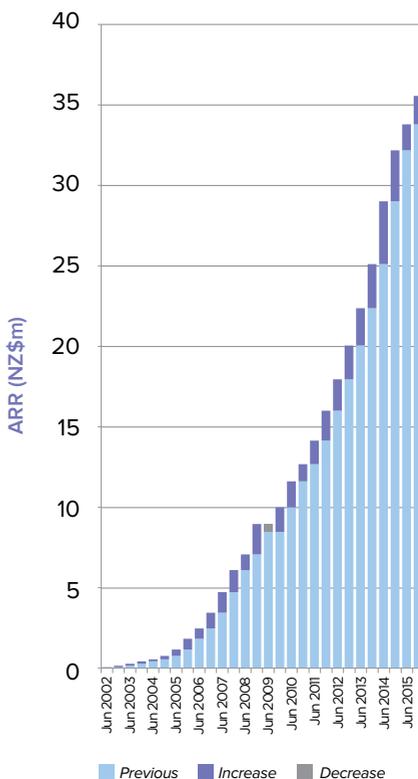
Greg Cross

Dear Shareholders,

SLI Systems has extended its track record of revenue growth in the first half of the 2016 financial year. Our operating revenue for the six months to 31 December 2015 increased 30% to \$17.4 million from \$13.3 million in the six months to 31 December 2014. For the first time since our 2013 Initial Public Offering the company's net cash flow has been materially neutral, resulting in cash on hand at 31 December 2015 of \$5.6 million, in line with the \$5.6 million on hand at June 2015.

In the 12 months to 31 December 2015 Annual Recurring Revenue (ARR), a key measure of the company's ongoing success and a strong indicator of expected future performance, increased 23% to \$35.6 million—up from \$28.9 million as reported at 31 December 2014. This growth was significantly aided by the strengthening of the US dollar and the British pound against the New Zealand dollar. On a constant-currency basis ARR increased 10% during the same period. The company is not satisfied with this level of growth particularly in the United States market and has taken aggressive action over the last six months to return to higher

Constant Currency ARR Growth to Dec 15





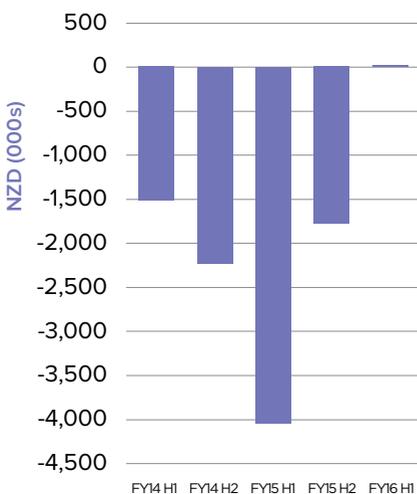
growth levels. Our action plan is detailed in the CEO's letter, following.

Half year losses narrowed to \$0.5 million from \$4.1 million in the prior corresponding period, a change driven by increased gross margins compared to prior periods and cost controls implemented by SLI. At the same time we continued to increase operating revenue, demonstrating the validity of SLI's

model of investing to create recurring revenue for long-term shareholder value.

The stability of our cash position since 30 June 2015 is an important milestone in our drive toward breakeven operation. We remain confident that the company is able to grow revenue and achieve profitability without requiring additional investment. We may have further cash outflows in subsequent periods as we continue on our growth path.

Six Monthly Net Cashflow



While we are reporting continued growth, we feel that the company's potential is considerably greater than this 10% increase in constant currency ARR suggests. Our Asia Pacific and European markets grew at an average 34% on a constant currency ARR so the opportunity we are focused on is returning the US to being a strong growth market. To help realize this potential the company has brought on board our new US based CEO Chris Brennan. Chris comes to the company with more than thirty years' experience in technology leadership, including CEO positions at six Silicon Valley companies. Chris has led seven companies to successful acquisition or



IPO as CEO, CFO or Independent Director and has led the creation of more than US\$2 billion in shareholder value.

Chris has a mandate to drive top-line revenue growth and achieve profitability. To do so he will focus on improving performance of the sales and marketing functions, increasing customer retention and releasing innovative products to raise sales for online stores. Chris already has appointed two key executives in our Silicon Valley office in San Jose, California to support this drive.

SLI maintains its leadership position in important service categories for the e-commerce industry, including site search, site navigation, product recommendations

and search engine optimization. We offer best-of-breed products and benefit from strong industry brand recognition and outspoken customer advocates. Combined with our high margins and strong recurring revenue, these factors leave SLI very well positioned to benefit from the business and process improvements Chris and our management team are bringing to the company.

Greg Cross
Chairman

Chief Executive's Report



Chris Brennan

SLI enjoys a significant opportunity. We are a vital component of a multi-trillion dollar market characterized by strong growth and driven by global trends expected to support growth well into the future. Research firm eMarketer projects 17% CAGR for the industry from 2014 to 2018¹ and expects e-commerce sales to surpass US\$3.5 trillion by 2019, at that point representing 12.4% of all retail sales².

The Board of Directors and I believe that SLI can and should achieve materially higher growth rates than in the recent past. My mission is to lead the organizational changes that return SLI to high growth. I am aided in that mission by a strong, experienced management team, award-winning technology, a significant global customer base and a fundamentally strong business model.

The management team and I are scrutinizing many aspects of our business and already have implemented changes to strengthen our company and its performance. We do so with a singular focus on customers, seeking to expand new customer acquisition, continuously improve the effectiveness of their e-commerce businesses and achieve world-class customer satisfaction.

Upon joining as Chief Executive Officer on 9 October 2015, I quickly determined that our short term opportunity depended on creating world-class organizations for sales, marketing and customer support. The long term will depend on these teams' ongoing success and our ability to continue delivering superior innovative products to serve the global market's needs.

Improving our selling machine

Our first task is to increase new recurring revenue while better maintaining existing revenue streams. We have appropriate initiatives underway and are optimistic that these changes will yield predictable, reliable, repeatable performance.

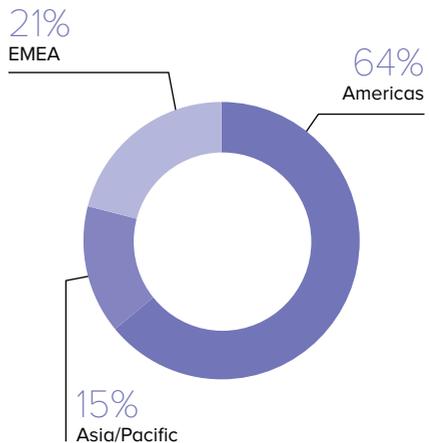
Adding two new executive team members was an early step toward this goal. First was our new Chief Revenue Officer Martin Onofrio, who joined us on 26 October 2015. Martin brings to SLI vast experience as an executive team member and sales leader. He has built, managed and mentored world-class sales organizations. Martin's task is to increase global top-line sales through improvements in sales process, execution and staff.

1. <http://www.emarketer.com/Article/Retail-Sales-Worldwide-Will-Top-22-Trillion-This-Year/1011765>
2. <https://www.internetretailer.com/2015/07/29/global-e-commerce-set-grow-25-2015>

We also have added Vice President of Customer Success Gary Schaumburg, who commenced his role on 5 January 2016. Gary has more than 25 years' experience in creating customer value in the SaaS, CRM, social media, commerce, communication and supply chain spaces. Gary's mandate is to improve customer retention by revenue from the 87% achieved in the half year to previous years' 90% level. Excellent service is critical to our goal of world-class customer satisfaction. Gary's team leads customers from acquisition to production and then on to drive customer business success and retention.

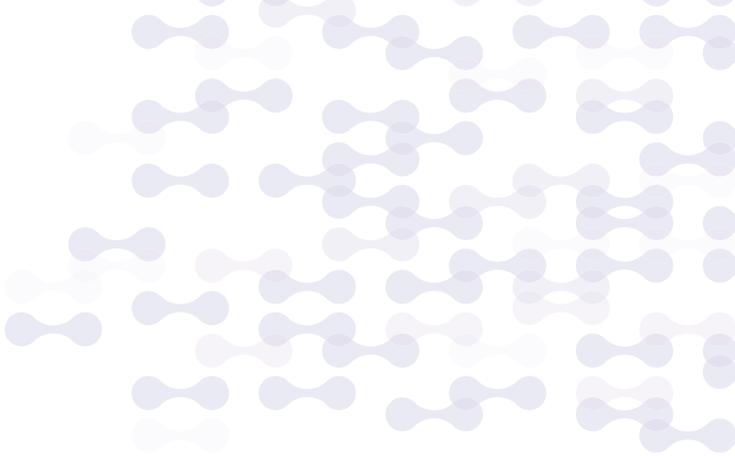
Our sales growth depends on lead generation, so we have added considerable investment to our outbound lead generation programs. In the past two years the company has built our marketing staff, expertise and technology capabilities. We continuously run programs to create sales pipeline—measuring results, increasing investment in top performing activities and exploring new methods of engaging target buyers. We can scale up lead generation cost effectively, a key requirement for increasing sales.

ARR by Geography



Product innovation

The company's long-term success depends on continuing to release new technologies that improve sales for online stores. Innovation remains a core principle for us. Delivering the best technology enables our solutions to better improve sales on e-commerce sites, and this fundamental value proposition is the key to our ability to build and retain our customer base.



The past six months have been rich with product releases, which include:

- Expanded capabilities for our popular Rich Auto Complete product
- A new merchandising dashboard to help customers monitor and manage their businesses
- Spanish language support for our merchandising console
- Extension support for version 2 of the popular Magento e-commerce platform
- Many improvements to our existing products' features, search engine optimization and language support

For more detail on our recent product innovations, see pages 8 and 9.

Looking ahead

We believe SLI's potential rises beyond our recent performance. We offer unique, market-leading, technology products that provide mission-critical contribution to a large and growing market, and we have identified the steps to capitalize on that potential.

Today we are heavily focused on delivering world-class performance in sales, marketing and customer service—aided considerably

by our team of Silicon Valley veterans and the business intelligence we use to guide our marketing and sales activity. In the longer term we will continue to release innovative products that provide high value to target customers.

We recognize that these initiatives carry a degree of risk. We are undertaking changes new to the company, and though early feedback is promising, many of them remain unproven. While we expect these initiatives to create the growth we seek, their specific performance and predictability are yet to be demonstrated. The company is carefully managing cash to achieve breakeven, reducing our investment alternatives.

I am excited to join SLI at this pivotal time, and I am optimistic that our clear action plan will set us on course for improvement in all our key success indicators.

Chris Brennan
Chief Executive Officer

Innovation to Accelerate E-commerce

SLI continually improves and reimagines the solutions that bring greater revenue and success to online retailers. Highlights from the first half of the financial year include:



Speeding the path from search to buy

We made it even easier for shoppers to shop straight from the search box.

SLI released: Enhancements to SLI Rich Auto Complete™

- As shoppers type, visual results dynamically increase in relevance
- Results display category, brand or department so shoppers know they've found what they want
- Results are tailored for desktop, mobile and tablet shoppers

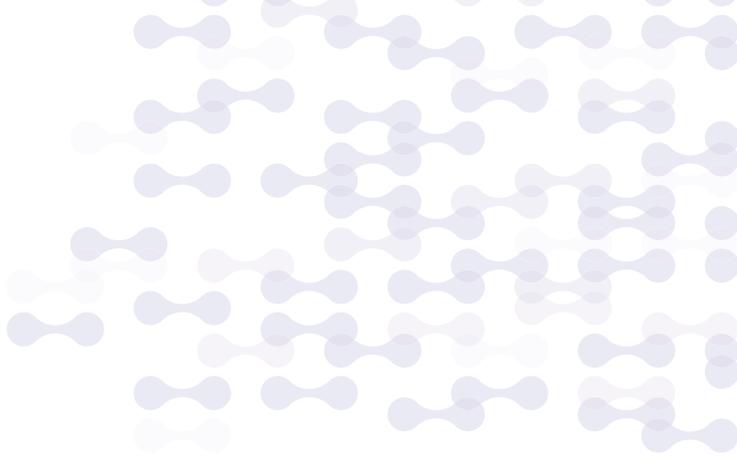


Navigating to higher conversions

We simplified shoppers' ability to navigate to the right product while making SEO easier for retailers.

SLI released: Enhancements to SLI Learning Navigation®

- Automatic generation of search engine optimized URLs
- User-friendly editing of pages and metadata for easy merchandising and SEO
- Consistency between search and navigation so shoppers can quickly find and buy



Integrating with the leading e-commerce platform

As industry leader Magento moved to a new version of its platform, we made sure the transition was smooth for new and existing customers.

SLI released: Magento 2.0 Plugin

- Ensures seamless use of SLI with the latest version of Magento
- Downloadable from the Magento Connect Extension Marketplace

Also, the SLI Magento 1.0 Plugin recently passed Magento's rigorous certification process.



Monitoring and improving site performance

We took a fresh look at how to best measure and report the results that matter most for online retailers, while designing a new visual display for the SLI Merchandising Console.

SLI released: The SLI Dashboard™

- Displays e-commerce performance at a glance, on any device
- Informs retailers' merchandising and marketing decisions
- Simplifies retailers' ability to improve site performance

SLI in the Spotlight

SLI Customer in *STORES* Magazine

The September 2015 print issue of the National Retail Federation's main publication *STORES* included SLI customer Jerome's Furniture in its two-page feature on online retail. The reporter quoted Scott Perry, Jerome's director of e-commerce and omnichannel, as crediting SLI Learning Search® for its success.

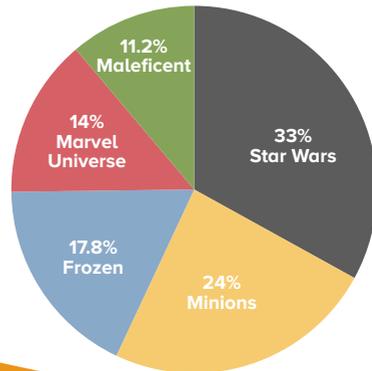
Halloween Search Findings

Using aggregated search data from our clients, we discovered which Halloween costumes online shoppers sought most in September and October 2015. Our research was referenced in more than a dozen TV, radio and other media outlets across North America and Australia.

The Top 5 Most-Searched Movie-Themed Costumes of 2015*

Total Searches Sep 1 - Oct 20, 2015

*Search activity across e-commerce costume retailer websites based in the U.S., Canada and Australia.



“In our industry, you scrape and grind for even a **5 percent** increase in conversion rates. Just by adding a more intuitive search program we hit **71 percent.**”

Scott Perry, Jerome's Furniture

Holiday Infographic

To help retailers prepare for the holiday shopping season, we released an infographic providing tips for mobile-friendly merchandising. The infographic was published by leading retail media including *Multichannel Merchant* and *Retail TouchPoints*.

6 Mobile Search & Merchandising Tips for the Holidays

No matter what this holiday's hottest gifts are, at least 25% of shoppers will buy them from smart-phones or tablets.

23%

of Holiday 2014 online sales were completed on a mobile device.
EM Digital Analytics, 8/15, 2015

30%

rise in YOY mobile sales is expected by the end of Holiday 2015.
iMarketers, July 2015

This year, give your customers a mobile shopping experience they'll love. Use these six search and merchandising tips to boost holiday mobile-friendliness and conversions.

- 1 Center Your Search Box

A great search function is critical for mobile shoppers. Keep your search box front-and-center on every page of your mobile site.
- 2 Autocomplete Their Sentences

Use an autocomplete feature so users only have to type in a few letters to find the search term they want. Include graphics to make their search even easier.

gift
 gift box
 gift card
 gift wrap

3 Give Shoppers What They Want

With smaller screens, your mobile shoppers need to see what they want in the first 3-5 results – or they'll bounce. Make sure your search results are always accurate and relevant.
- 4 Refine your Refinements

Use large, tap-friendly dropdowns that list only the most popular refinements so shoppers can easily narrow results down to the perfect product.

BRAND

COLOR

PRICE
- 5 Always Show Results

When you don't have the item a shopper searches for, admit it, but don't just serve up an apology – use the screen space to recommend similar products, and you might still capture a sale.

6 Make It Personal

Use your site search data to inform your merchandising. Watch for common searches and fast-growing trends, then create merchandising banners for what customers really want.

OTHER PRODUCTS YOU MIGHT LIKE

gift box 20% OFF GIFT BOXES

Tips are from SLI Systems, which provides Smart-Enabled Learning Search™, SLI Mobile™ and other e-commerce acceleration solutions to the world's leading online retailers.
slisystems.com | slisystems.co.uk | slisystems.com.au

SLISYSTEMS.

Thought Leadership

SLI Systems has a strong history of sharing e-commerce best practices through industry white papers, e-books, webinars and articles. In spring 2015, SLI published new content to help retailers improve their site search, site navigation, SEO and merchandising. We also created a new Knowledge Base in the Resources section of our website to make it easy to access our latest content.



Proven Customer Success

Retailers around the world rely on patented SLI Learning Search® technology for higher sales and happier customers. In North America, Brazil and Japan, the following retailers share their results.



**SCHULER
SHOES**

20% fewer

bounces from search and navigation pages

"We chose SLI because it fits well with Magento and does everything we want – search, navigation, merchandising and more. SLI saves me time, simplifies our ability to do promotions and is a great support for our business."

- Michael Schuler, E-commerce Director



78% increase

in conversions from site search users

"Bebé Store was created to bring the convenience of online shopping to the hectic lives of new parents. SLI Systems makes shopping on our site even faster and easier with search results that match what parents had in mind."

- Paulo Carmo, IT and Projects Manager



170% increase

in sales from site search users

"As the biggest online shop for smart phone accessories, we want our customers to easily find what they are looking for. SLI Systems has responded to the needs excellently."

- Takuya Miyaguchi, Web Design Manager

SLI Connect brings together thought leaders and top-tier retailers for a one-day educational e-commerce summit held in various locations around the globe. Our fall 2015 SLI Connect events were the first held in New York City and Tokyo.



2015 SLI Connect Events

SLI Connect North America
24 September 2015
Carnegie Hall, New York City

SLI Connect Japan
2 December 2015
New Zealand Embassy, Tokyo



2016 SLI Connect Events

SLI Connect UK
15 March 2016
Ham Yard Hotel, London

SLI Connect Australia
6 April 2016
Sydney Opera House, Sydney

SLI Connect North America
September 2016
New York City



SLI CONNECT
ACCELERATING E-COMMERCE

Financial Statements

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Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2015

		Unaudited 6 months ended 31 Dec	Unaudited 6 months ended 31 Dec	Audited 12 months ended 30 Jun
	NOTE	2015 \$'000	2014 \$'000	2015 \$'000
Operating revenue		17,367	13,342	28,126
Other income		57	270	466
Total revenue and other income	3	17,424	13,612	28,592
Operating expenses		(7,062)	(7,429)	(14,309)
Employee entitlements		(10,826)	(10,439)	(22,007)
Operating (loss) before finance income		(464)	(4,256)	(7,724)
Finance income		18	139	174
Net finance income		18	139	174
(Loss) before tax		(446)	(4,117)	(7,550)
Income tax (expense)/credit		(56)	(30)	101
(Loss) for the period		(502)	(4,147)	(7,449)
Other comprehensive income recycled through profit and loss				
Currency translation movement		(185)	32	243
Total comprehensive (loss) for the period attributable to the shareholders of the company		(687)	(4,115)	(7,206)
(Loss)/earnings per share				
Basic and diluted (loss)/earnings per share		(\$0.008)	(\$0.068)	(\$0.122)

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

Consolidated Statement of Changes in Equity

For the six months ended 31 December 2015

Unaudited	Share Capital	Share Option Reserve	Translation Reserve	Accumulated Losses	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance at 1 July 2015	18,125	1,492	277	(14,504)	5,390
Prior period adjustment	-	-	-	(664)	(664)
Restated opening balance at 1 July 2015	18,125	1,492	277	(15,168)	4,726
(Loss) for the period	-	-	-	(502)	(502)
Currency translation movement	-	-	(185)	-	(185)
Total comprehensive income for the period	-	-	(185)	(502)	(687)
Transactions with owners					
Share options					
- Share options exercised during period	277	(39)	-	-	238
- Share option expense for the period	-	348	-	-	348
- Share options expired for the period	-	(203)	-	203	-
Balance at 31 December 2015	18,402	1,598	92	(15,467)	4,625

Unaudited	Share Capital	Share Option Reserve	Translation Reserve	Accumulated Losses	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance at 1 July 2014	17,674	1,216	34	(7,476)	11,448
Prior period adjustment	-	-	-	(345)	(345)
Restated opening balance at 1 July 2014	17,674	1,216	34	(7,821)	11,103
(Loss) for the period	-	-	-	(4,147)	(4,147)
Currency translation movement	-	-	32	-	32
Total comprehensive income for the period	-	-	32	(4,147)	(4,115)
Transactions with owners					
Share options					
- Share options exercised during period	332	(110)	-	-	222
- Share option expense for the period	-	273	-	-	273
- Share options expired for the period	-	(48)	-	48	-
Balance at 31 December 2014	18,006	1,331	66	(11,920)	7,483

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

Consolidated Balance Sheet

As at 31 December 2015

		Unaudited 31 Dec	Unaudited 31 Dec	Audited 30 Jun
	NOTE	2015 \$'000	2014 \$'000	2015 \$'000
ASSETS				
Current assets				
Cash and cash equivalents		5,606	7,359	5,582
Trade and other receivables		6,843	6,581	6,631
Taxation receivable		-	5	-
Total current assets		12,449	13,945	12,213
Non-current assets				
Deferred tax assets		502	358	502
Property, plant and equipment		1,438	1,649	1,582
Intangible assets		77	103	99
Total non-current assets		2,017	2,110	2,183
Total assets		14,466	16,055	14,396
LIABILITIES				
Current liabilities				
Taxation payable		76	-	24
Trade and other payables		7,670	6,288	6,843
Employee benefits		2,063	2,188	2,774
Total current liabilities		9,809	8,476	9,641
Non-current liabilities				
Employee benefits		20	81	17
Deferred tax liabilities		12	15	12
Total non-current liabilities		32	96	29
Total liabilities		9,841	8,572	9,670
Net assets		4,625	7,483	4,726
EQUITY				
Share capital	5	18,402	18,006	18,125
Reserves		1,690	1,397	1,769
Accumulated losses		(15,467)	(11,920)	(15,168)
Total equity		4,625	7,483	4,726
Net tangible asset backing per ordinary security		\$0.07	\$0.12	\$0.08

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

Consolidated Statement of Cash Flows

For the six months ended 31 December 2015

		Unaudited 6 months ended 31 Dec	Unaudited 6 months ended 31 Dec	Audited 12 months ended 30 Jun
	NOTE	2015 \$'000	2014 \$'000	2015 \$'000
Cash flows from operating activities				
Cash provided from:				
Receipts from customers		18,109	12,969	27,938
Interest received		14	191	246
Net GST/VAT (paid)		(19)	(46)	(15)
Government grants		100	230	378
Cash was applied to:				
Payments made to suppliers and employees		(18,354)	(17,318)	(34,193)
Income tax (paid)/received		(4)	(5)	8
Net cash (outflow) from operating activities	4	(154)	(3,979)	(5,638)
Cash flows from investing activities				
Cash was provided from/(applied) to:				
Purchase of property, plant and equipment		(56)	(259)	(433)
Sale of property, plant and equipment		1	-	1
Purchase of intangibles		(5)	(14)	(40)
Net cash (outflow) from investing activities		(60)	(273)	(472)
Cash flows from financing activities				
Cash was provided from/(applied) to:				
Cash received from share options exercised		238	222	303
Net cash inflow from financing activities		238	222	303
Net increase/(decrease) in cash and cash equivalents		24	(4,030)	(5,807)
Cash and cash equivalents at the beginning of the period		5,582	11,389	11,389
Cash and cash equivalents at the end of the period		5,606	7,359	5,582

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

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 2015 were authorised for issue in accordance with a resolution of the Directors on 25 February 2016.

2. Basis of preparation

These general purpose financial statements for the six months ended 31 December 2015 have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with NZ IAS 34 Interim Financial Reporting and consequently do not include all the information required for full financial statements. These condensed Group interim financial statements should be read in conjunction with the audited financial statements of SLI Systems Limited and its Subsidiaries for the year ended 30 June 2015, 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 interim financial statements of the Group have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Financial Markets Conduct Act 2013 and the New Zealand Stock Exchange (NZX).

SLI Systems Limited is registered under the Companies Act 1993 and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013.

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 2015.

There have been no significant changes in accounting policies during the period. These financial statements have been restated to reflect a prior period adjustment as follows:

Notes to the Financial Statements

During the period, the Company appointed a specialist indirect tax expert to evaluate our previous advice on the Group's US Sales Tax position. The position on this is not yet conclusively resolved however, at this stage, it appears likely that our earlier advice and related treatment of US sales tax may have resulted in SLI under-returning sales taxes to the US authorities. Pending more definitive resolution of the position the Company has made a provision within Trade and other Payables of \$664,000 for an estimate of additional sales tax cost, net of expected credits, that relates to previous years. This is based on the best estimates available at the time of preparing these statements and any actual liability is expected to be fully quantified by the end of the 2016 financial year.

As the amount relates to previous periods, as required by accounting standards, the amount has been adjusted against opening retained earnings.

The impact of the restatement on these financial statements is as follows:

Six months ended 31 December 2014 - \$152,000 increase in operating expenses and loss for the period, a \$497,000 increase in trade and other payables and a \$497,000 decrease in total equity. This equates to a \$0.002 increase in loss per share.

12 months ended 30 June 2015 - \$319,000 increase in operating expenses and loss for the period, a \$664,000 increase in trade and other payables and a \$664,000 decrease in total equity. This equates to a \$0.005 increase in loss per share.

3. Revenue and other income

	Unaudited 6 months ended 31 Dec	Unaudited 6 months ended 31 Dec	Audited 12 months ended 30 Jun
	2015 \$'000	2014 \$'000	2015 \$'000
Revenue from sale of services	17,367	13,342	28,126
Government grants received and receivable	57	270	466
Total revenue and other income	17,424	13,612	28,592

4. Reconciliation from the net (loss) after tax to the net cash from operating activities

	Unaudited 6 months ended 31 Dec	Unaudited 6 months ended 31 Dec	Audited 12 months ended 30 Jun
	2015 \$'000	2014 \$'000	2015 \$'000
Net (loss) after tax	(502)	(4,147)	(7,449)
Adjustments			
Depreciation	193	204	458
Amortisation	27	26	56
(Loss)/gain on currency translation movement	(179)	27	224
Share options expense	348	273	526
Changes in working capital items			
Decrease/(increase) in trade receivables and prepayments	494	(605)	(217)
(Decrease)/increase in trade payables and accruals	(583)	194	823
(Increase)/decrease in GST	(4)	25	34
Decrease/(increase) in tax	52	24	(93)
Net cash outflow from operating activities	(154)	(3,979)	(5,638)

5. Contributed equity

(a) Ordinary share capital

Current period

	Number of ordinary shares	\$'000
Balance at 31 December 2014 (unaudited)	60,976,112	18,006
Share options exercised	186,004	119
Balance at 1 July 2015 (audited)	61,162,116	18,125
Share options exercised	467,196	277
Balance at 31 December 2015 (unaudited)	61,629,312	18,402

Notes to the Financial Statements

Prior period

	Number of ordinary shares	\$'000
Balance at 1 July 2014 (audited)	60,498,018	17,674
Share options exercised	478,094	332
Balance at 31 December 2014 (unaudited)	60,976,112	18,006

The total number of ordinary shares on issue as at 31 December 2015 is 61,629,312 (31 December 2014: 60,976,112) shares. All shares are issued and fully paid (no par value).

(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 at the annual shareholder's meeting on the 14 October 2014.

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. The loans provided are interest free, have recourse only against the redeemable shares and are repayable in full on the third anniversary of the issue date, or some later date subject to board approval. 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 Black-Scholes pricing model. As at 31 December 2015, 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 2015 are as follows:

	Issue date	Unlisted redeemable shares	Loan \$
Greg Cross	31 May 2013	133,333	200,000
Sarah Smith	31 May 2013	133,333	200,000
Sam Knowles (retired 16 October 2015)	31 May 2013	133,333	200,000
Andrew Lark	20 Dec 2013	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.

Unless otherwise determined by the Board of Directors 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 presentation currency of the financial statements is in New Zealand dollars (NZ\$). However, a significant majority of the options have an exercise price denominated in US dollars (US\$) so the tables below are presented in US\$ where appropriate.

Current period

Reconciliation of outstanding options	Number of options	Weighted average exercise price US\$
	2015	2015
Balance at 1 July 2015	7,191,927	0.63
Expired during the period	(1,113,913)	0.82
Exercised during the period	(467,196)	0.33
Issued during the period	380,000	0.57
Balance at 31 December 2015	5,990,818	0.63
Exercisable at 31 December 2015	4,596,070	0.57

Notes to the Financial Statements

Prior period

Reconciliation of outstanding options	Number of options	Weighted average exercise price US\$
	2014	2014
Balance at 1 July 2014	6,786,960	0.71
Expired during the period	(285,306)	1.02
Exercised during the period	(478,094)	0.38
Issued during the period	1,264,700	1.01
Balance at 31 December 2014	7,288,260	0.72
Exercisable at 31 December 2014	4,508,586	0.52

The weighted average exercise price of the total options at the end of the period is US\$ 57 cents which equates to NZ\$ 83 cents at 31 December 2015 exchange rate.

The tables above include the unlisted redeemable shares as detailed in note 5.

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

Number of options	Exercise price per share	Weighted average contractual life remaining at 31 December 2015 (years)
460,000	US \$0.29 - \$0.33	1.1
2,345,852	US \$0.3333	4.4
220,875	US \$0.68	6.5
424,763	US \$0.75	6.7
194,400	US \$0.78	7.2
172,000	NZ \$0.76 - \$0.80	9.7
500,000	NZ \$0.81 - \$1.00	8.8
269,387	NZ \$1.01 - \$1.20	9.0
154,438	NZ \$1.21 - \$1.40	8.7
501,996	NZ \$1.41 - \$1.60	7.5
246,280	NZ \$1.61 - \$1.80	8.4
335,227	NZ \$1.81 - \$2.00	7.8
82,800	NZ \$2.01 - \$2.20	7.9
27,600	NZ \$2.21 - \$2.40	8.3
55,200	NZ \$2.41 - \$2.60	8.2

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 for both SLI and its NZX listed peers.

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

US\$ Options	Dec 2015	Dec 2014	Jun 2015
Share price at grant date (weighted average US\$)	0.41	0.41	0.41
Exercise price (weighted average US\$)	0.42	0.42	0.42
Expected volatility (weighted average)	20% to 30%	20% to 30%	20 to 30%
Expected life (weighted average)	4	4	4
Risk-free interest rate (weighted average)	3.0%	3.0%	3.0%
Fair value at grant date (weighted average US\$)	0.09	0.09	0.08

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

NZ\$ Options	Dec 2015	Dec 2014	Jun 2015
Share price at grant date (weighted average NZ\$)	1.41	1.57	1.44
Exercise price (weighted average NZ\$)	1.40	1.57	1.43
Expected volatility (weighted average)	30%	30%	30%
Expected life (weighted average)	4	4	4
Risk-free interest rate (weighted average)	3.5%	3.7%	3.6%
Fair value at grant date (weighted average NZ\$)	0.43	0.47	0.43

Directors

The following directors hold the following number of options as at 31 December 2015:

	Exercise Price	
Shaun Ryan	US \$0.33	49,260
Shaun Ryan (issued in the current period)	NZ \$0.94	200,000
Greg Cross	US \$0.33	120,000

Notes to the Financial Statements

7. Share Appreciation Rights

Historically the company has operated a share option scheme for its employees in line with the terms set out in note 6 above. During the current period the company has introduced a new share based payment plan based on Share Appreciation Rights (SARs). The development of this new Long Term Incentive plan is for key US executives and provides the company with the flexibility to settle any share appreciation in cash or shares. An appropriate Long Term Incentive plan is critical to attracting and retaining key executive talent in the US market.

The terms and conditions, valuation basis and other required disclosures for these share based payments are set out below.

The SARs will vest to the extent of 1/4 of the SARs 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 SARs are fully vested on the fourth anniversary of the grant date. The SARs shall be exercisable to the extent of 25% of the total number of SARs issued to the recipient at the one year anniversary of the grant date, then an additional 25% of the initially issued number of SARs will be able to be exercised on each of the second, third and fourth anniversaries of the base grant date. The SARs can only be exercised during the 30 day period commencing on the appropriate anniversary date and if they are not exercised they will terminate after the expiry of the relevant 30 day period.

On the date on which the SARs are either (i) exercised or (ii) terminated, subject to Board approval, additional fully vested share options will be issued equal to the number of such exercised or terminated SARs. The exercise price of the share options will be the greater of the share price on the original grant date of the SARs and the share price on the day the share options are granted. The options will expire on the 10th anniversary of the grant date of the SARs.

Upon exercise of SARs, the recipient will be entitled to receive a payment equal to the increase in share price between the grant date and the exercise date. Such payment can be made either in cash or by the issue of SLI NZ ordinary shares, at market value, at the discretion of the Board of Directors.

Whilst the share options linked to the SARs have not been issued, there is a constructive obligation to issue the additional options. Therefore the share based payment expense including both the SARs and additional options, is required to be recognised from the grant date of the SARs. Based on this choice of settlement and SLI's ability and the likelihood to settle in shares, the SARs and options are considered to be equity-settled share based payments.

Current period

Reconciliation of outstanding SARs	Number of SARs	Weighted average exercise price NZ\$
	2015	2015
Balance at 1 July 2015	-	-
Expired during the period	-	-
Exercised during the period	-	-
Issued during the period	3,469,343	0.81
Balance at 31 December 2015	3,469,343	0.81
Exercisable at 31 December 2015	-	-

SARs outstanding at the end of the period have the following characteristics:

Number of SARs	Exercise price per share	Weighted average contractual life remaining at 31 December 2015 (years)
2,452,332*	NZ \$0.83	2.25
1,017,011	NZ \$0.77	2.32

**613,083 of these are conditional upon implementing a commercially viable strategy to maximise long term growth, in the initial 1 year term to 29 September 2016. If the Board is not satisfied that this condition is met, the conditional SARs will terminate. In calculating the fair value of the SARs we have assumed that the condition will be met and the SARs will be exercisable.*

Measurement of fair value

The fair values of the SARs and additional option grants were measured based on the Black-Scholes pricing model. Expected volatility is estimated by considering historic average share price volatility for a group of SLI's NZX listed peers. A simulation model has been used to determine the exercise price of options being the future share price at the time the associated SARs are exercised and the related options are granted. The exercise price of the additional options will be the greater of the market price of the SARs on exercise or the share price at grant date of the SARs.

Notes to the Financial Statements

The inputs used in the measurement of the fair values at grant date were as follows for NZ\$ SARs and additional options:

NZ\$	SARs	Additional options
	2015	2015
Expected volatility (weighted average)	30%	30%
Expected life (weighted average)	2.5 years	4 years
Risk-free interest rate (weighted average)	2.7%	2.7%
Fair value at grant date (weighted average)	\$0.17	\$0.19

The SARs weighted average share price at grant date and exercise price is NZ\$ 81 cents.

The options in the table above have not yet been granted so have not been reported on the NZX but for Accounting standard IFRS 2 the related expense is recorded in current period financial statements.

Directors

The following directors hold the following number of SARs as at 31 December 2015:

	Exercise Price	
Christopher Brennan (issued in the current period)	NZ \$0.83	2,452,332

8. Related parties

Parent and ultimate controlling party

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

Related party transactions and balances

Directors' holdings of options, SARs, preference shares and associated loans are disclosed in Notes 5, 6 and 7.

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. Revenue recognised in the period \$158,000 (31 December 2014: \$89,000).

9. 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.

10. Subsequent events

There have been no material subsequent events after 31 December 2015.

Board and Management

Board

[Greg Cross](#)

Independent Chairman

[Chris Brennan](#)

Managing Director

(Appointed 2 November 2015)

[Dr. Shaun Ryan](#)

Executive Director and Co-Founder

[Steven E. Marder](#)

Non-Executive Director and Co-Founder

[Matthew Houtman](#)

Non-Executive Director

[Sarah Smith](#)

Independent Director

[Andrew Lark](#)

Independent Director

[Sam Knowles](#)

(Retired 16 October 2015)

Management

[Chris Brennan](#)

Chief Executive Officer

[Rod Garrett](#)

Chief Financial Officer

[Dr. Shaun Ryan](#)

Chief Innovation Officer and Co-Founder

[Dr. Wayne Munro](#)

Chief Technology Officer and Co-Founder

[Dr. Blair Cassidy](#)

Vice President of Product Management

[Tim Callan](#)

Chief Marketing Officer

[Martin Onofrio](#)

Chief Revenue Officer

[Michael Grantham](#)

Chief Information Officer and Co-Founder

[Gary Schaumburg](#)

Vice President of Customer Success

[Heather Kinghorn](#)

Vice President of Human Resources

Directory

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Investor Calendar

Year End

30 June 2016

Full-year Results Announcement

August 2016

Annual Meeting

November 2016

