2016
Annual Report

SLI SYSTEMS
E-COMMERCE ACCELERATED

Contents

Highlights

ARR[1] of
$31.2m
down 3%
constant currency[2]

Growth of
24%
in operating revenue to
$35m v $28m in FY 15

Gross margin
77%

Cash of
$6.8m

Net cash inflow
$1.2m

Retention rate
84%
by value

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. On a reported basis the reduction in ARR over the past 12 months was 10%.

Chairman and Chief Executive's Report

Dear Shareholders,

As you know, financial year 2016 for SLI was a challenging year, marked by the need to address business conditions related primarily to our decelerating performance in the North American region and our overall customer retention rates. We are also mindful to improve efficiency within the organisation to both deliver better value outcomes from our model and to achieve cash flows such that we do not need to raise additional capital.

We are pleased to report to you that we identified what we believe to be the most significant issues. We have brought new leadership and depth of experience including new staff to take corrective actions in marketing, sales and customer success. Our management team has led much change that we believe will result in restoring our growth in North America to join the solid performance of both our EMEA and APAC regions.

Equally important, we have substantial room for improvement in positioning ourselves as the leader in the market. Internet Retailer has validated SLI's SaaS leadership position for the past four years[1] amongst the top 1,000 retailers. We have launched new marketing strategies to clearly position SLI as the thought leader and the superior provider of solutions that drive traffic to e-commerce sites, convert more shoppers into buyers and maximise order values.

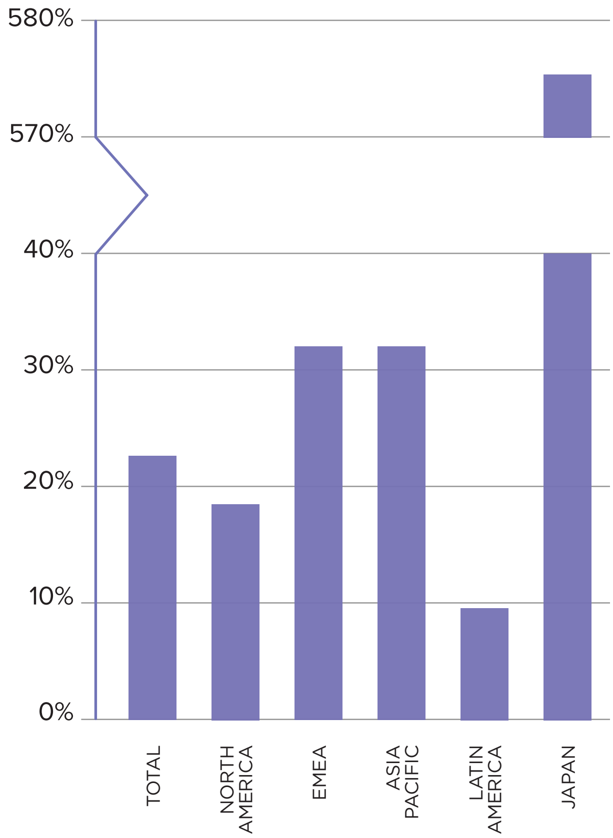
At the core of our success is our ability to drive increased revenue and profitability for our customers through our cloud-based, machine learning platform. Our core competency is applying machine learning to massive amounts of data. The market is moving toward personalisation as merchants realise that while the benefits of crowd or aggregate data is important, knowing your individual customer can lead to improved conversion rates. The SLI solution has been architected to accept any data stream to ensure we will always lead the market and provide the best predictions. We feel strongly that our heritage is defined deeply in this capability, knowing that customers adopt new technologies in step increments, as they have done with SLI for the past 15 years. SLI is well positioned to lead the market as it evolves.

1. Internet Retailer (2015) Top 500 and Second 500 Update

Overall Global and Regional Sales Performance

We achieved year-over-year growth of 23% in new business and upsells to existing customers', excluding our Site Champion product. Performance of new business and upsells compared to respective beginning ARR across the regions was led by Japan at a 575% increase, EMEA and Asia Pacific both at 32%, North America at 19% and Latin America at 10%. New logo growth remains our focus for both marketing and sales globally with particular focus in North America and Asia Pacific. Japan's performance, while a small percentage of our overall business, has improved significantly and continues to show promise for continued growth.

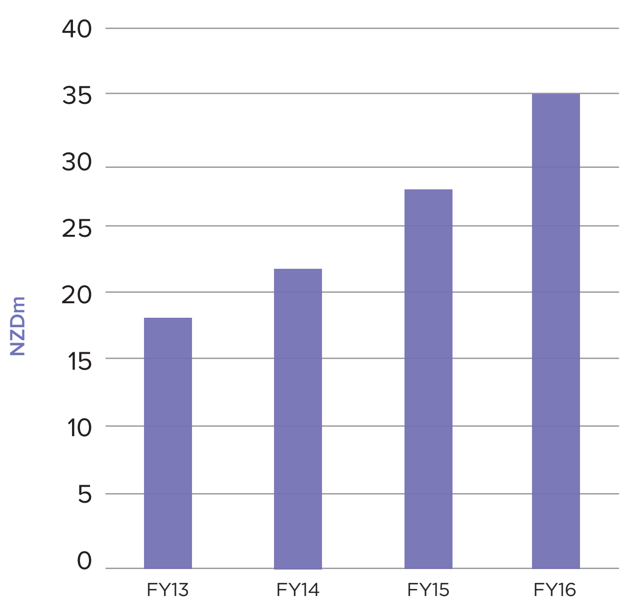
New and Upsells Growth FY16



Upsells to existing accounts, including volume growth increases, and upsells of new products performed well across almost all regions except for Latin America, mainly due to the current economic and political conditions. Sales to existing accounts demonstrates our ability to continuously innovate and deliver new products and services that drive value to our customers.

Our Site Champion product, which contributed 17.4% of our operating revenue for the year, is quite exciting as Search Engine Optimisation continues to dominate needs in the digital marketing market. Site Champion leverages our SLI Buyer Engine™ to direct traffic to our customers' sites with economically powerful metrics. Disappointingly, performance of the product this year in aggregate decreased year-over-year. While we recognised a significant increase for some customers, it was offset by customer losses, including several that were part of the announcement earlier this year related to customer insolvency and change of control.

Operating Revenue (NZDm)



Growth remains short of our goals in new logo accounts primarily in North America. Combined with the disappointingly high losses, including Site Champion, total losses exceeded the growth in ARR from new business and upsells and resulted in a constant currency 3% decrease in ending ARR and a reduction in the total number of our customers. We are clearly disappointed in this performance. Although a good percentage was outside of our control, we are cautiously optimistic that in restoring growth, combined with a more normal rate of customer loss, the company should be back on track for success in FY 17.

Ecosystem

SLI solutions address the ineffectiveness of common open source search technologies that do not generally provide machine learning capabilities nor are they optimised for retail. SLI constantly improves its learning accuracy and tailors the solution for retail, which enables us to quickly identify the products most likely to be purchased. Our solutions provide an answer to ineffective search and merchandising tools provided by basic e-commerce platforms. Our applications like Learning Search®, Learning Navigation®, Learning Recommendations™, Dynamic Product Banners™, Rich Auto Complete™ and Site Champion® are powered by the SLI Buyer Engine. Our solutions are designed to integrate with e-commerce platform providers and content management systems in order to enhance their performance. We continue to be as agnostic as possible to assure the greatest potential addressable market, but the e-commerce market has been marked by considerable consolidation, which shifts the landscape continuously. This remains a key aspect of our strategy and is included in our key objectives for the year.

Customer Retention

Customer retention and tenure is a key element of SLI's success, as it is for any SaaS-based company, as it relates to continuously demonstrating the value of our products and services and a key element in the economics of our business. We maintain a vigilant watch including periodic business reviews each year with our customers to ensure they maximise the performance and value of our services and to identify issues early and work to ensure customer satisfaction and retention. Our top primary reasons for loss in order of impact are: customers who chose to replatform to new e-commerce

"At the core of our success is our ability to drive increased revenue and profitability for our customers through our cloud-based, machine learning platform."

vendors, followed by business conditions, which includes liquidation, company cost reductions, business in decline, etc. and last, competition. When our customers do replatform, in many cases, it still represents an opportunity to reacquire those lost customers. As it relates to the prior year, our losses remained within our expectations through our third quarter, but spiked considerably in the fourth quarter. As announced in May 2016, the spike was caused by large customers becoming insolvent or being acquired by other companies that forced a termination of services. While competition is increasing in North America, in general, our loss from our customer base by competitors is limited to only four primary competitors and the losses were infrequent and immaterial. However, we have retrained our sales organisation and put programs in place to combat challenges by our competitors both for new business and existing customers as we believe that we can prove superior performance.

Products

Our products are the lifeblood of our company. We continue to innovate to enhance performance and increase features of the SLI Buyer Engine and all applications. Highlights of those improvements during FY 16 include:

- Speed improvements to all our products
- A significant update to our popular Rich Auto Complete™ product
- A new version of our Learning Navigation® product
- A new dashboard to help customers monitor and manage their businesses
- Plugin support for version 2 of the popular Magento e-commerce platform
- The launch of our first customer in the Arabic language, and new support for the Norwegian and Finnish languages
- Support for drag and drop merchandising of our Learning Recommendations™ product
- Merchandising and analytics support for larger businesses that have many sites, who need merchandising controls and analytics at both the site level and the corporate level
- A new way of implementing and maintaining our customers, which relies more heavily on configuration of standard components, and much less on writing custom code per implementation
- A merchandising console in Spanish

Innovation and product development will always be a core component of our strategy to ensure we meet or exceed the needs of our customers and our prospects, and outperform our competitor's offerings. It is a leading indicator of our future success.

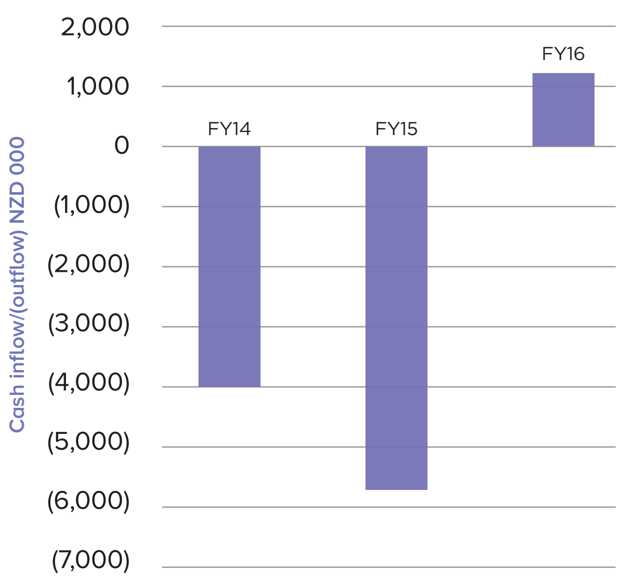
Staffing

Hiring and retaining employees is essential to the success of our business, as they are the heart and soul of the company. We rely on our ability to attract and retain world class talent to execute on our strategies and to propel the success of our objectives and performance. The global market for recruiting has heated up significantly and has made it difficult to both retain and compete for new employees. In FY 16, we experienced a rate of staff turnover greater than desired, some of which was related to the prior spending control measures, which has now been addressed, and some of the turnover was related to the changes in our customer facing business models in sales and customer success. Going forward we face a highly competitive market and with open positions to hire, we will be challenged to compete with richer compensation and benefits package, particularly in the North American market.

Financial Focus

We remain committed to our shareholders as it relates to achieving cash flow breakeven without an additional capital raise. Our current plans call for measured and controlled spending while we monitor our progress in restoring growth in North America. As mentioned before, we must invest in our people, but will limit discretionary spending where possible. We look to growth and decreased losses to further invest in our products to assure our ability to continuously innovate. We will continue to invest in our current products and to build new products that will meet or exceed the needs of our customers and prospects, and to continuously outperform our competitor's offerings.

Cash inflow/(outflow)



Summary

SLI continues to operate in a very large e-commerce market, characterised by an expected compounded growth rate of greater than 10%. We estimate our total addressable market, based upon data from Internet Retailer, eTail Insights and other data sources to be approximately 50,000 global prospects in both B2B and B2C markets, which based upon our estimated average contract values, represents a total addressable market of US$1.7B. With 576 customers as at 30 June 2016, it's clear there is a very big opportunity. Our products and our extensible and patented technologies are well positioned to take advantage of the current market opportunity. SLI is well positioned to capture the emerging trends as customers look to new personalised capabilities and beyond to accelerate their e-commerce businesses. We have a talented base of global employees that are focused on our key initiatives, which will enable our product development, sales and customer success teams to succeed. We believe that we are capable of competing effectively with our superior product suite powered by our SLI Buyer Engine. While we continue to focus on the corrective actions to restore our growth, we remain cautious not to over-invest until such time as we begin to see improved results in our internal and external operating metrics. We expect to see those results appear in the second half of FY 17 and will monitor closely to control our business in such a way as to assure our commitment to cash.

The company celebrated its 15th year in business on August 1, 2016. While FY 16 was a hugely transformational year, FY 17 should see the effects of those changes and restore the growth that reflects the market opportunity. We hope FY 17 will be remembered as a pivotal year in the history of the company.

Greg Cross
Chairman

Chris Brennan
Chief Executive Officer

The Commerce Accelerator

SLI continues to develop solutions with the future of e-commerce and the success of the company in mind. Highlights from the second half of the financial year include:

Empowering customers

Even though SLI delivers optimal results, some clients want the ability to customise them. We've given clients more power by expanding the control they have over SLI Learning Recommendations™.

SLI released: Enhancements to Tune Recommendations

- Control over which products are displayed for generic strategies such as Top Sellers or Popular Products
- Tuning capability can be added to any existing recommendations
- Ability to make tunings via a simple-to-use drag-and-drop interface

Hosting & infrastructure changes

In order to support a significant growth in SLI's customer base, we have changed the implementation process to focus on scalability, quality and efficiency.

SLI developed:

- Standardised components for each SLI delivered element
- Ability to quickly rollout new technology and universal fixes
- Decreased deployment time

Supporting enterprise clients

Many enterprise clients manage multiple sites and need the ability to monitor and control each entity.

SLI released: Ability to group sites

- Reporting for all sites in a single instance allows overview of entire business
- Merchandising rules, such as synonyms, can be shared across multiple sites, saving clients significant time

Expanding SLI's global customer base

As e-commerce grows globally, we continue to expand our support for new regions. SLI now supports search in 20 languages, and we have implemented our first Arabic customer site.

SLI released: Support for Arabic, Finnish and Norwegian languages

SLI in the Spotlight

Virtual Reality: Coming Soon to a Clothing Store Near You

At the beginning of 2016, SLI Co-founder and Chief Innovation Officer **Shaun Ryan** was featured in *Forbes* magazine.

Shaun's article focused on how virtual reality may impact the shopping experience of the future.

"VR will transform how we shop, play and live. Imagine having accurate 3D models of yourself and those you shop for, then watching images of yourself walking running, surfing, skiing and golfing while wearing that apparel – all in virtual reality."

How 40 Retailers Transformed Their Businesses Using SLI Systems

SLI customers often brag about the results from using our solutions. We showcased these stories and numbers in a new report and infographic which answers the question why site search matters.

Platform Partnership Benefits SLI Customer

Chain Store Age spoke to **Michael Schuler**, e-commerce director of Schuler Shoes, about why the 10-store omnichannel chain chose SLI as a way to keep up with its larger competitors.

"SLI Learning Search Connect easily plugged into our Magento platform, quickly improving the shopping experience and simplifying merchandising and promotions. With SLI site search, navigation and refinements, we have seen 20% fewer bounces and a

75%
increase

in the time visitors spend on the site, indicating the solutions are helping customers in the 'pre-shop' phase before they buy from us in-store or online."

Proven Customer Success

Retailers around the world partner with SLI Systems to grow sales and delight customers. See how retailers in North America, the United Kingdom, Australia and New Zealand have impacted their businesses.

EVERLAST

6x

higher conversions

"The search relevance, analytics and merchandising controls are what sets SLI apart. I knew I could get SLI up and running quickly and deliver benefits right away. Even if I don't touch it often, the solution is consistent and performs well all the time."

– Mike Ebert, E-commerce Director

PetsPyjamas

Where Smart Pet Lovers Go

90%

increase in conversions

"SLI is easily one of the best among many technology partners I've worked with. Along with seeing a rise in organic traffic, our fully responsive mobile pages have seen conversions increase by 90%."

– Mark Hammond, Chief Operations Officer

SUPERETTE

3x

higher per-session value using search

"SLI solutions give us great insight into what our customers want. SLI reports show us which items have 'poor results,' for example, so we can explore why those products are performing poorly and pass that information on to our buyers."

– James Rigden, Co-founder and E-commerce Director

adorebeauty

30%

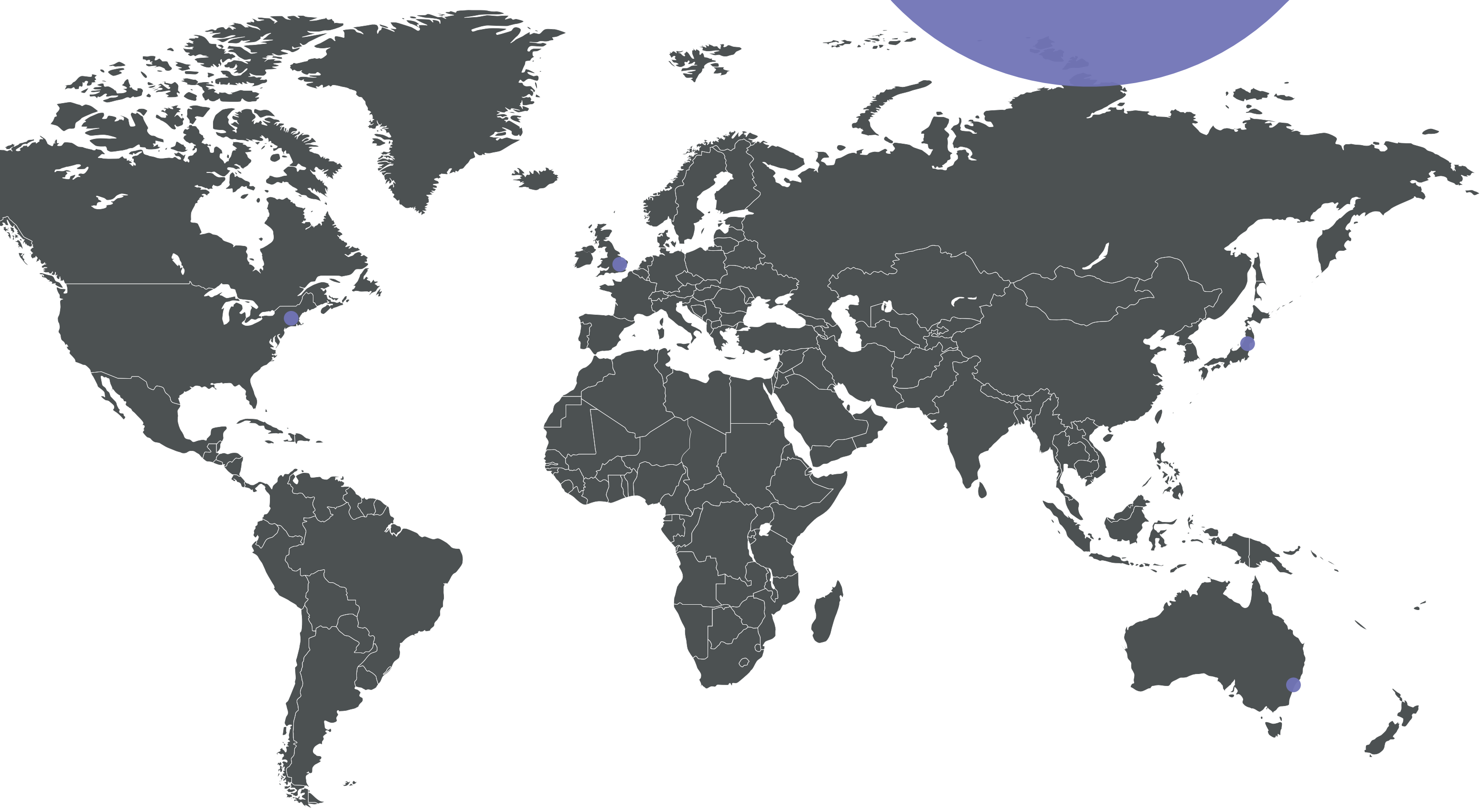
of site revenue attributed to SLI search

"We partnered with SLI Systems in 2010 because of its deep commitment to customer service. The SLI Learning Search Connect extension for Magento made it easy to implement and the results speak for themselves. We know when shoppers use search, we've got them!"

– Gareth Williams, E-commerce Manager

SLI Connect is the place for retailer leaders to explore new ideas and learn from their peers. The one-day educational e-commerce summit is held annually in various locations around the globe.

SLI CONNECT
ACCELERATING E-COMMERCE



This year, the London summit was moderated by Kate Russell, reporter and presenter on the BBC World News technology programme *Click*. In New York, Melissa Campanelli, editor of Total Retail, is scheduled to kick off the day and founder of eShopportunity and previous category manager at Amazon Fahim Naim will be this year's keynote speaker.

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
  15 September 2016 / Carnegie Hall, New York City
- SLI Connect Japan
  November 2016 / New Zealand Embassy, Tokyo

Board

SLI's diverse and experienced Board of Directors add valuable expertise and contacts to contribute to the company's ongoing success.

Greg Cross

Independent Chairman

Greg is a director with over 25 years of experience in the technology sector working in growth companies in international markets. Greg has been on the board of SLI as an Independent Director since July 2003 and has been Chair since 2005. Greg is Managing Director of Cross Ventures, a venture development business and is also currently the Sir John Logan Campbell Executive in Residence at the University of Auckland Business School. Previous roles include Chairman of the IceHouse, a technology incubator associated with the University of Auckland Business School, Chairman of NZTE Beachhead Advisory Board, CEO of Advantage Group Limited which was a listed NZX company and Managing Director of Microsoft New Zealand.

Chris Brennan

Chief Executive Officer and Managing Director

Chris' leadership experience spans technology businesses ranging from pre-revenue start-ups to organisations over $1B. Chris served as CEO/President of six companies including NetAuthority, Contactual (acquired by 8×8), LogLogic (acquired by Tibco), Banter Systems (merged with iPhrase and acquired by IBM), Roamware and UB Networks (acquired by Newbridge Networks). He also served as CFO of Genesys Telecommunications (acquired by Alcatel) and Diamond Lane Communications (acquired by Nokia). Chris has led or participated in successful initiatives that raised over $100M in capital and created nearly $2B in shareholder value. He was twice given the prestigious award of Red Herring 100 North America Winner. Chris has also been a member to a number of public and private boards, including international companies and a public university.

Dr Shaun Ryan

PhD, BEng (Hons)

Chief Innovation Officer, Executive Director and Co-Founder

Shaun has over 18 years' experience in search technologies. As a founding CEO of SLI, he was one of the driving forces behind the development of SLI's unique "Learning Search" site search technology. Shaun was also an original founder and CTO of GlobalBrain (in 1998), the search technology company which was bought by NBCi, in 2000. Shaun and his fellow founders formed S.L.I. Systems, Inc. and bought back the GlobalBrain technology. Prior to GlobalBrain, he worked as a contract software developer for a number of organisations, including the international health technology company Invacare. Shaun and his brother, fellow SLI co-founder, Grant Ryan, were awarded 2014 NZ Engineering Entrepreneurs of the Year. Shaun has a PhD in Artificial Intelligence.

Matthew Houtman

MMS

Non-Executive Director

Matthew is a co-founder and Managing Director of Pioneer Capital, an investor in New Zealand businesses that are focussed on growth into large international markets. In addition to SLI, he has portfolio responsibilities with Orion Health, Pukeko Pictures, WhereScape and YikeBike. Before joining Pioneer Capital, Matthew had a career in investment banking; most recently with UBS Investment Bank, where he worked in the Auckland then London offices. Activities during this period included: mergers, acquisitions, trade sales, balance sheet recapitalisations, IPOs and debt funding. Matthew has a Master of Management Studies with distinction from the University of Waikato.

Andrew Lark

Independent Director

Andy is an internationally renowned marketer and entrepreneur with 25 years' experience running multi-billion dollar e-commerce businesses and building highly successful online and marketing teams. Andy has served as Chief Marketing and Online Officer at Commonwealth Bank of Australia (CBA), where he revitalized the CBA brand and played a key role in establishing the bank's digital and online leadership. Prior to this he was a Vice President & General Manager at Dell, where he was head of global marketing for the computer manufacturer's Enterprise and Public group. He has led marketing teams at LogLogic, Sun Microsystems and Nortel Networks, and is a former Senior Vice President and Partner at Fleishman-Hillard. Today he is chief marketing and revenue officer for Xero - a leading global provider of software solutions to small businesses. He also chairs Group Lark, a consulting firm accelerating digital and marketing strategies for leading brands. His achievements have earned him recognition including the New Zealand Government's prestigious Worldclass New Zealander Award. He is also a member of the boards of Mighty River Power, Fronde and SimpleHQ. Andy is a native of Auckland and has received accolades for his contributions to New Zealand businesses.

Sarah Smith

BCom, CFInstD

Independent Director

Sarah has extensive business and governance experience in both the private and public sectors. She has held key financial and business development roles in a variety of businesses both in New York and New Zealand. As an independent director, Sarah has 20 years' experience and is currently Chairman of Ngai Tahu Tourism. Sarah is also a Director of Christchurch City Holdings, WhereScape Software, and EcoCentral and is a Trustee for several charitable organisations. She is a Chartered Fellow of the Institute of Directors.

Steven E Marder

JD, BA

Non-Executive Director and Co-Founder

Silicon Valley-based Steven Marder has over 25 years executive, advisory, and investment experience in the global technology, media and communications sectors. In addition to serving as a Co-Founder and Director at SLI, Steven currently serves as a Director, Investment Banking & Capital Markets for global financial services firm BTIG, LLC. and on the Board of Directors for Next Minute Ltd. and Ingenious Ventures. Previously he served as an Operating Partner for the Technology, Media & Telco Group at merchant bank, Morgan Joseph TriArtisan. Prior, serving as an Operating Partner for New York-based private equity firm Avista Capital Partners, Steven served as Director for portfolio companies WideOpenWest (WOW!) and InvestorPlace Media in addition to serving as Director/co-founder of social search company Eurekster. Steven also co-founded and served as Managing Director, North America for Gramercy Venture Advisors, co-founded and served as Chairman/CEO of eMemberDirect, Inc. (FKA PetPlanet.com), served as a Director for New Zealand based technology company GlobalBrain and as a senior executive at major media companies EMI Music and Tribune Company (Compton's NewMedia). A graduate of St. John's School of Law, Columbia College/Columbia University and Horace Mann School, Steven is also an attorney and member of the State Bar of New York and California and an investment banker holding FINRA Series 79, 62 and 63 licenses.

SLI's seasoned management team brings the company extensive industry knowledge and experience in a breadth of disciplines including accounting and finance, software development, and marketing. The executive leadership team includes three original founders (Shaun Ryan, Wayne Munro, and Michael Grantham) and three PhD holders.

Management

Chris Brennan

Chief Executive Officer and Managing Director

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Rod Garrett

Chief Financial Officer

Rod has over 20 years' experience in finance and related roles. He worked for Pricewaterhouse in New Zealand and London working mainly on Insolvency/ Corporate Recovery assignments before moving into the commercial sector. Before joining SLI in 2006, he was CFO of Christchurch electronics developer and manufacturer Eaton Power Quality Ltd. Rod originally worked for New Zealand owned Swichtec which was acquired by British company Invensys and, ultimately, by the Eaton group. He has an honours degree in Accounting and Finance from Otago University.

Dr Wayne Munro

Chief Technology Officer
and Co-Founder

Wayne leads SLI's engineering team. He is responsible for the production and maintenance of the client searches as well as the development of the SLI products. Wayne is a co-founder of SLI and has developed some of SLI's core algorithms as well as managing and developing the internal processes that have allowed the SLI engineering team to grow efficiently. Before joining the Company, he held senior technical positions with NBCi and GlobalBrain, specialising in software development and theoretical research. Wayne also worked as a research scientist for the Wool Research Organisation of New Zealand. He has a PhD in engineering from the University of Canterbury in New Zealand, where he developed new numerical models for structural simulation. Wayne has also published papers in international journals.

Dr Blair Cassidy

Chief Product Officer

Blair is responsible for product management, strategy and pricing. He has extensive experience leading high performance technical teams, focusing on the design, implementation and usage of highly scalable IT systems. Previously, he was VP of Engineering at Eurekster, the pioneering social search company. He spent several years at PA Consulting Group, an international management consultancy, living and working throughout Asia and the US. He also worked as the data engineer for the search product at NBCi. Blair has held research positions within New Zealand and Japanese institutions, and holds a PhD in Computational Modelling from Lincoln University.

Michael Grantham

Chief Information Officer
and Co-Founder

Michael is responsible for SLI's global technical infrastructure. As a co-founder of SLI, he has helped design and implement many of SLI's products. Prior to SLI, he gained valuable experience in search and systems design at NBCi and GlobalBrain, where he was a lead developer and systems engineer. Michael has also held lead developer positions at Australia and New Zealand's largest banks. He holds a bachelor's degree in computer science from the University of Canterbury.

Martin Onofrio

Chief Revenue Officer

Martin has more than 25 years' sales and executive leadership experience. Before joining SLI, Martin was Chief Revenue Officer at Attensity Corporation, which provides test analytics and intelligent data discovery applications. He has also held executive sales leadership positions at SAP, Mobileum, Kana, Triple Point Technology and e-commerce platform provider Blue Martini Software. In these roles, Martin consistently exceeded quota and increased customer profitability. His bachelor's degree is from the University of Texas in Dallas.

Chris Brubaker

Chief Marketing Officer

Chris is a 15 year veteran of Silicon Valley where he has worked at numerous start-ups including two Red Herring Top 100 companies and one Fast Company's Fast 50. He led marketing at Demandforce, which provided a turnkey marketing automation solution for over 20,000 local businesses before being acquired by Intuit. Most recently, Chris led marketing at Upserve, a leading restaurant technology company with over 4,000 restaurant customers. He also held marketing leadership positions at Habeas (acquired by ReturnPath), Roost (acquired by VerticalResponse) and DudaMobile. Chris is a proud UCLA Bruin and received his MBA in International Management from the Monterey Institute of International Studies.

Heather Kinghorn

Vice President of Human Resources

Heather has over 25 years' experience in building highly effective HR programs in rapid-growth companies. She has been with SLI since 2010 and leads the company in its talent identification, organisational development, and strategic human resources planning. Prior to joining SLI, Heather spent more than 15 years in the consulting engineering industry, where she specialised in acquisitional growth, diversity management and conflict resolution. Heather holds a bachelor's degree in industrial psychology and industrial sociology.

Gary Schaumburg

Vice President of Customer Success

Gary is responsible for leading the company's global customer success teams and has more than 25 years of leadership experience. Prior to joining SLI, he was the VP of Client Services at Attensity Corporation. He has also held VP and leadership positions at Hughes Electronics, Deloitte Consulting, Oracle, Octane Software, Epiphany, Velosant, Open Harbor and Infosys Edge. Gary has been a successful leader in the SaaS, CRM, social media, commerce, communication and supply chain spaces. He has a bachelor's degree in electrical engineering from UCLA and a master's degree from the Wharton School of the University of Pennsylvania.

Corporate Governance

Best practice and governance

The Board has overall responsibility for ensuring that the Company is properly managed and to enhance investor value and confidence through good corporate governance. The Board has adopted a corporate governance code ("Code"). A copy of the Code is available on the Company's website (www.sli-systems.com).

The Board considers that the Company's corporate governance policies, practices and procedures materially comply with the NZX Corporate Governance Best Practice Code.

The Company will continue to monitor best practice in the governance area and update its policies to ensure it maintains the most appropriate standards. The Company's principal governance statements are outlined in this report.

The role of the Board

The Board assumes accountability for the success of SLI Group by taking responsibility for the direction and management of the Company.

The main functions of the Board include:

- reviewing and approving the strategic, business and financial plans prepared by management;
- ensuring the Company has appropriate management to enable it to achieve its objectives;
- reviewing and approving individual investment and divestment decisions which the Board has determined should be referred to it before implementation;
- monitoring the Company's performance against its approved plans and overseeing the Company's operating results;
- ensuring the quality and independence of the Company's external audit process;
- monitoring compliance and risk management;
- establishing and monitoring the Company's health and safety policies; and
- ensuring the ethical behaviour of the Company, the Board and management.

Board and committee meetings

The Board formally met seven times during the period of 1 July 2015 to 30 June 2016. During this period, the Audit and Risk Management Committee met four times and the Nominations and Remuneration Committee met twice.

Board membership and composition

The Board is required to maintain at least a minimum number of two Independent Directors or where the Board comprises eight or more directors the number of Independent Directors must be at least three or one-third of all directors (rounded down to the nearest whole number of directors), whichever is the greater. As at 30 June 2016, the Board has three Independent Directors as noted below. In order for a director to be independent, the Board has determined that he or she must not be an executive of the Company and must have no disqualifying relationship as defined in the Code and the NZX Main Board Listing Rules.

Each director of the Company is a skilled and experienced business person and has been elected based on the value they bring to the Board. Together they provide value by making quality contributions to corporate governance matters, conceptual thinking, strategic planning, policies and providing guidance to management.

As at 30 June 2016 the Board consisted of:

Greg Cross
Chairman and Independent Director

Chris Brennan
Managing Director

Steven Marder
Non-Executive Director

Matthew Houtman
Non-Executive Director

Shaun Ryan
Executive Director

Sarah Smith
Independent Director

Andrew Lark
Independent Director

Sam Knowles resigned from the Board on 16 October 2015.

Profiles of current board members are shown on pages 10 to 12.

As at 30 June 2016, six of the Company's directors were male and one was female (unchanged from 30 June 2015), and nine of the Company's ten key management personnel were male and one, being the Vice President of Human Resources, was female (30 June 2015 – six male, 1 female). The other nine key management personnel as of 30 June 2016 were the CEO, the Chief Financial Officer, the Chief Innovation Officer, the Chief Technology Officer, the Chief Information Officer, the Chief Revenue Officer, the Chief Product Officer, the Chief Marketing Officer and the Vice President of Customer Success.

Nomination and appointment of directors

The Board is responsible for identifying and recommending candidates. Directors may also be nominated by shareholders under NZX Main Board Listing Rule 3.3.5.

A director may be appointed by ordinary resolution and all directors are subject to removal by ordinary resolution.

The Board may at any time appoint additional directors. A director appointed by the Board shall only hold office until the next annual meeting of the Company, but shall be eligible for election at that meeting.

One third of directors must retire from office at the annual meeting each year but are eligible for reappointment by shareholders at the annual meeting. The directors to retire shall be those who have been longest in office since they were last elected or deemed to be elected.

The number of elected directors and the procedure for their retirement and re-election at annual meetings of shareholders are set out in the Company's Constitution.

Board committees

The Board uses committees to deal with issues requiring detailed consideration by members of the Board with specialist knowledge and experience, thereby enhancing the efficiency and effectiveness of the Board. The committees examine proposals and, where appropriate, make recommendations to the Board. Committees do not take action or make decisions on behalf of the Board unless specifically authorised to do so by the Board. The two formally constituted committees are as follows:

Audit and Risk Management Committee

The members of the Audit and Risk Management Committee are Sarah Smith, Matthew Houtman and Greg Cross. The purpose of the committee is to assist the Board in fulfilling its responsibilities regarding external financial reporting, ensuring the quality and independence of the Company's external audit processes and providing a formal forum for communication between the Board and senior financial management staff.

A majority of the committee's members must be independent directors and at least one director must have a financial or accounting background. The committee has adopted a written charter.

Nominations and Remuneration Committee

The members of the Nominations and Remuneration Committee are Greg Cross, Steven Marder and Andy Lark. This committee is responsible for reviewing and making recommendations of any changes to the Board, setting and reviewing the Company's remuneration policies including making remuneration recommendations for directors and senior executives of the Company. It also reviews any company-wide employee or director incentive and share option schemes as required. The committee has adopted a written charter.

Directors' remuneration

Directors' fees for the year ended 30 June 2016 were $60,000 per annum for the Chairman and $40,000 per annum for each non-executive director[1] (including the Independent Directors). The actual aggregate amount of fees paid in the year ended 30 June 2016 was $231,917.

In November 2015, the board resolved to remunerate Greg Cross with an additional services fee of $20,000 for Greg's services relating to the recruitment of the Company's new Chief Executive Officer.

To provide for flexibility, shareholder approval was obtained prior to listing for aggregate non-executive directors' fees of $250,000 which increased to $290,000 with the appointment of Andy Lark in December 2013 as provided for under Listing Rule 3.5.

The directors are also entitled to be paid for all reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or shareholders' meetings or otherwise in connection with the Company's business.

Director and staff share dealings

The Company has adopted a securities trading policy which sets out the procedure to be followed by directors and staff when trading in the Company's listed securities, to ensure that no trades occur whilst that person is in possession of material information which is not generally available to the market.

Directors' indemnity and insurance

The Company has insured all of its directors and the directors of its subsidiaries against liabilities to other parties (except the Company or a related party of the Company) that may arise from their position as directors. The insurance does not cover liabilities arising from criminal actions. In addition, the Company has executed a Deed of Indemnity, indemnifying all directors to the extent permitted by section 162 of the Companies Act 1993.

Code of ethics

The Code includes a policy on business ethics which is designed to govern the Board's conduct. The Code addresses conflicts of interest, receipt of gifts, confidentiality and fair business practices.

Disclosure

The Company adheres to the NZX continuous disclosure requirements which govern the release of all material information that may affect the value of Company's listed shares.

1. Directors' fees payable to Sam Knowles were prorated for his services as a director from 1 July 2015 to 16 October 2015.

Shareholder and Statutory Information

Stock Exchange Listing

The Company's ordinary shares are quoted on the NZX Main Board licensed equity securities market operated by NZX Limited.

Twenty Largest Registered Shareholders

The table below shows the names and registered holdings of the 20 largest shareholders as at 31 July 2016.

Investor Name	Total Shares	%
Pioneer Capital I Nominees Limited	5,913,798	9.50
Custodial Services Limited	4,486,482	7.21
Premier Nominees Limited[1]	3,997,658	6.42
Grant James Ryan & Shaun William Ryan[2]	2,953,116	4.74
Wayne Alistair Munro	2,940,120	4.72
Lynnwood Holdings Limited	2,661,816	4.28
Shaun William Ryan & Katherine Louise Ryan[3]	2,430,000	3.90
Robert Van Nobelen & Bws Trustee (2005) Limited[4]	2,007,612	3.22
Michael Arthur Grantham	1,946,012	3.13
Accident Compensation Corporation[1]	1,843,190	2.96
Gareth Samuel Reuben Morgan & Gareth Huw Thomas Morgan & Charles Andrea Purcell[5]	1,795,843	2.88
JPMORGAN Chase Bank[1]	1,734,694	2.79
Kevin James Taylor & Anna Patricia Taylor[6]	1,492,928	2.40
Custodial Services Limited	1,333,929	2.14
Geoffrey Michael Brash	1,297,734	2.08
K One W One (No. 2) Limited	900,000	1.45
Jamie Glendinning Anstice	829,962	1.33
Shaun William Ryan	810,000	1.30
Warwick Desmond Croft & Elizabeth Prudence Croft	706,818	1.14
Michael James Chisholm	696,000	1.12

1. Held by New Zealand Central Securities Depository Limited as custodian
2. As trustees of the Grant James Ryan Family Trust
3. As trustees of the Shaun W Ryan Family Trust
4. As trustees of the Rob Van Nobelen Family Trust
5. As trustees of the Jasmine Investment Trust No.2
6. As trustees of the Anne and Kevin Taylor Family Trust

Spread of security holders as at 31 July 2016

Range of Number of Shares Held	Number of Holders	% of Shareholders	Issued Capital	% of Issued Capital
1 - 1,000	311	19.49	209,746	0.34
1,001 - 5,000	751	47.06	2,220,637	3.57
5,001 - 10,000	269	16.85	2,154,013	3.46
10,001 - 50,000	207	12.97	4,396,529	7.06
50,001 - 100,000	16	1.00	1,103,167	1.77
Greater than 100,000	42	2.63	52,176,724	83.80
Total	**1,596**	**100**	**62,260,816**	**100**

Substantial Product Holders

According to notices given under the Financial Market Conducts Act 2013, the substantial product holders in ordinary shares (being the only class of listed voting securities) of the Company, as at 30 June 2016, are as follows:

Substantial Product Holder	Number of voting securities	%
Shaun William Ryan[1]	6,744,376	10.83%
Pioneer Capital Management Limited / Pioneer Capital Partners I LP and NZVIF Investments Limited / Matthew Gainsford Houtman[2]	6,083,563	9.77%
ANZ New Zealand Investments Limited[3]	4,671,764	7.50%
Steven Marder[4]	4,299,322	6.91%
Grant James Ryan[5]	3,918,711	6.29%
First NZ Capital Securities Limited and Harbour Asset Management Limited[6]	3,254,044	5.23%
The total number of listed voting securities of the Company on issue at 30 June 2016 was 62,260,816 fully paid ordinary shares.		

1. Shaun is legal and beneficial holder of 810,000 ordinary shares, holds 2,430,000 ordinary shares as trustee of an associated family trust and holds 3,504,376 ordinary shares as trustee of his brother's and parents' family trusts.
2. Pioneer Capital Management Limited is legal and beneficial holder of 156,432 ordinary shares in the Company and is the investment manager of Pioneer Capital Partners I LP and NZVIF Investments Limited. Pioneer Capital Partners I LP and NZVIF Investments Limited are beneficial owners and co-investors in the 5,913,798 ordinary shares in the Company held by Pioneer Capital I Nominees Limited. Matthew is legal and beneficial holder of 13,333 ordinary shares in the Company and owns in conjunction with a family trust in which he is a trustee 50% of Pioneer Capital Management Limited.
3. ANZ New Zealand Investments Limited acts as an investment manager for certain investment funds and as a result has a relevant interest in the units as it has:
   - a conditional power to exercise the right to vote attached to the units; and
   - a conditional power to acquire or dispose of the units.

   ANZ's total number held in class increased to 5,871,764 as at 15 July 2016 which equates to a holding of 9.431%.
4. Steven is legal and beneficial holder of 1,268,032 ordinary shares and has a deemed relevant interest in the 3,031,290 ordinary shares held by Marder Media Group, Inc. arising from his power to control Marder Media Group, Inc. All of the shares in which Steven holds a relevant interest are registered in the name of Custodial Services Limited, a nominee.
5. Grant is legal and beneficial holder of 414,335 ordinary shares, holds 2,953,116 ordinary shares as trustee of an associated family trust and holds 551,260 ordinary shares as trustee of his parents' family trust.
6. First NZ Capital Securities Limited and Harbour Asset Management Limited are related companies. Harbour Asset Management Limited is a fund manager for certain investment funds and as a result has a relevant interest in the units as it has:
   - a power to exercise the right to vote attached to the products; and
   - a power to acquire or dispose of the products,

   under the powers of investment contained in investment management contracts with clients (the beneficial owners of the products).
   First NZ Capital Securities Limited is a NZX Market Participant and, as part of normal trading activity, transacts in securities for its own account.
   First NZ Capital Securities Limited and Harbour Asset Management Limited held 5.226% of SLI Limited's ordinary issued capital as at 30 June 2016 and gave notice that they ceased to be a Substantial Product Holder as at 15 July 2016 when the total number held in class decreased to 2,048,820 which equates to a holding of 3.291%.

Statement of Directors' relevant interests

Directors held the following relevant interests in equity securities in the Company as at 30 June 2016:

Director	Held as legal and beneficial owner	Held as trustee of family trust / associated company	Held as trustee of trust not established for benefit of director's immediate family	Total
Greg Cross, Chairman				
Unlisted redeemable shares	133,333[1]			133,333
Dr Shaun Ryan, Executive Director				
Quoted Shares	810,000	2,430,000	3,504,376	6,744,376
Steven Marder, Non Executive Director				
Quoted Shares	1,268,032	3,031,290		4,299,322
Matthew Houtman, Non Executive Director				
Quoted Shares	13,333	6,070,230		6,083,563
Sarah Smith, Independent Director				
Quoted Shares		20,000		20,000
Unlisted redeemable shares	133,333[1]			133,333
Sam Knowles, Independent Director – Resigned from the Board as at 16 October 2015[2]				
Quoted Shares	66,667			66,667
Andy Lark, Independent Director				
Unlisted redeemable shares	107,527			107,527

Directors also held the following relevant interests in securities that may convert to equity securities in the Company as at 30 June 2016:

- Greg Cross held 120,000 unlisted exercisable options as legal and beneficial owner
- Shaun Ryan held 249,260 unlisted exercisable options as legal and beneficial owner
- Chris Brennan held 1,839,249 unconditional share appreciation rights and 613,083 conditional share appreciation rights

Interest Register entries

The following represents the new entries in the Company's Interests Register of the directors' interests in other companies as disclosed to the Company:

Shaun Ryan

Vodafone Xone – Vodafone New Zealand Limited	Mentor, Vodafone Xone	6 Dec 2015

Chris Brennan

No interests recorded as at 30 June 2016.

1. In June 2016, the Board resolved to extend the repayment date of the limited recourse loans of Greg Cross and Sarah Smith to 31 December 2016.
2. Sam Knowles held 133,333 unlisted redeemable shares which were then redeemed by the Company on 30 June 2016.

Directors' remuneration and other benefits

Directors' fees have been fixed at $60,000 per annum for the Chairman, and $40,000 per annum for the non-executive directors (including the Independent Directors).

Directors' fees and other remuneration and benefits received or receivable from the Company during the accounting period ended 30 June 2016 are as follows:

	$	Nature of Remuneration
Greg Cross	80,000[1]	Director Fees and other remuneration
Matthew Houtman	40,000	Director Fees
Steven Marder	40,000	Director Fees
Sam Knowles	11,917	Director Fees
Sarah Smith	40,000	Director Fees
Andy Lark	40,000	Director Fees
Chris Brennan	405,986	Salary and Entitlements
Shaun Ryan	307,599	Salary and Entitlements

The directors of each group company are also entitled to be paid for all reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at board or shareholders' meetings or otherwise in connection with the Company's business.

Director Share dealings

During the accounting period ended 30 June 2016 the following directors disclosed under section 148 of the Companies Act 1993 and section 304 of the Financial Markets Conduct Act 2013 that they acquired or disposed of relevant interests in shares issued by the Company:

Director	Shares in Company disposed during the year	Nature of relevant interest	Consideration received	Date of acquisition or disposal
Shaun Ryan	200,000	Ordinary shares which were held by Shaun Ryan as trustee of the J&I Ryan Family Trust	$188,000	25-May-16

Directors Indemnity Insurance

The Company entered into an indemnity in favour of its directors under an indemnity deed. The Company has insured all of its directors against liabilities and costs referred to in section 162(5) of the Companies Act 1993.

1. $60,000 was paid to Greg Cross as Director Fees and $20,000 was paid to Greg Cross as other remuneration.

Employee Remuneration

The list below shows the number of employees of the SLI Group paid greater than $100,000 in the 12 months to 30 June 2016.

Remuneration range NZ$	No. of employees
100,000-109,999	11
110,000-119,999	14
120,000-129,999	6
130,000-139,999	8
140,000-149,999	3
150,000-159,999	2
160,000-169,999	3
170,000-179,999	2
180,000-189,999	2
200,000-209,999	1
210,000-219,999	1
220,000-229,999	1
230,000-239,999	1
240,000-249,999	2
250,000-259,999	1
280,000-289,999	1
290,000-299,999	2
300,000-309,999	1
350,000-359,999	1
380,000-389,999	1
400,000-409,999	2
560,000-569,999	1

NZX waivers obtained during the period to 30 June 2016

None were obtained.

Audit Fees

The amounts payable to PricewaterhouseCoopers as auditor of the SLI Group are as set out in the notes to the financial statements.

Donations

The SLI Group made no donations for the period ended 30 June 2016.

Dividends

As part of the SLI Group's expansion and development plans, dividends are not currently paid, and will not be for the foreseeable future.

Subsidiary Company Directors

The following people held office as directors of subsidiary companies at 30 June 2016:

S.L.I. Systems, Inc.: Greg Cross, Chris Brennan, Shaun Ryan, Matthew Houtman, Sarah Smith, Steven Marder, Andy Lark
SLI Systems (UK) Limited: Shaun Ryan
SLI Systems (Japan) K.K: Terrie Lloyd

Financial Statements

Independent Auditors' Report

to the shareholders of SLI Systems Limited

Report on the Financial Statements

We have audited the consolidated financial statements of SLI Systems Limited ("the Company") on pages 30 to 55, which comprise the consolidated balance sheet as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 30 June 2016 or from time to time during the financial year.

Directors' Responsibility for the Consolidated Financial Statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the consolidated financial statements.

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

We are independent of the Group. Other than in our capacity as auditors, tax advisors and providers of other assurance related services we have no relationship with, or interests in, the Group.

PricewaterhouseCoopers
5 Sir Gil Simpson Drive, Canterbury Technology Park, PO Box 13244, Christchurch 8053, New Zealand
T: +64 3 374 3000, F: +64 3 374 3001, pwc.co.nz

Opinion

In our opinion, the consolidated financial statements on pages 30 to 55 present fairly, in all material respects, the financial position of the Group as at 30 June 2016, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Restriction on Use of our Report

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditors' 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.

PricewaterhouseCoopers

Chartered Accountants
Christchurch

25 August 2016

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 2016 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 2015 to 30 June 2016.

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 25 August 2016.

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 2016

		2016	2015
	NOTE	$'000	$'000
Operating revenue		35,006	28,126
Other income		646	466
Total revenue and other income	**3**	**35,652**	**28,592**
Operating expenses	4	(14,803)	(14,309)
Employee entitlements	5	(21,050)	(22,007)
Operating (loss) before finance income		**(201)**	**(7,724)**
Finance income		39	174
Net financing income		**39**	**174**
(Loss) before tax		**(162)**	**(7,550)**
Income tax (expense)/credit	6	(77)	190
(Loss) for the year		**(239)**	**(7,360)**
Other comprehensive income recycled through profit and loss			
Currency translation movement		(314)	243
Total comprehensive (loss) for the year attributable to the shareholders of the company		**(553)**	**(7,117)**

		2016	2015
(Loss) per share			
Basic and diluted (loss) per share	24	(0.004)	(0.121)

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 2016

	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 (note 2)	-	-	-	(478)	(478)
Restated 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 income for the year	**-**	**-**	**(314)**	**(239)**	**(553)**
Transactions with owners					
Share Options					
- Share options exercised during year	646	(108)	-	-	538
- Share option expense for the year	-	888	-	-	888
- Share options expired for the year	-	(424)	-	424	-
Balance at 30 June 2016	**18,771**	**1,848**	**(37)**	**(14,797)**	**5,785**

	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 (note 2)	-	-	-	(248)	(248)
Restated opening balance at 1 July 2014	**17,674**	**1,216**	**34**	**(7,724)**	**11,200**
(Loss) for the year	-	-	-	(7,360)	(7,360)
Currency translation movement	-	-	243	-	243
Total comprehensive income for the year	**-**	**-**	**243**	**(7,360)**	**(7,117)**
Transactions with owners					
Share Options					
- Share options exercised during year	451	(148)	-	-	303
- Share option expense for the year	-	526	-	-	526
- Share options expired for the year	-	(102)	-	102	-
Balance at 30 June 2015	**18,125**	**1,492**	**277**	**(14,982)**	**4,912**

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 2016

	NOTE	2016 $'000	2015 $'000	2014 $'000
ASSETS				
Current assets				
Cash and cash equivalents	10	6,765	5,582	11,389
Trade and other receivables	11	5,876	6,631	4,972
Taxation receivable	6	-	-	30
Total current assets		**12,641**	**12,213**	**16,391**
Non-current assets				
Deferred tax assets	7	675	688	455
Property, plant and equipment	8	1,316	1,582	1,589
Intangible assets	9	65	99	115
Total non-current assets		**2,056**	**2,369**	**2,159**
Total assets		**14,697**	**14,582**	**18,550**
LIABILITIES				
Current liabilities				
Taxation payable	6	34	24	-
Trade and other payables	14	7,035	6,843	5,312
Employee benefits	15	1,801	2,774	1,966
Total current liabilities		**8,870**	**9,641**	**7,278**
Non-current liabilities				
Employee benefits	15	29	17	57
Deferred tax liabilities	7	13	12	15
Total non-current liabilities		**42**	**29**	**72**
Total liabilities		**8,912**	**9,670**	**7,350**
Net assets		**5,785**	**4,912**	**11,200**
EQUITY				
Share capital	13	18,771	18,125	17,674
Reserves		1,811	1,769	1,250
Accumulated losses		(14,797)	(14,982)	(7,724)
Total equity		**5,785**	**4,912**	**11,200**

	2016	2015	2014
Net tangible asset backing per ordinary security	$0.09	$0.08	$0.18

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

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2016

	NOTE	2016 $'000	2015 $'000
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		36,148	27,938
Interest received		111	246
Net GST (paid)		(23)	(15)
Government grants		558	378
Cash was applied to:			
Payments made to suppliers and employees		(35,936)	(34,193)
Income tax received / (paid)	6	(50)	8
Net cash inflow / (outflow) from operating activities	**25**	**808**	**(5,638)**
Cash flows from investing activities			
Cash was provided from / (applied to):			
Purchase of property, plant and equipment	8	(140)	(433)
Sale of property, plant and equipment	8	-	1
Purchase of intangibles	9	(23)	(40)
Net cash (outflow) from investing activities		**(163)**	**(472)**
Cash flows from financing activities			
Cash was provided from / (applied to):			
Cash received from share options exercised		538	303
Net cash inflow from financing activities		**538**	**303**
Net increase / (decrease) in cash and cash equivalents		**1,183**	**(5,807)**
Cash and cash equivalents at the beginning of the year		5,582	11,389
Cash and cash equivalents at the end of the year	**10**	**6,765**	**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 year ended 30 June 2016 were authorised for issue in accordance with a resolution of the Directors on 25 August 2016.

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. 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. There was no impact on the current or prior year financial statements.

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.

The Group is designated as a for-profit entity for financial reporting purposes.

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. These financial statements have been restated to reflect a prior period adjustment as below:

During the year, the Company appointed a specialist indirect tax expert to evaluate previous advice on the Group's US Sales Tax position. The earlier advice and related treatment of US sales tax resulted in SLI under-returning sales taxes to the US authorities. 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.

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:

Year ended 30 June 2015 - $319,000 increase in operating expenses and loss for the year, a $664,000 increase in trade and other payables, $186,000 increase in deferred tax asset and a $478,000 decrease in total equity. This equates to a $0.005 increase in loss per share.

Year ended 30 June 2014 - $236,000 increase in operating expenses and loss for the year, a $345,000 increase in trade and other payables, $97,000 increase in deferred tax asset and a $248,000 decrease in total equity. This equates to a $0.004 increase in loss per share.

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);
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. US Sales tax provision as judgement has been used in determining the level of the provision (note 14);
5. 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 2016 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 or the consolidated entity.

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

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2017 and 2018, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group will apply this standard from 1 July 2018 and has yet to assess its full impact.

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 standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group will apply this standard from 1 July 2018 and is currently assessing its full impact.

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 standard is effective for accounting periods beginning on or after 1 January 2019. 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
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Equity settled share option plan	21
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3. Revenue and other income

Revenue for the Group is analysed below.

	2016	2015
	$'000	$'000
Revenue from sale of services	35,006	28,126
Government grants received and receivable	646	466
Total revenue and other income	**35,652**	**28,592**

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

	2016	2015
	$'000	$'000
United States	20,132	16,686
United Kingdom	7,310	5,519
Australia	3,593	2,737
Brazil	2,307	2,069
New Zealand	1,211	782
Rest of the world	453	333
	35,006	**28,126**

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, rebates and discounts. Revenue is recognised as follows:

(i) Provision of services

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.

Un-invoiced revenue represents the opposite of revenue in advance where 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

	2016	2015
	$'000	$'000
Operating expenses include:		
Amortisation of intangible assets	57	56
Bad debts written off	626	318
Movement in provision for doubtful debts	128	127
Depreciation on property, plant and equipment	392	458
Directors' fees and other remuneration	252	260
Remuneration paid to auditors (Note 26)	128	141
Operating leases expenses	1,555	1,245
Loss / (gain) on foreign exchange transactions	289	(804)

5. Employee entitlements

	2016	2015
	$'000	$'000
Wages and salaries	19,877	21,199
Share option expense	888	526
Employer contribution to defined contribution plans	285	282
Total employee entitlements	**21,050**	**22,007**

Employee benefit costs incurred on research activities are included within employee entitlements disclosed above. The cost of employee entitlements associated with research costs is $1,661,000 (30 June 2015 $843,000). Total amounts attributable to research costs during the year is $2,092,000 (30 June 2015 $1,131,000). During the year there were no activities which met the definition of development expenditure.

6. Taxation

	2016	2015
	$'000	$'000
(a) Income tax expense / (credit) can be reconciled to accounting (loss) as follows:		
Accounting (loss) before tax	(162)	(7,550)
Tax at the Group's effective income tax rate of 28%	(45)	(2,114)
Adjustments in respect of current income tax of previous years	(15)	(4)
Tax effect of non-deductible expenditure	273	182
Tax effect of deduction for share options exercised in UK	(26)	-
Unrecognised current year tax losses	-	1,728
Tax effect of foreign jurisdictions	11	21
Tax losses brought forward utilised	(201)	(43)
Other	80	40
Aggregate income tax expense / (credit)	**77**	**(190)**

6. Taxation continued

	2016 $'000	2015 $'000
Comprising		
Current tax		
- Current year tax	81	50
- Prior year adjustment	(15)	(4)
Deferred tax	11	(236)
Income tax expense / (credit)	**77**	**(190)**
(b) Recognised tax (liability) / asset		
Opening balance	(24)	30
Charged to income	(81)	(50)
Tax paid / (refund)	50	(8)
Prior year adjustment	15	4
Other	6	-
Closing balance	**(34)**	**(24)**

(c) Imputation credit balance

There is no imputation credit balance at 30 June 2016 (30 June 2015 nil).

7. Deferred taxation

	2016 $'000	2015 $'000
Deferred tax asset / (liability):		
Opening balance	676	440
Credited to income	68	275
Prior year adjustment	(79)	(39)
Other	(3)	-
Closing balance	**662**	**676**
Deferred income tax at 30 June relates to the following:		
Deferred tax assets:		
Employee entitlements and other temporary differences	281	324
Provisions	285	266
Doubtful Debts	103	92
Other	6	6
Gross recognised deferred tax assets	**675**	**688**
Deferred tax liabilities:		
Property, plant and equipment	(13)	(12)
Gross recognised deferred tax liabilities	**(13)**	**(12)**
Net recognised deferred tax asset	**662**	**676**

It is not anticipated that deferred tax balances will be recovered within 12 months. The Company has unrecognised New Zealand tax losses available to carry forward at 30 June 2016 of $11,043,000 (30 June 2015 $11,545,000) subject to shareholder continuity being maintained as required by New Zealand tax legislation and subject to confirmation from the relevant tax authorities.

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

Year ended 30 June 2016	Computer Equipment	Furniture, Equipment & Other	Total
	$'000	$'000	$'000
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**

Year ended 30 June 2015	Computer Equipment	Furniture, Equipment & Other	Total
	$'000	$'000	$'000
Cost			
Balance at 1 July 2014	1,064	1,543	2,607
Currency translation movement	23	35	58
Additions	286	147	433
Disposals	(21)	(1)	(22)
Balance at 30 June 2015	**1,352**	**1,724**	**3,076**
Depreciation			
Balance at 1 July 2014	(695)	(323)	(1,018)
Currency translation movement	(19)	(20)	(39)
Depreciation expense	(267)	(191)	(458)
Disposals	20	1	21
Balance at 30 June 2015	**(961)**	**(533)**	**(1,494)**
Net carrying amount	**391**	**1,191**	**1,582**

The net carrying value at 30 June 2016 of property, plant and equipment held in New Zealand is $890,000 (30 June 2015 $1,049,000), within the United States $317,000 (30 June 2015 $336,000), within United Kingdom $86,000 (30 June 2015 $140,000), within Australia $21,300 (30 June 2015 $25,000) and within Japan $1,200 (30 June 2015 $2,000).

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 so as 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

Year ended 30 June 2016	Patents & Trademarks	Software	Total
	$'000	$'000	$'000
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**

Year ended 30 June 2015	Patents & Trademarks	Software	Total
	$'000	$'000	$'000
Cost			
Balance at 1 July 2014	486	117	603
Additions	17	23	40
Balance at 30 June 2015	**503**	**140**	**643**
Amortisation			
Balance at 1 July 2014	(402)	(86)	(488)
Amortisation	(36)	(20)	(56)
Balance at 30 June 2015	**(438)**	**(106)**	**(544)**
Net carrying value	**65**	**34**	**99**

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.

All intangible assets have been purchased from third parties.

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 over the estimated useful life of the intangible asset, from the date it is available for use.

The estimated useful lives are:

Trademarks / patents	10 - 20 years
Software	3 - 5 years

10. Cash and cash equivalents

	2016	2015
	$'000	$'000
Cash at bank and on hand	3,203	3,790
Short-term bank deposits	3,562	1,792
	6,765	**5,582**

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

	2016	2015
	$'000	$'000
US dollars	1,342	1,281
Great British pounds	846	583
Australian dollars	539	528
Japanese yen	109	50

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

	2016	2015
	$'000	$'000
Gross trade receivables	4,528	5,020
Provision for impairment of receivables	(495)	(367)
Net trade receivables	**4,033**	**4,653**
Un-invoiced revenue	926	1,368
Prepayments and other receivables	917	610
Total trade and other receivables	**5,876**	**6,631**

12. Trade receivables provisioning

(a) Impaired receivables

As at 30 June 2016 trade receivables with a nominal value of $495,000 (30 June 2015 $367,000) were impaired in respect of the Group. The ageing analysis of these trade receivables is as follows:

	2016	2015
	$'000	$'000
1-60 days overdue	87	88
61-90 days overdue	120	39
91+ days overdue	288	240
Impaired receivables	**495**	**367**

(b) Past due but not impaired

As at 30 June 2016 trade receivables of the Group of $241,000 (30 June 2015 $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:

	2016	2015
	$'000	$'000
1-30 days overdue	173	23
Greater than 31 days overdue	68	218
	241	**241**

(c) Provision for impairment of receivables

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

	2016	2015
	$'000	$'000
Opening balance	367	240
Additional amounts provided	128	127
Unused amounts written back	-	-
Closing balance	**495**	**367**

(d) As at balance date the amounts receivable in foreign currency were as follows, all values shown in NZ$:

	2016	2015
	$'000	$'000
US dollars	3,587	4,186
Great British pounds	1,382	1,428
Australian dollars	376	553
Japanese yen	29	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		Number of Ordinary Shares	
	2016	2016 $'000	2015	2015 $'000
Opening balance	61,162,116	18,125	60,498,018	17,674
Share options exercised	1,098,700	646	664,098	451
Closing balance	**62,260,816**	**18,771**	**61,162,116**	**18,125**

The total number of ordinary shares on issue as at 30 June 2016 is 62,260,816 (30 June 2015: 61,162,116) 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

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 other date under certain conditions. The substance of these transactions is similar in nature to the issuing of share options and as such are valued in accordance with Note 21 using the Black-Scholes pricing model. As at 30 June 2016, 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.

On 30 June 2016 the redeemable share issued to Sam Knowles were redeemed by SLI due to expiry of the limited recourse loan. The loan was not repaid.

The Company's board of directors agreed to extend the repayment date of the loan to 31 December 2016 in relation to the redeemable shares issued to Greg Cross and Sarah Smith.

The unlisted redeemable shares as at 30 June 2016 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
Andrew Lark	20 Dec 2013	107,527	200,000
Sam Knowles (redeemed 30 Jun 16)	31 May 2013	-	-
		374,193	**600,000**

14. Trade and other payables

	2016	2015
	$'000	$'000
Trade payables	138	427
Revenue in advance	4,963	4,883
Other payables and accrued expenses	1,934	1,533
	7,035	**6,843**

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

	2016	2015
	$'000	$'000
US dollars	5,749	5,637
Great British pounds	1,576	1,805
Australian dollars	686	953
Japanese yen	38	30

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

	2016	2015
	$'000	$'000
Liability for annual and long service leave	965	1,099
Other employee payables	836	1,675
	1,801	**2,774**

Non-current employee benefits

	2016	2015
	$'000	$'000
Liability for long service leave	29	17
	29	**17**

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:

	2016	2015
	$'000	$'000
Less than one year	1,471	1,432
Between one and five years	489	1,866
More than five years	-	-
	1,960	**3,298**

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.

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

17. Capital commitments

There are no material contractual obligations to purchase plant and equipment at 30 June 2016 (30 June 2015 nil).

18. Contingencies

There are no contingencies at 30 June 2016 (30 June 2015 nil).

19. Subsidiaries

Name	Country of Incorporation	Ownership	Ownership
		2016	2015
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, SARs, preference shares and associated loans are disclosed in Notes 13, 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 $312,000 (2015 $239,000).

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, his direct reports and Directors.

The following table summarises remuneration paid to key management personnel.

	2016	2015
	$'000	$'000
Directors' fees and other remuneration	252	260
Employee entitlements	2,925	2,728
Share options (under Employee Share Options Scheme) and share appreciation rights	702	133

21. 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 functional and presentation currency of the financial statements is in New Zealand dollars (NZ$). However, a majority of the options have an exercise price denominated in US dollars (US$) so the tables below are presented in US$ where appropriate.

Current Year

Reconciliation of outstanding options	No. of options	Weighted average exercise price US$
	2016	2016
Balance at 1 July 2015	7,191,927	0.64
Expired 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

Prior Year

Reconciliation of outstanding options	No. of options	Weighted average exercise price US$
	2015	2015
Balance at 1 July 2014	6,786,960	0.71
Expired during the year	(519,837)	1.00
Exercised during the year	(664,096)	0.37
Issued during the year	1,588,900	0.91
Balance at 30 June 2015	**7,191,927**	**0.65**
Exercisable at 30 June 2015	4,788,959	0.53

The weighted average exercise price of the total options at the end of the year is US $0.61 cents which equates to NZ $0.86 cents at year end exchange rates.

The tables above includes the unlisted redeemable shares as detailed in note 13 (b).

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 2016 (years)
340,000	US $0.29 - $0.33	0.9
1,834,348	US $0.3333	3.8
220,875	US $0.68	6.0
401,138	US $0.75	6.2
129,600	US $0.78	6.7
127,000	NZ $0.75 - $0.80	9.0
200,000	NZ $0.81 - $1.00	9.2
221,950	NZ $1.01 - $1.20	8.5
92,625	NZ $1.21 - $1.40	8.2
368,664	NZ $1.41 - $1.60	7.0
218,680	NZ $1.61 - $1.80	7.9
288,077	NZ $1.81 - $2.00	7.3
76,187	NZ $2.01 - $2.20	7.4
27,600	NZ $2.21 - $2.40	7.8
55,200	NZ $2.41 - $2.60	7.7

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	2016	2015
Share price at grant date (weighted average US$)	0.41	0.41
Exercise price (weighted average US$)	0.43	0.42
Expected volatility (weighted average)	20%-30%	20% to 30%
Expected life (weighted average)	4	4
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	2016	2015
Share price at grant date (weighted average NZ$)	1.50	1.44
Exercise price (weighted average NZ$)	1.49	1.43
Expected volatility (weighted average)	30%	30%
Expected life (weighted average)	4	4
Risk-free interest rate (weighted average)	3.5%	3.6%
Fair value at grant date (weighted average NZ$)	0.46	0.43

Directors

The following directors hold the following number of options as at balance date:

	Exercise price	
Shaun Ryan	US $0.33	49,260
Shaun Ryan (issued in the current year)	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.

22. Share Appreciation Rights

Historically the company has operated a share option scheme for its employees in line with the terms set out in note 21 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 Year

Reconciliation of outstanding SARs	Number of SARs	Weighted average exercise price NZ$
	2016	2016
Balance at 1 July 2015	-	-
Expired during the period	-	-
Exercised during the period	-	-
Issued during the period	4,583,757	0.85
Balance at 30 June 2016	**4,583,757**	**0.85**
Exercisable at 30 June 2016	-	-

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 30 Jun 16 (years)
439,785	NZ $0.74	2.02
1,017,011	NZ $0.77	1.83
2,452,332*	NZ $0.83	1.75
674,629	NZ $1.09	2.31

**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.

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
	2016	2016
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)	$0.18	$0.20

The SARs weighted average share price at grant date and exercise price is NZ$ 85 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 30 June 2016:

	Exercise price	
Christopher Brennan (issued in the current year)	NZ $0.83	2,452,332

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. 'Trade and other payables' are recognised at fair value and subsequently at cost. 'Employee benefits' are recognised at the amounts expected to be paid when the liabilities are settled.

Accounting Policy:
Financial assets

Loans and receivables are classified as financial assets. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its assets at initial recognition and re-evaluates this designation at every reporting date.

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.

Loans and receivables are subsequently carried at cost.

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 Company or 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 $29,000 at 30 June 2016 for long service leave that will be settled after more than 12 months (30 June 2015: $17,000).

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 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 2016 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;

	2016	2015
	$'000	$'000
Appreciation of NZ$ against foreign currency (10%)		
(Decrease) in profit before tax	(15)	(73)
(Decrease) in equity after tax	(155)	(161)
Depreciation of NZ$ against foreign currency (10%)		
Increase in profit before tax	15	73
Increase in equity after tax	155	161

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, there are no dilutive potential ordinary shares and therefore basic and diluted earnings per share are the same.

	2016	2015
Net (loss) after tax	($239,000)	($7,360,000)
Ordinary shares on issue	62,260,816	61,162,116
Weighted average number of shares on issue	61,652,459	60,894,496
Basic and diluted (loss) per share	**(0.004)**	**(0.121)**

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

	2016 $'000	2015 $'000
Net (loss) after tax	(239)	(7,360)
Adjustments		
Depreciation	392	458
Amortisation	57	56
(Loss) / gain on currency translation movement	(300)	224
Share option expense	888	526
Changes in working capital items		
Decrease / (Increase) in trade receivables and prepayments	835	(217)
(Decrease) / Increase in trade payables and accruals	(864)	823
Decrease in GST	15	34
Decrease / (Increase) in tax	24	(182)
Net cash inflow / (outflow) from operating activities	**808**	**(5,638)**

26. Remuneration of auditors

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

	2016 $'000	2015 $'000
Audit of financial statements		
Audit and review of financial statements (1)	98	71
Other services		
Tax services (2)	12	21
Other services (3)	18	49
Total remuneration paid to auditors	**128**	**141**

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 2016 include professional services rendered in relation to grant income and review of share appreciation right contracts and model.

27. Subsequent events

There have been no material subsequent events after 30 June 2016.

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Financial Calendar

Annual Meeting

4 November 2016

Financial Year End

30 June

SLI SYSTEMS
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