SLI Systems Limited

and its Subsidiaries

Financial Statements

For the year ended 30 June 2017

SLI Systems Limited and its Subsidiaries
Contents

Independent auditor's report

To the shareholders of SLI Systems Limited

The consolidated financial statements comprise:

- the consolidated balance sheet as at 30 June 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of SLI Systems Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the area of a Research and Development Grant Application review and presentation of generic GST training. The provision of these other services has not impaired our independence as auditor of the Group.

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Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall group materiality: $315,000, which represents approximately 1% of total group operating revenue

We chose total group operating revenue as the benchmark because, in our view, it is the benchmark against which the performance of the Group is currently measured by users, and is a generally accepted benchmark for the current life stage of the company. Furthermore the measure is not as volatile as loss before tax, and therefore provides a clearer indication of the Group's performance for the year.

Our key audit matters are the recognition of revenue, and the classification of research and development expenditure.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The accounting function and records for the Group are maintained in New Zealand providing consistent accounting systems and processes across the jurisdictions the Group operates in. Our audit was conducted solely from New Zealand and the scope of our testing covered the transactions and balances of the entire Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition The Group's operating revenue arises from Software as a Service ("SaaS") agreements and amounted to $31.5 million for the year ended 30 June 2017. The Group's SaaS agreements comprise two main elements, subscription based contract revenue and activity based revenue. The revenue recognition for these elements is often different to the timing of cash flows received and is recognised in the accounting period in which the services are rendered, as per the Group's accounting policy in Note 3 to the financial statements. Revenue is a key measure of the financial performance of the Group, and in our view is of particular interest to the users of the financial statements in assessing the performance of the Group.	We obtained an understanding of the SaaS agreements and evaluated the Group's IT systems, processes and controls in place to calculate the amount and timing of subscription and activity based revenue transactions. We performed the following audit procedures on a sample basis, for both existing and new contracts, to assess the appropriateness of revenue recognition for individual transactions: • assessed the appropriateness of the allocation of various revenue elements with reference to the terms of the contract; • ensured revenue recognised from monthly subscription fees was supported by signed contracts; • assessed the existence of debtors through testing to contracts, cash received where applicable and a review of credit notes issued after year-end; • tested evidence of the level of site activity by agreeing the number of recorded visits to customers' websites in order to support activity based revenue recognised; and • reperformed a sample of the deferred revenue calculation at balance date agreeing back to supporting documentation the contract price and the period in which the services were delivered. We also analysed manual journals to identify any non-standard entries, testing identified journals posted increasing revenue to supporting evidence to ensure that the revenue was appropriately recognised and recorded in the correct period. From the procedures performed we have no matters to report.

Key audit matter	How our audit addressed the key audit matter
Classification of research and development expenditure As a software service provider, the Group incurs significant research and development costs on the development of software. Development costs that meet certain criteria under the accounting standards are capitalised. The criteria for capitalisation includes determination of the software's technical feasibility, likelihood of generating future economic benefits and an assessment of resources required for completion. This was an audit area of focus because management exercises judgement in determining which costs are classified as research and development, including the apportionment of overheads, which of those costs meet the criteria for capitalisation (as set out in Note 9) and which costs must be expensed as incurred. As per Note 9 to the financial statements $1.5million of research costs were expensed during the year. However, there were no development costs capitalised. The Group does not carry any internally generated software on the balance sheet.	We obtained an understanding of the processes and controls over the recognition of research and development expenses. We have evaluated the appropriateness of the classification of costs as research and development expenditure by: • meeting with project managers and reviewing all project plans to obtain an understanding of the nature of the projects. We performed an assessment of the projects against the IAS 38 criteria including how they are used in the business, the stage of development, technical feasibility and the likelihood of the software being successfully completed and used to generate revenue; • testing the allocation of overhead costs to research and development for mathematical accuracy and reasonableness and agreeing underlying data to headcount information and time records; and • on a sample basis, we tested the amounts allocated as research to underlying payroll records and invoices. From the procedures performed we have no matters to report.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not, and will not, express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us. In connection with our audit of the consolidated financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 NZ and 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 consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
23 August 2017

Christchurch

Directors' Responsibility Statement

The directors are responsible on behalf of the Company for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which present fairly a view of the financial position of the Group as at 30 June 2017 and the results of the Group's operations and cash flows for the year ended on that date.

The financial statements presented cover a period of 12 months from 1 July 2016 to 30 June 2017.

The directors believe that proper accounting records have been kept which enable with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance with Part 7 of the Financial Markets Conduct Act 2013.

The directors consider that they have taken adequate steps to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

The Board of Directors of the Group authorised the financial statements presented for issue on 23 August 2017.

For and on behalf of the Board,

Greg Cross

Chairman of Board

Sarah Smith

Chair of Audit and Risk Management Committee

SLI Systems Limited and its Subsidiaries
Consolidated Statement of Comprehensive Income
For the Year Ended 30 June 2017

	Note	2017 $'000	2016 $'000
Operating revenue	3	31,546	35,006
Government grants received and receivable		489	646
Total revenue and other income		**32,035**	**35,652**
Operating expenses	4	(13,089)	(14,803)
Employee entitlements	5	(20,542)	(21,050)
Operating (loss) before finance income		**(1,596)**	**(201)**
Finance income		27	39
Net finance income		**27**	**39**
(Loss) before tax		**(1,569)**	**(162)**
Income tax (expense)	6	(284)	(77)
(Loss) for the year		**(1,853)**	**(239)**
Other comprehensive income recycled through profit and loss			
Currency translation movement		(87)	(314)
Total comprehensive (loss) for the year attributable to the shareholders of the company		**(1,940)**	**(553)**
(Loss) per share		**2017**	**2016**
Basic and diluted (loss) per share	24	(0.030)	(0.004)

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 Year Ended 30 June 2017

	Share Capital $'000	Share Option Reserve $'000	Translation Reserve $'000	Accumulated Losses $'000	Total Equity $'000
Opening balance at 1 July 2016	**18,771**	**1,848**	**(37)**	**(14,797)**	**5,785**
(Loss) for the year	-	-	-	(1,853)	(1,853)
Currency translation movement	-	-	(87)	-	(87)
Total comprehensive (loss) for the year	**-**	**-**	**(87)**	**(1,853)**	**(1,940)**
Transactions with owners					
Share options & share appreciation rights					
- exercised during year	-	-	-	-	-
- expense for the year	-	763	-	-	763
- expired / forfeited for the year	-	(520)	-	520	-
Balance at 30 June 2017	**18,771**	**2,091**	**(124)**	**(16,130)**	**4,608**

	Share Capital $'000	Share Option Reserve $'000	Translation Reserve $'000	Accumulated Losses $'000	Total Equity $'000
Opening balance at 1 July 2015	**18,125**	**1,492**	**277**	**(14,982)**	**4,912**
(Loss) for the year	-	-	-	(239)	(239)
Currency translation movement	-	-	(314)	-	(314)
Total comprehensive (loss) for the year	**-**	**-**	**(314)**	**(239)**	**(553)**
Transactions with owners					
Share options & share appreciation rights					
- exercised during year	646	(108)	-	-	538
- expense for the year	-	888	-	-	888
- expired / forfeited for the year	-	(424)	-	424	-
Balance at 30 June 2016	**18,771**	**1,848**	**(37)**	**(14,797)**	**5,785**

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 30 June 2017

	Note	2017 $'000	2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10	5,646	6,765
Trade and other receivables	11	6,341	5,876
Total current assets		**11,987**	**12,641**
Non-current assets			
Deferred tax assets	7	468	675
Property, plant and equipment	8	1,202	1,316
Intangible assets	9	139	65
Total non-current assets		**1,809**	**2,056**
Total assets		**13,796**	**14,697**
LIABILITIES			
Current liabilities			
Taxation payable	6	51	34
Trade and other payables	14	7,480	7,035
Employee benefits	15	1,612	1,801
Total current liabilities		**9,143**	**8,870**
Non-current liabilities			
Employee benefits	15	28	29
Deferred tax liabilities	7	17	13
Total non-current liabilities		**45**	**42**
Total liabilities		**9,188**	**8,912**
Net assets		**4,608**	**5,785**
EQUITY			
Share capital	13	18,771	18,771
Reserves		1,967	1,811
Accumulated losses		(16,130)	(14,797)
Total equity		**4,608**	**5,785**

	2017	2016
Net tangible asset backing per ordinary security	$0.07	$0.09

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 Year Ended 30 June 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		31,724	36,148
Interest received		25	111
Net GST refund / (paid)		146	(23)
Government grants		332	558
Cash was applied to:			
Payments made to suppliers and employees		(32,965)	(35,936)
Income tax (paid)	6	(54)	(50)
Net cash (outflow) / inflow from operating activities	25	**(792)**	**808**
Cash flows from investing activities			
Cash was provided (applied to):			
Purchase of property, plant and equipment	8	(194)	(140)
Sale of property, plant and equipment		6	-
Purchase of intangibles	9	(139)	(23)
Net cash (outflow) from investing activities		**(327)**	**(163)**
Cash flows from financing activities			
Cash was provided from:			
Cash received from share options exercised		-	538
Net cash inflow from financing activities		**-**	**538**
Net (decrease) / increase in cash and cash equivalents		**(1,119)**	**1,183**
Cash and cash equivalents at the beginning of the year		6,765	5,582
Cash and cash equivalents at the end of the year	10	**5,646**	**6,765**

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 year ended 30 June 2017 were authorised for issue in accordance with a resolution of the Directors on 23 August 2017.

2. Summary of significant accounting policies

The consolidated financial statements of the group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The group is a for-profit entity for the purposes of complying with NZ GAAP and for financial reporting purposes. The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

(a) Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to the period presented, unless otherwise stated.

The Group has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) (XRB A1). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Group is a Tier 1 entity.

Entities reporting

SLI Systems Limited is a company registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules. In accordance with the Financial Markets Conduct Act 2013, because Group financial statements are prepared and presented for SLI Systems Limited and its subsidiaries, separate financial statements for SLI Systems Limited are no longer required to be prepared and presented.

SLI is a limited company, incorporated in New Zealand and the registered office of the Company is 78-106 Manchester Street, Christchurch, New Zealand.

There have been no significant changes in accounting policies during the period.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The areas involving a higher degree of judgement or complexity are in the determination of:

1. Research related costs from which Grant income is determined (note 5 & 9);
2. Share option expense whereby a level of judgement is required to determine the parameters of the Black-Scholes pricing model (note 21);
3. Share appreciation rights being equity settled share option scheme (note 22);
4. The provision for doubtful debts in determining the level of receivables to provide (note 12).

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of the subsidiaries of SLI Systems Limited as at 30 June 2017 and the results of the subsidiaries for the year then ended. SLI Systems Limited and its subsidiaries together are referred to in these financial statements as the Group.

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

(c) Foreign currency translation

*(i) **Functional and presentation currency***

Items included in the financial statements of each subsidiary are measured using the currency of the primary economic environment in which it operates. The consolidated financial statements are presented in New Zealand dollars, which is the Company's functional currency and the Group's presentation currency.

*(ii) **Transactions and balances***

Foreign currency transactions are translated into the functional currency using a monthly exchange rate set at the start of each month as an estimate of the exchange rate prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

*(iii) **Foreign operations***

The results and balance sheets of all foreign operations that have a currency different from New Zealand dollars are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each profit and loss component of the statement of comprehensive income are translated at average exchange rates; and
- all resulting exchange differences are recognised as currency translation movement.

(d) Goods and Services Tax (GST)

The financial statements have been prepared so that all components are stated exclusive of GST with the exception of receivables and payables, which are shown inclusive of GST.

(e) Segment reporting

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 operating 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.

(f) Changes in accounting policy and disclosures

The International Accounting Standards Board has issued standards, amendments and interpretations which are not yet effective and which may have an impact on the Group's financial statements. These are detailed below. The Group has not yet applied these in preparing the financial statements.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. The Group will apply this standard from 1 July 2018. Management does not expect a significant change to the way in which the Group measures its financial instruments as a result, but has not yet performed a full assessment.

NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Group will apply this standard from 1 July 2018. The Group has established a project team and workplan to review all contracts which will cover SLI's two revenue streams being subscription based contract revenue and activity based revenue. There may be an impact on the recognition of some of the subscription based contract revenues. Management does not expect the recognition and measurement of revenue to materially change, however a full assessment has not yet been completed.

NZ IFRS 16, 'Leases' replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The Group will apply this standard from 1 July 2019 and has yet to assess its full impact.

(g) Accounting Policies disclosed in the Notes

The following accounting policies are disclosed separately alongside their relevant note:

	Note
Revenue recognition	3
Income tax	7
Property, plant and equipment	8
Intangible assets	9
Cash and cash equivalents	10
Trade receivables	12
Contributed capital	13
Trade and other payables	14
Employee benefits	15
Leases	16
Equity settled share option plan	21
Financial assets and financial liabilities	23

3. Revenue and other income

Revenue for the Group by the geographic origination of sales is analysed below.

	2017 $'000	2016 $'000
United States	17,906	20,132
United Kingdom	6,994	7,310
Australia	3,402	3,593
Brazil	1,272	2,307
New Zealand	1,190	1,211
Rest of the world	782	453
	31,546	**35,006**

Revenue by service type:

	2017 $'000	2016 $'000
Learning Search suite	26,513	28,899
Site Champion service	5,033	6,107
	31,546	**35,006**

Accounting policy: Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services, excluding Goods and Services Tax, Value Added Tax, Sales Tax, rebates and discounts. Revenue is recognised as follows:

(i) ***Provision of services***

Subscription based contract revenue

Subscription based contract revenue applies to SLI's Learning Search suite and comprises recurring fees from customers for SLI's software services. The majority of customers are billed monthly or quarterly in advance. The provision of services is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Revenue in advance represents amounts billed to customers in advance of the provision of services and is accounted for as a liability.

Activity based revenue

Activity based revenue applies to SLI's Site Champion service and consists of fees based generally on the number of referrals. The majority of this revenue is billed quarterly in arrears.

Un-invoiced revenue represents services have been provided to customers but have not been invoiced at year end. These amounts have met the revenue recognition criteria of the Group and are shown as a receivable.

(ii) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grant income is recognised in the month the relevant expense is incurred.

4. Operating expenses

	2017 $'000	2016 $'000
Operating expenses include:		
Amortisation of intangible assets	65	57
Bad debts written off	429	626
Movement in provision for doubtful debts	(120)	128
Depreciation on property, plant and equipment	295	392
Directors' fees and other remuneration	221	252
Remuneration paid to auditors (Note 26)	104	128
Operating leases expenses	1,546	1,555
(Gain) / loss on foreign exchange transactions	(17)	289

5. Employee entitlements

	2017 $'000	2016 $'000
Wages and salaries	19,205	19,877
Share option and SARs expense	763	888
Employer contribution to defined contribution plans	295	285
Restructuring	279	-
Total employee entitlements	**20,542**	**21,050**

Employee benefit costs incurred on research activities are included within employee entitlements disclosed above. The cost of employee entitlements associated with research costs is $1,127,000 (30 June 2016 $1,661,000).

6. Taxation

(a) Income tax expense can be reconciled to accounting (loss) as follows:	2017 $'000	2016 $'000
Accounting (loss) before tax	(1,569)	(162)
Tax at the Group's effective income tax rate of 28%	(439)	(45)
Adjustments in respect of current income tax of previous years	(14)	(15)
Tax effect of non-deductible expenditure	283	273
Tax effect of deduction for share options exercised in UK	-	(26)
Unrecognised current year tax losses	394	-
Tax effect of foreign jurisdictions	15	11
Tax losses brought forward utilised	-	(201)
Adjustments in respect of deferred tax of previous years	45	-
Other	-	80
Aggregate income tax expense	**284**	**77**

Comprising		
Current tax		
- Current year tax	88	81
- Prior year adjustment	(14)	(15)
Deferred tax	210	11
Income tax expense	**284**	**77**

(b) Recognised tax (liability) / asset	2017 $'000	2016 $'000
Opening balance	(34)	(24)
Charged to income	(88)	(81)
Tax paid	54	50
Prior year adjustment	15	15
Other	2	6
Closing balance	**(51)**	**(34)**

(c) Imputation credit balance

There is no imputation credit balance at 30 June 2017 (30 June 2016 nil).

7. Deferred taxation

Deferred tax asset / (liability):	2017 $'000	2016 $'000
Opening balance	662	676
Credited to income	(165)	68
Prior year adjustment	(45)	(79)
Other	(1)	(3)
Closing balance	**451**	**662**

Deferred income tax at 30 June relates to the following:	2017 $'000	2016 $'000
Deferred tax assets:		
Employee entitlements and other temporary differences	232	281
Provisions	128	285
Doubtful debts	100	103
Other	8	6
Gross recognised deferred tax assets	**468**	**675**
Deferred tax liabilities:		
Property, plant and equipment	(17)	(13)
Gross recognised deferred tax liabilities	**(17)**	**(13)**
Net recognised deferred tax asset	**451**	**662**

It is not anticipated that deferred tax balances will be recovered within 12 months. Deferred tax assets and liabilities have been offset where the balances are due to / received from the same tax authority. The Group has unrecognised New Zealand tax losses available to carry forward of $12,547,000 (30 June 2016 $11,043,000) subject to shareholder continuity being maintained as required by New Zealand tax legislation and subject to confirmation from the relevant tax authority.

Accounting policy: Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefits will be realised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different entities where there is an intention to settle the balance on a net basis.

8. Property, plant and equipment

	Computer Equipment $'000	Furniture, Equipment and Other $'000	Total $'000
Year ended 30 June 2017			
Cost			
Balance at 1 July 2016	1,432	1,699	3,131
Currency translation movement	(12)	(11)	(23)
Additions	74	120	194
Disposals	(92)	-	(92)
Balance at 30 June 2017	**1,402**	**1,808**	**3,210**
Depreciation			
Balance at 1 July 2016	(1,143)	(672)	(1,815)
Currency translation movement	8	8	16
Depreciation expense	(159)	(136)	(295)
Disposals	86	-	86
Balance at 30 June 2017	**(1,208)**	**(800)**	**(2,008)**
Net carrying amount	**194**	**1,008**	**1,202**

	Computer Equipment $'000	Furniture, Equipment and Other $'000	Total $'000
Year ended 30 June 2016			
Cost			
Balance at 1 July 2015	1,352	1,724	3,076
Currency translation movement	(31)	(42)	(73)
Additions	123	17	140
Disposals	(12)	-	(12)
Balance at 30 June 2016	**1,432**	**1,699**	**3,131**
Depreciation			
Balance at 1 July 2015	(961)	(533)	(1,494)
Currency translation movement	27	32	59
Depreciation expense	(221)	(171)	(392)
Disposals	12	-	12
Balance at 30 June 2016	**(1,143)**	**(672)**	**(1,815)**
Net carrying amount	**289**	**1,027**	**1,316**

The net carrying value at 30 June 2017 of property, plant and equipment held in New Zealand is $763,000 (30 June 2016 $890,000), within the United States $261,000 (30 June 2016 $317,000), within United Kingdom $159,000 (30 June 2016 $86,000), within Australia $19,000 (30 June 2016 $21,300) and within Japan $nil (30 June 2016 $1,200).

Accounting policy: Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using diminishing value method and straight line method to expense the cost of the assets over their useful lives. The rates are as follows:

- Computer Equipment 30% - 67%
- Furniture, Equipment and Other 4% - 80%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

9. Intangible assets

	Patents and Trademarks $'000	Software $'000	Total $'000
Year ended 30 June 2017			
Cost			
Balance at 1 July 2016	516	150	666
Additions	-	139	139
Balance at 30 June 2017	**516**	**289**	**805**
Amortisation			
Balance at 1 July 2016	(475)	(126)	(601)
Amortisation	(4)	(61)	(65)
Balance at 30 June 2017	**(479)**	**(187)**	**(666)**
Net carrying value	**37**	**102**	**139**

	Patents and Trademarks $'000	Software $'000	Total $'000
Year ended 30 June 2016			
Cost			
Balance at 1 July 2015	503	140	643
Additions	13	10	23
Balance at 30 June 2016	**516**	**150**	**666**
Amortisation			
Balance at 1 July 2015	(438)	(106)	(544)
Amortisation	(37)	(20)	(57)
Balance at 30 June 2016	**(475)**	**(126)**	**(601)**
Net carrying value	**41**	**24**	**65**

Management assesses the costs incurred in developing software against the Accounting policy below (which is in accordance with the recognition criteria set out in NZ IAS 38 Intangible Assets), and on the basis that certain aspects of the criteria have not been met no development costs have been capitalised in the above numbers.

Judgement is applied in distinguishing between the research and development phases of a project. The nature of the Software as a Service solutions is such that there is an insignificant period of time between the point where the software becomes technically feasible and can be released to the market. Due to the insignificance of any development activities these are not recognised as internally generated intangible assets.

All intangible assets have been purchased from third parties.

Research and development costs

Total amounts attributable to research costs during the year is $1,512,000 (30 June 2016 $2,092,000). During the year there were no activities which met the definition of development expenditure.

Accounting policy: Intangible assets

(i) ***Research costs are expensed as incurred.***

Costs associated with maintaining computer software programs are recognised as an expense as incurred. The costs incurred do not relate to research. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives.

(ii) Other intangible assets acquired are initially measured at cost. Internally generated assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the statement of comprehensive income in the year in which the expenditure is incurred.

(iii) The useful lives of the Group's intangible assets are assessed to be finite. Assets with finite lives are amortised over their useful lives and tested for impairment whenever there are indications that the assets may be impaired. Amortisation is recognised in the statement of comprehensive income on a straight–line basis for trademarks / patents and diminishing value method for software over the estimated useful life of the intangible asset, from the date it is available for use.

The estimated useful lives are:

Trademarks / patents	5% - 10%
Software	48%

10. Cash and cash equivalents

	2017 $'000	2016 $'000
Cash at bank and on hand	3,660	3,203
Short-term bank deposits	1,986	3,562
	5,646	**6,765**

As at balance date the amounts held in foreign currencies were as follows, all values shown in NZ$:

	2017 $'000	2016 $'000
US dollars	2,009	1,342
Great British pounds	1,067	846
Australian dollars	367	539
Japanese yen	42	109

Accounting policy: Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value.

11. Trade and other receivables

	2017 $'000	2016 $'000
Gross trade receivables	4,398	4,528
Provision for impairment of receivables	(375)	(495)
Net trade receivables	**4,023**	**4,033**
Un-invoiced revenue	1,027	926
Prepayments and other receivables	1,291	917
Total trade and other receivables	**6,341**	**5,876**

12. Trade receivables provisioning

(a) Impaired receivables

As at 30 June 2017 trade receivables with a value of $375,000 were impaired in respect of the Group. The ageing analysis of these trade receivables is as follows:

	2017 $'000	2016 $'000
0-60 days overdue	74	87
61-90 days overdue	123	120
91+ days overdue	178	288
Impaired receivables	**375**	**495**

(b) Past due but not impaired

As at 30 June 2017 trade receivables of the Group of $233,000 (30 June 2016 $241,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2017 $'000	2016 $'000
1-30 days overdue	153	173
Greater than 31 days overdue	80	68
	233	**241**

(c) Provision for impairment of receivables

Movements in the provision for impairment of receivables are as follows:

	2017 $'000	2016 $'000
Opening balance	495	367
Additional amounts provided	-	128
Unused amounts written back	(120)	-
Closing balance	**375**	**495**

(d) As at balance date the amounts receivable (including un-invoiced revenue and prepayments and other receivables) in foreign currency were as follows, all values shown in NZ$:

	2017 $'000	2016 $'000
US dollars	3,263	3,587
Great British pounds	2,124	1,382
Australian dollars	473	376
Japanese yen	49	29

Accounting policy: Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised at fair value, less provision for doubtful debts.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'operating expenses.'

When a trade receivable is uncollectible, it is written off against the statement of comprehensive income within 'operating expenses.' Subsequent recoveries of amounts previously written off are credited against 'operating expenses' in the statement of comprehensive income.

13. Contributed equity

(a) Ordinary share capital

	Number of Ordinary Shares 2017	2017 $'000	Number of Ordinary Shares 2016	2016 $'000
Opening balance	62,260,816	18,771	61,162,116	18,125
Share options exercised	-	-	1,098,700	646
Closing balance	62,260,816	**18,771**	**62,260,816**	**18,771**

The total number of ordinary shares on issue as at 30 June 2017 is 62,260,816 (30 June 2016 62,260,816) shares. All shares are issued and fully paid (no par value).

Accounting policy: Contributed capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(b) Redeemable shares

SLI has no redeemable shares on issue as at 30 June 2017.

On 4 November 2016 the redeemable shares issued to Greg Cross, Sarah Smith and Andrew Lark were cancelled by SLI. No cash was exchanged in relation to these transactions and the loans were terminated on this date.

14. Trade and other payables

	2017 $'000	2016 $'000
Trade payables, other payables and accrued expenses	2,248	2,072
Revenue in advance	5,232	4,963
	7,480	**7,035**

As at balance date the amounts payable (including revenue in advance and employee entitlements) in foreign currency were as follows:

	2017 $'000	2016 $'000
US dollars	5,114	5,749
Great British pounds	2,097	1,576
Australian dollars	785	686
Japanese yen	24	38

Accounting policy: Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at cost.

15. Employee benefits

Current employee benefits	2017 $'000	2016 $'000
Liability for annual and long service leave	873	965
Other employee payables	739	836
	1,612	**1,801**

Non-current employee benefits

	2017 $'000	2016 $'000
Liability for long service leave	28	29
	28	**29**

Accounting policy: Employee benefits

Liabilities for wages and salaries, including non-monetary benefits, long service leave and annual leave are recognised in employee benefits in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Cost for non-accumulating sick leave is recognised when the leave is taken and measured at the rates paid or payable.

16. Operating lease commitment

Non-cancellable operating lease rentals are payable as follows:	2017 $'000	2016 $'000
Less than one year	1,033	1,471
Between one and five years	1,172	489
More than five years	-	-
	2,205	**1,960**

Accounting policy: Leases

Operating leases

The Group is the lessee. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

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.

17. Capital commitments

There are no material contractual obligations to purchase plant and equipment at 30 June 2017 (30 June 2016 nil).

18. Contingencies

There are no contingencies at 30 June 2017 (30 June 2016 nil).

19. Subsidiaries

Name	Country of Incorporation	Ownership 2017	Ownership 2016
S.L.I. Systems, Inc.	United States	100%	100%
SLI Systems (UK) Limited (owned 100% by S.L.I. Systems, Inc.)	United Kingdom	100%	100%
SLI Systems (Japan) K.K	Japan	100%	100%

20. 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 and SARs are disclosed in Notes 21 and 22.

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 year $246,000 (2016 $312,000).

Group Lark Pty Ltd (of which Andrew Lark is a director) provided consulting services to S.L.I. Systems, Inc. of $6,000 (2016 nil).

Key management personnel remuneration

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, and include the Chief Executive Officer, the management team and Directors.

The following table summarises remuneration paid to key management personnel:

	2017 $'000	2016 $'000
Directors' fees and other remuneration	221	252
Employee entitlements	3,639	2,925
Share options (under Employee Share Options Scheme) and share appreciation rights	738	702

21. Share options

Options to subscribe for shares have been issued to certain directors and employees.

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 monthly, 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 or a date determined by the Board of Directors, 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 (NZ$). However, as half of the options have an exercise price denominated in US dollars (US$) the tables below are presented in US$ where appropriate.

Current Year *Reconciliation of outstanding options*	Number of Options 2017	Weighted Average Exercise Price US$ 2017
Balance at 1 July 2016	4,601,944	0.66
Expired / forfeited during the year	(836,051)	1.01
Exercised during the year	-	-
Issued during the year	565,000	0.30
Options issued from exercising or expiry of SARs	1,145,939	0.60
Balance at 30 June 2017	**5,476,832**	**0.57**
Exercisable at 30 June 2017	4,627,248	0.58

Prior Year *Reconciliation of outstanding options*	Number of Options 2016	Weighted Average Exercise Price US$ 2016
Balance at 1 July 2015	7,191,927	0.64
Expired / forfeited during the year	(1,873,283)	0.81
Exercised during the year	(1,098,700)	0.33
Issued during the year	382,000	0.57
Balance at 30 June 2016	**4,601,944**	**0.66**

Exercisable at 30 June 2016	3,949,948	0.61

The weighted average exercise price of the total options at the end of the year is US $0.58 cents which equates to NZ $0.79 cents at year end exchange rates.

The current year reconciliation of outstanding options in the table above includes the expiry of 374,193 unlisted redeemable shares.

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

Number of Options	Exercise Price per Share	Weighted Average Contractual Life at Balance Date 2017 (years)
300,000	US $0.29 - $0.33	1.7
1,785,889	US $0.3333	3.1
220,875	US $0.68	5.0
350,138	US $0.75	5.2
129,600	US $0.78	5.7
415,000	NZ $0.30 - $0.40	9.7
45,000	NZ $0.41 - $0.60	9.7
568,137	NZ $0.61 - $0.80	8.5
813,083	NZ $0.81 - $1.00	8.2
308,957	NZ $1.01 - $1.20	8.2
67,900	NZ $1.21 - $1.40	7.2
64,800	NZ $1.41 - $1.60	6.6
153,877	NZ $1.61 - $1.80	6.9
129,375	NZ $1.81 - $2.00	6.1
41,400	NZ $2.01 - $2.20	6.4
27,600	NZ $2.21 - $2.40	6.8
55,200	NZ $2.41 - $2.60	6.7

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 for both SLI and its 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	**2017**	**2016**
Share price at grant date (weighted average US$)	0.41	0.41
Exercise price (weighted average US$)	0.43	0.43
Expected volatility (weighted average)	20% - 30%	20% - 30%
Expected life (weighted average)	4 years	4 years
Risk-free interest rate (weighted average)	3.0%	3.0%
Fair value at grant date (weighted average US$)	0.08	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	**2017**	**2016**
Share price at grant date (weighted average NZ$)	0.80	1.50
Exercise price (weighted average NZ$)	0.97	1.49
Expected volatility (weighted average)	30% - 40%	30%
Expected life (weighted average)	4 years	4 years
Risk-free interest rate (weighted average)	3.0%	3.5%
Fair value at grant date (weighted average NZ$)	0.28	0.46

Directors

The following directors hold the following number of options as at 30 June 2017:

	Exercise price	
Christopher Brennan (issued in the current year)	NZ $0.83	613,083
Shaun Ryan	US $0.33	49,260
Shaun Ryan	NZ $0.94	200,000
Greg Cross	US $0.33	120,000

Accounting policy: Equity settled share option plan

The Employee Share Option Plan allows employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense in the statement of comprehensive income with a corresponding increase in the share option reserve. The fair value is measured at grant date and spread over the vesting periods. The fair value of the options granted is measured using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options are granted.

When options are exercised the amount in the share option reserve relating to those options, together with the exercise price paid by the employee, is transferred to share capital.

When any vested options lapse, upon employee termination or unexercised options reaching maturity, the amount in the share option reserve relating to those options is transferred to retained earnings. Any unvested options that expire are recycled through comprehensive income.

22. Share Appreciation Rights

Share Appreciation Rights (SARs), a share based payment plan, were developed as a Long Term Incentive plan for key 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.

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 available to exercise 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 on the appropriate anniversary date or some other date as agreed, and if they are not exercised they will terminate after the expiry of the relevant exercise date.

Upon exercise of SARs, the recipient will be entitled to receive a payment equal to the increase in share price between the share price on exercise date and the exercise price of the SARs. 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.

On the date on which the SARs are either (i) exercised or (ii) terminated, additional fully vested share options will be issued subject to Board approval. The number of options issued will be equal to the number of exercised or terminated SARs. The exercise price of the share options will be the greater of the exercise price 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.

The share based payment expense includes both the SARs and the options and are required to be recognised from the grant date of the SARs. Based on the 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 Year ***Reconciliation of outstanding SARs***	**Number of SARs** **2017**	**Weighted Average Exercise Price NZ$** **2017**
Balance at 1 July 2016	4,583,757	0.85
Expired / forfeited during the year	(1,092,597)	0.76
Expired during the year & share options issued	(1,145,939)	0.85
Exercised during the year	-	-
Issued during the year	-	-
Balance at 30 June 2017	**2,345,221**	**0.37***

** 2,345,221 SARs were repriced in the year to NZ $0.37, the weighted average price of these prior to repricing was NZ $0.89*

Prior Year
Reconciliation of outstanding SARs

	Number of SARs 2016	Weighted Average Exercise Price NZ$ 2016
Balance at 1 July 2015	-	-
Expired / forfeited during the year	-	-
Exercised during the year	-	-
Issued during the year	4,583,757	0.85
Balance at 30 June 2016	**4,583,757**	**0.85**

SARs outstanding at 30 June 2017 have a weighted average contractual life remaining (years) of 1.45.

Measurement of fair value

The fair values of the SARs and option grants are measured using 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.

On 11 April 2017 the Board approved a repricing of 2,345,221 SARs to NZ $0.37 for enduring SARs holders to ensure the SARs perform as an appropriate Long Term incentive. The SARs repricing was set at a price not less than the market value on the date of board approval. The repricing is considered a modification under IFRS 2 and as such the increase in fair value as a result of the repricing is recognised over the remaining life of the SARs and additional options.

On the date of repricing the fair value of the SARs and additional options were measured using the Black-Scholes pricing model. The fair value was measured as if the SARs and options were issued as a new grant less the fair value of the SARs and options had they been granted as a new grant but at their original exercise price, the volatility and risk free rate were assumed to be the same as at the date of grant. The difference in this fair value is recognised over the remaining expected life of the SARs and additional options.

The total fair value expense for the year including the impact of repricing is as follows for SARs and additional options:

Fair value SARs expense through the Statement of Comprehensive Income	**2017 $**	**2016 $**
Expensed during the year	233,876	291,388
Expensed during the year – due to repricing	92,238	-
	326,114	**291,388**
Fair value SARs expenses recycled through Equity		
Expired / forfeited during the year	(231,373)	-

Fair value additional options expense through the Statement of Comprehensive Income	**2017 $**	**2016 $**
Expensed during the year	260,717	324,377
Expensed during the year – due to repricing	133,125	-
	393,842	**324,377**

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

SARs	**2017**	**2016**
Expected volatility (weighted average)	30%	30%
Expected life (weighted average)	2.5 years	2.5 years
Risk-free interest rate (weighted average)	2.7%	2.7%
Fair value at grant date (weighted average NZ$)	0.19	0.18
Fair value impact of repricing (weighted average NZ$)	0.24	-

Options not yet granted	**2017**	**2016**
Expected volatility (weighted average)	30%	30%
Expected life (weighted average)	4 years	4 years
Risk-free interest rate (weighted average)	2.7%	2.7%
Fair value at grant date (weighted average NZ$)	0.20	0.20
Fair value impact of repricing (weighted average NZ$)	0.26	-

The SARs weighted average share price at grant date is NZ $0.89 cents and exercise price is NZ $0.37 cents.

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 year financial statements.

Directors

The following directors hold the following number of SARs as at 30 June 2017:

	Exercise price	
Christopher Brennan	NZ $0.37	1,839,249

23. Financial risk management

i) Financial instrument classification

The Group's loans and receivables comprise of 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

For initial and subsequent measurement of the Group's loans and receivables, trade payables and Employee benefits, refer to the relevant accounting policy note.

Accounting Policy: Financial assets

Loans and receivables are classified as financial assets. The classification depends on the purpose for which the assets were acquired.

Classification

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Accounting Policy: Financial liabilities

Trade payables are classified as financial liabilities.

Classification

Trade payables are non derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They are included in current liabilities.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(ii) Financial risk factors

The Group's activities expose it to a variety of financial risks, market risks (including interest rate risk and currency risk), liquidity risk and credit risk.

Interest rate risk

The Group's interest rate risk arises from its cash balances. These are placed on deposit at variable rates that expose the Group to cash flow interest rate risk. The Group does not enter into forward rate agreements or any interest rate hedges.

The Company's management regularly reviews its banking arrangements to ensure that it achieves the best returns on its funds while maintaining access to necessary cash levels to service the Group's day-to-day activities.

Liquidity risk

Liquidity risk is the risk that the Group cannot pay contractual liabilities as they fall due. The Group has no debt and therefore management remains focused on growing sufficient revenue from sales to cover the on-going costs of operation and continuously monitoring forecasts and actual cash flows.

Generally trade payables are settled with 30 days and the employee benefits (accrued wages and salaries, holiday pay and long service leave) will be settled within 12 months with the exception of $28,000 at 30 June 2017 for long service leave that will be settled after more than 12 months (30 June 2016 $29,000).

Credit risk

Where the Group has a receivable from another party, there is a credit risk in the event of non-performance by that other party. Financial instruments that potentially subject the Group to credit risk principally consist of bank balances and receivables. The Group manages its exposure to credit risk by monitoring the credit quality of the financial institutions that hold its cash balances. The credit risk associated with trade receivables is small because of the inherently low individual transaction value and the spread over many customers.

The maximum exposure to credit risk at balance date comprises 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

Foreign currency risk

The Group faces the risk of movements in foreign currency exchange rates against the New Zealand dollar. The Group operates in three main foreign currencies, being US dollars, British pounds, and Australian dollars. As a result the Group's statement of comprehensive income and balance sheet can be affected by movements in exchange rates.

There is a partial natural hedge in respect of the costs being incurred in each foreign jurisdiction. The Group does not use derivatives to hedge its foreign currency risk.

The Group holds financial assets and liabilities denominated in foreign currency and the Group has subsidiaries whose reporting currency is not New Zealand dollars. The potential impact on the Group's results for the year ended 30 June 2017 if the New Zealand dollar had changed to a closing rate of 10% higher / lower than other operating currencies, with all other variables remaining constant, is set out below;

	2017 $'000	**2016 $'000**
Appreciation of NZ$ against foreign currency (10%)		
(Decrease) in profit before tax	(137)	(15)
(Decrease) in equity after tax	(233)	(155)
Depreciation of NZ$ against foreign currency (10%)		
Increase in profit before tax	137	15
Increase in equity after tax	233	155

Capital risk management

The Group's capital includes contributed equity, reserves and accumulated losses. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure.

Fair value

The carrying value for cash and cash equivalents, trade receivables, trade payables, and accruals is assumed to approximate their fair values due to the short term maturity of these assets and liabilities.

24. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares on issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares are in the form of share options / performance rights. As the Group has made a loss during the current year basic and diluted earnings per share are the same.

	2017	2016
Net (loss) after tax	($1,853,000)	($239,000)
Ordinary shares on issue	62,260,816	62,260,816
Weighted average number of shares on issue	62,260,816	61,652,459
Basic and diluted (loss) per share	**(0.030)**	**(0.004)**

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

	2017 $'000	2016 $'000
Net (loss) after tax	(1,853)	(239)
Adjustments		
Depreciation	295	392
Amortisation	65	57
(Loss) on currency translation movement	(80)	(300)
Share option expense	763	888
Changes in working capital items		
(Increase) / Decrease in trade receivables and prepayments	(196)	835
(Decrease) in trade payables and accruals	(47)	(864)
Decrease in GST	33	15
Decrease in tax	228	24
Net cash (outflow) / inflow from operating activities	**(792)**	**808**

26. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Group:

	2017 $'000	2016 $'000
Audit of financial statements		
Audit and review of financial statements (1)	97	113
Prior year audit fee under accrual	3	-
Other services		
Tax services (2)	-	12
Other services (3)	4	3
Total remuneration paid to auditors	**104**	**128**

1. The audit fee includes the fees for both annual audit of the Group and SLI Systems (UK) Limited financial statements and the compliance assurance engagement on the Group interim financial statements.
2. Tax services relate to a peer review of the potential US sales tax on customer use agreements.
3. Other services as at 30 June 2017 include professional services rendered in relation to research and development grant application review and presentation of generic GST training.

27. Subsequent events

There have been no material subsequent events after 30 June 2017.