

SLI Systems Limited
and its Subsidiaries
Interim Report

For the six months ended 31 December 2016

SLI Systems Limited and its Subsidiaries

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SLI Systems Limited and its Subsidiaries
Consolidated Statement of Comprehensive Income
For the six months ended 31 December 2016

Note	Unaudited 6 months ended 31 Dec 2016 \$'000	Unaudited 6 months ended 31 Dec 2015 \$'000	Audited 12 months ended 30 Jun 2016 \$'000
Operating revenue	15,482	17,367	35,006
Government grants received and receivable	248	57	646
Total revenue and other income	15,730	17,424	35,652
Operating expenses	(6,714)	(7,062)	(14,803)
Employee entitlements	(10,291)	(10,826)	(21,050)
Operating (loss) before finance income	(1,275)	(464)	(201)
Finance income	25	18	39
Net finance income	25	18	39
(Loss) before tax	(1,250)	(446)	(162)
Income tax (expense)	(33)	(56)	(77)
(Loss) for the period	(1,283)	(502)	(239)
Other comprehensive income recycled through profit and loss			
Currency translation movement	(102)	(185)	(314)
Total comprehensive (loss) for the period attributable to the shareholders of the company	(1,385)	(687)	(553)
	Unaudited 31 Dec 2016	Unaudited 31 Dec 2015	Audited 30 Jun 2016
(Loss) per share			
Basic and diluted (loss) per share	(\$0.021)	(\$0.008)	(\$0.004)

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

SLI Systems Limited and its Subsidiaries
Consolidated Statement of Changes in Equity
For the six months ended 31 December 2016

Unaudited	Share Capital \$'000	Share Option Reserve \$'000	Translation Reserve \$'000	Accumulated Losses \$'000	Total Equity \$'000
Opening balance at 1 July 2016	18,771	1,848	(37)	(14,797)	5,785
(Loss) for the period	-	-	-	(1,283)	(1,283)
Currency translation movement	-	-	(102)	-	(102)
Total comprehensive income for the period	-	-	(102)	(1,283)	(1,385)
Transactions with owners					
Share options					
- Share options exercised during period	-	-	-	-	-
- Share option expense for the period	-	484	-	-	484
- Share options expired for the period	-	(368)	-	368	-
Balance at 31 December 2016	18,771	1,964	(139)	(15,712)	4,884

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

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

SLI Systems Limited and its Subsidiaries
Consolidated Balance Sheet
As at 31 December 2016

	Note	Unaudited 31 Dec 2016 \$'000	Unaudited 31 Dec 2015 \$'000	Audited 30 Jun 2016 \$'000
ASSETS				
Current assets				
Cash and cash equivalents		6,012	5,606	6,765
Trade and other receivables		5,795	6,843	5,876
Total current assets		11,807	12,449	12,641
Non-current assets				
Deferred tax assets		675	502	675
Property, plant and equipment		1,208	1,438	1,316
Intangible assets		182	77	65
Total non-current assets		2,065	2,017	2,056
Total assets		13,872	14,466	14,697
LIABILITIES				
Current liabilities				
Taxation payable		53	76	34
Trade and other payables		6,850	7,670	7,035
Employee benefits		2,051	2,063	1,801
Total current liabilities		8,954	9,809	8,870
Non-current liabilities				
Employee benefits		21	20	29
Deferred tax liabilities		13	12	13
Total non-current liabilities		34	32	42
Total liabilities		8,988	9,841	8,912
Net assets		4,884	4,625	5,785
EQUITY				
Share capital	4	18,771	18,402	18,771
Reserves		1,825	1,690	1,811
Accumulated losses		(15,712)	(15,467)	(14,797)
Total equity		4,884	4,625	5,785
		Unaudited 31 Dec 2016	Unaudited 31 Dec 2015	Audited 30 Jun 2016
Net tangible asset backing per ordinary security		\$0.08	\$0.07	\$0.09

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

SLI Systems Limited and its Subsidiaries
Consolidated Statement of Cash Flows
For the six months ended 31 December 2016

	Note	Unaudited 6 months ended 31 Dec 2016 \$'000	Unaudited 6 months ended 31 Dec 2015 \$'000	Audited 12 months ended 30 Jun 2016 \$'000
Cash flows from operating activities				
Cash provided from:				
Receipts from customers		15,499	18,109	36,148
Interest received		23	14	111
Net GST received/(paid)		71	(19)	(23)
Government grants		325	100	558
Cash was applied to:				
Payments made to suppliers and employees		(16,473)	(18,354)	(35,936)
Income tax (paid)		(14)	(4)	(50)
Net cash (outflow)/inflow from operating activities	3	(569)	(154)	808
Cash flows from investing activities				
Cash was provided (applied)/from to:				
Purchase of property, plant and equipment		(47)	(56)	(140)
Sale of property, plant and equipment		2	1	-
Purchase of intangibles		(139)	(5)	(23)
Net cash (outflow) from investing activities		(184)	(60)	(163)
Cash flows from financing activities				
Cash was provided from:				
Cash received from share options exercised		-	238	538
Net cash inflow from financing activities		-	238	538
Net (decrease)/increase in cash and cash equivalents		(753)	24	1,183
Cash and cash equivalents at the beginning of the period		6,765	5,582	5,582
Cash and cash equivalents at the end of the period		6,012	5,606	6,765

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

1 General information

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

The consolidated financial statements for the Group for the period ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 22 February 2017.

2 Basis of preparation

These general purpose financial statements for the six months ended 31 December 2016 have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with NZ IAS 34 Interim Financial Reporting and consequently do not include all the information required for full financial statements. These condensed Group interim financial statements should be read in conjunction with the audited financial statements of SLI Systems Limited and its Subsidiaries for the year ended 30 June 2016, which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

The interim financial statements of the Group have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Financial Markets Conduct Act 2013 and the New Zealand Stock Exchange (NZX).

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

The Company and Group are designed as a for-profit entity for financial reporting purposes.

All significant accounting policies have been applied on a basis consistent with those used in the audited financial statements of SLI Systems Limited and its Subsidiaries for the year ended 30 June 2016.

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

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

	Unaudited 6 months ended 31 Dec 2016 \$'000	Unaudited 6 months ended 31 Dec 2015 \$'000	Audited 12 months ended 30 Jun 2016 \$'000
Net (loss) after tax	(1,283)	(502)	(239)
Adjustments			
Depreciation	147	193	392
Amortisation	22	27	57
(Loss) on currency translation movement	(96)	(179)	(300)
Share options expense	484	348	888
Changes in working capital items			
(Increase)/decrease in trade receivables and prepayments	(56)	494	835
Increase/(decrease) in trade payables and accruals	208	(583)	(864)
(Increase)/decrease in GST	(14)	(4)	15
Decrease/(increase) in tax	19	52	24
Net cash (outflow) from operating activities	(569)	(154)	808

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

4. Contributed equity

(a) Ordinary share capital

Current period

	Number of Ordinary Shares	\$'000
Balance at 1 July 2016 (audited)	62,260,816	18,771
Share options exercised	-	-
Balance at 31 December 2016 (unaudited)	62,260,816	18,771

Prior period

	Number of Ordinary Shares	\$'000
Balance at 1 July 2015 (audited)	61,162,116	18,125
Share options exercised	467,196	277
Balance at 31 December 2015 (unaudited)	61,629,312	18,402

All shares are issued and fully paid (no par value).

(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 were interest free, had recourse only against the redeemable shares and were repayable in full on the third anniversary of the issue date, or some other date under certain conditions. The substance of these transactions was similar in nature to the issuing of share options and as such were valued in accordance with Note 5 using the Black-Scholes pricing model. The redeemable shares vested immediately.

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

SLI has no redeemable shares on issue as at 31 December 2016.

5. Share options

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

Unless otherwise determined by the Board of Directors options shall be exercisable to the extent of 1/4 of the options as of the one year anniversary after the grant date, then an additional 1/36th of the remaining balance 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 significant portion of the options have an exercise price denominated in US dollars (US\$) so the tables below are presented in US\$ where appropriate.

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Notes to the Financial Statements

Current period <i>Reconciliation of outstanding options</i>	Number of Options 2016	Weighted Average Exercise Price US\$ 2016
Balance at 1 July 2016	4,601,944	0.66
Expired during the period	(629,287)	0.99
Exercised during the period	-	-
Issued during the period	105,000	0.48
Options issued from exercising or expiry of SARs	867,336	0.54
Balance at 31 December 2016	4,944,993	0.59

Exercisable at 31 December 2016	4,381,455	0.56
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Prior period <i>Reconciliation of outstanding options</i>	Number of Options 2015	Weighted Average Exercise Price US\$ 2015
Balance at 1 July 2015	7,191,927	0.63
Expired during the period	(1,113,913)	0.82
Exercised during the period	(467,196)	0.33
Issued during the period	380,000	0.57
Balance at 31 December 2015	5,990,818	0.63

Exercisable at 31 December 2015	4,596,070	0.57
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The weighted average exercise price of the total options at the end of the period is US\$ 56 cents which equates to NZ\$ 80 cents at 31 December 2016 exchange rate.

The tables above include the expiry of unlisted redeemable shares as detailed in note 4.

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

Number of Options	Exercise Price per Share	Weighted Average Contractual Life remaining at 31 Dec 2016 (years)
340,000	US \$0.29 - \$0.33	2.0
1,785,889	US \$0.3333	3.3
220,875	US \$0.68	5.4
401,138	US \$0.75	5.7
129,600	US \$0.78	6.2
474,253	NZ \$0.71 - \$0.80	9.0
813,083	NZ \$0.81 - \$1.00	8.7
158,700	NZ \$1.01 - \$1.20	8.0
67,900	NZ \$1.21 - \$1.40	7.7
88,200	NZ \$1.41 - \$1.60	6.9
186,767	NZ \$1.61 - \$1.80	7.4
140,587	NZ \$1.81 - \$2.00	6.6
55,200	NZ \$2.01 - \$2.20	6.8
27,600	NZ \$2.21 - \$2.40	7.3
55,200	NZ \$2.41 - \$2.60	7.2

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

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	Dec 2016	Dec 2015	Jun 2016
Share price at grant date (weighted average US\$)	0.41	0.41	0.41
Exercise price (weighted average US\$)	0.43	0.42	0.43
Expected volatility (weighted average)	20% to 30%	20% to 30%	20% to 30%
Expected life (weighted average)	4	4	4
Risk-free interest rate (weighted average)	3.0%	3.0%	3.0%
Fair value at grant date (weighted average US\$)	0.08	0.09	0.08

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

NZ\$ options	Dec 2016	Dec 2015	Jun 2016
Share price at grant date (weighted average NZ\$)	1.00	1.41	1.50
Exercise price (weighted average NZ\$)	1.14	1.40	1.49
Expected volatility (weighted average)	30% to 40%	30%	30%
Expected life (weighted average)	4	4	4
Risk-free interest rate (weighted average)	3.2%	3.5%	3.5%
Fair value at grant date (weighted average NZ\$)	0.34	0.43	0.46

Directors

The following directors hold the following number of options as at 31 December 2016:

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

6. Share Appreciation Rights

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

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.

The share based payment expense includes both the SARs and additional options and are required to be recognised from the grant date of the SARs. Based on this choice of settlement and SLI's ability and the likelihood to settle in shares, the SARs and options are considered to be equity-settled share based payments.

Current Period Reconciliation of outstanding SARs	Number of SARs 2016	Weighted Average Exercise Price NZ\$ 2016
Balance at 1 July 2016	4,583,757	0.85
Expired during the period	(867,336)	0.81
Exercised during the period	-	-
Issued during the period	-	-
Balance at 31 December 2016	3,716,421	0.85
Exercisable at 31 December 2016	-	-

Prior Period Reconciliation of outstanding SARs	Number of SARs 2015	Weighted Average Exercise Price NZ\$ 2015
Balance at 1 July 2015	-	-
Expired during the period	-	-
Exercised during the period	-	-
Issued during the period	3,469,343	0.81
Balance at 31 December 2015	3,469,343	0.81
Exercisable at 31 December 2015	-	-

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

Number of SARs	Exercise Price per Share	Weighted Average Contractual Life remaining at 31 Dec 2016 (years)
439,785	NZ \$0.74	1.51
762,758	NZ \$0.77	1.82
1,839,249	NZ \$0.83	1.74
674,629	NZ \$1.09	1.80

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

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	Dec 2016	Dec 2015	Jun 2016
Expected volatility (weighted average)	30%	30%	30%
Expected life (weighted average)	2.5 years	2.5 years	2.5 years
Risk-free interest rate (weighted average)	2.7%	2.7%	2.7%
Fair value at grant date (weighted average NZ\$)	0.19	0.17	0.18
NZ\$ Additional options	Dec 2016	Dec 2015	Jun 2016
Expected volatility (weighted average)	30%	30%	30%
Expected life (weighted average)	4 years	4 years	4 years
Risk-free interest rate (weighted average)	2.7%	2.7%	2.7%
Fair value at grant date (weighted average NZ\$)	0.20	0.19	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 31 December 2016:

	Exercise price	
Christopher Brennan	NZ \$0.83	1,839,249

7. 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, redeemable shares and associated loans are disclosed in Notes 4, 5 and 6.

Marder Media Group, Inc. (of which Steven Marder is a director) is a shareholder of Delivery Agent, which is a customer of S.L.I. Systems, Inc. Revenue recognised in the period \$124,000 (31 December 2015: \$158,000).

8. Segmental information

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

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

9. Subsequent events

There have been no material subsequent events after 31 December 2016.