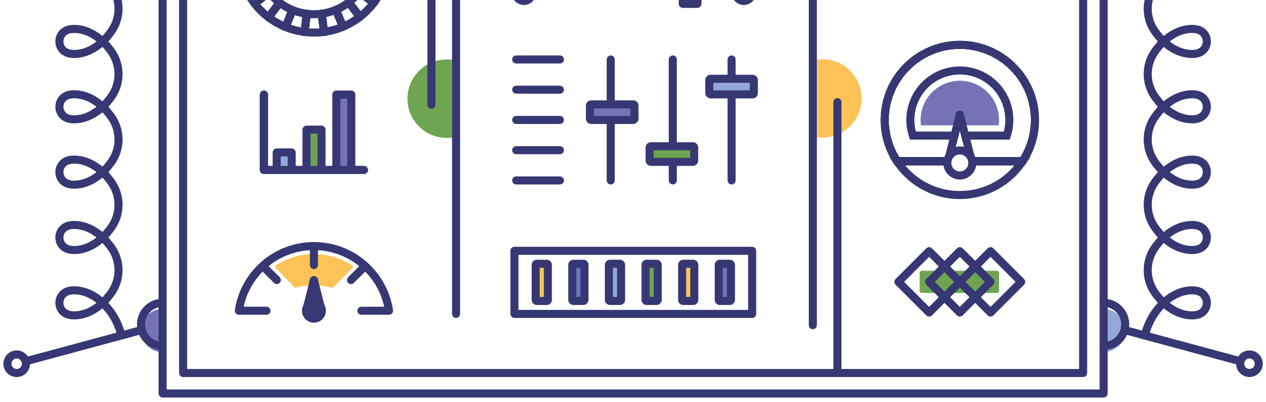
SLI SYSTEMS
THE E-COMMERCE ACCELERATOR

Annual Report 2017



Contents

Summary

ARR[1] of
$31.1m
up 3% constant currency

Net revenue retention[2]
93%

Gross margin
74%

New
self-service delivery strategy announced

Net loss before tax of
$1.6m

Cash of
$5.6m

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.*

   On a reported basis there was a reduction in ARR over the past 12 months of 0.3% which is different from the above measure because of unfavourable exchange movement.

2. *Net Revenue Retention rate is the value in percentage terms of the customers that we had 12 months ago. This is the "macro" metric that most companies track and public SaaS companies report :http://www.saas-capital.com/blog/essential-saas-metrics-revenue-retention-fundamentals. Our previous measure of customer retention was at 86% at FY17 up from 84% in FY16. The key difference between the two methods is that the Net Revenue Retention includes same-customer growth during the period.*

Chairman's / Chief Executive's Report

Dear Shareholders

Overall performance for the year was less than we worked for in some ways, but more than we hoped in others. While restoring SLI to double digit growth remains a challenge, annualised recurring revenue (ARR) grew 3% in the past 12 months and customer losses decreased. We powered 15 billion queries in FY 17 – driving billions of dollars in revenue for our customers.

We believe that competing efficiently will require significant product reinvention and innovation and we are reprioritising our spend from go-to-market to product development. Over the last year our product and development teams made significant architectural enhancements in our Artificial Intelligence (AI) which enables our advanced learning and analytics that distinguishes our services. This critical investment has delivered a next generation open platform that will fuel a new disruptive strategy expected to launch in FY 18. We are pleased that we were able to grow and increase our ARR while reinventing our core product.

An in-depth and detailed analysis of our business provided clear insight to better understand our performance and to determine what was necessary to restore profitable growth at above market rates. Our plan will be funded by ongoing operations and our current cash balance requiring no additional capital. We believe the new strategy will return SLI to profitable growth.

We posted customer wins in each of our regions with many highly recognisable brands. This underscores the value of our technology and the differentiation in our AI-powered platform. Our United Kingdom and Australasian operations have led our growth in value while Japan continues to enjoy a much higher rate of growth which we believe is sustainable for several years to come.

Our America's business faced headwinds as a segment of prospects and customers were willing to sacrifice performance and results for lower pricing. As a result, we were challenged to maintain fair pricing for value, especially in the mid-market. Price pressure and the evolution of technology has proven the correctness of our strategy to move from a bundled managed services and SaaS offering to a pure, self-service SaaS offering with services sold separately.

In this letter, we will discuss our operations, but most importantly, we will describe a new strategy and business model, enabled by significant new innovations delivered in FY 17. This will provide our customers with much greater control in the use of our products without the need for services only available through SLI. Our refreshed product architecture will also create more opportunities to partner with the leaders in e-commerce platforms, integrators, resellers, and developer communities.

We believe this new strategic path will position SLI more favourably with larger e-commerce technology companies where our product and technology complements and strengthens their offerings. As part of the plan, we will aggressively pursue more strategic partnerships to leverage our assets and develop much closer relationships with those partners. Our success here will naturally enhance the value of SLI and ultimately benefit our shareholders.

The E-commerce Market Update

The e-commerce market is estimated to be $2.4 trillion dollars in 2017, growing to $4.1 trillion in 2020. Additionally, e-commerce represents 10% of the total commerce market and will rise to 14% by 2020. Approximately 12% of all websites are e-commerce websites, with the top 10,000 websites generating 34% of all e-commerce revenue and sites 10,000 – 60,000 generating 63% of all e-commerce revenue.

In 2019, larger US firms will spend $2.1 billion on e-commerce platform software, up from $1.2 billion in 2014, a 12% compound annual growth rate. Those firms typically spend five times more on related implementation and maintenance services, and that spending also will nearly double from $5.1 billion in 2014 to $9.8 billion in 2019, according to the report, "US Commerce Platform Technology and Services Forecast," from Forrester. This report focuses only on larger US companies, those with total revenue of at least $250 million or online sales of at least $50 million. E-commerce software sales to smaller companies worldwide totals $240 million annually, Forrester estimates.

Within this large market we power the acceleration of e-commerce site performance through our AI platform, processing 15 billion queries in FY 17. SLI's solutions have proven to out-perform non-AI systems and deliver incremental sales and profit by driving increased website traffic through our user-generated search engine optimisation offering and increasing conversion of site visitors to buyers, delivering average order value increases through relevant recommendations, that creates exceptional value to our e-tailers. We strongly believe that the dynamics of this market will demand this type of performance for years to come.

The Year in Review

SLI ended the year with $31.1m in ARR up 3% in constant currency from the prior year. Operating revenue for the year ended at $31.5m and was impacted predominantly by unfavourable exchange movement compared to $35.0m in the prior year. Gross margin remains strong at 74%, slightly down from 77% in the prior year, due primarily to some increase in headcount costs in our costs to serve. We experienced a net loss before tax of $1.6m, which includes a non-cash expense of $760k relating to the accounting treatment of staff incentive schemes and one-off restructuring charges of $280k incurred late in the year relating to staff changes primarily in the US executive team. Our cash balance remains strong at $5.6m despite the cash outflow in the year of $1.1m. With the actions taken throughout FY 17, including the restructuring, the directors remain confident that we do not have to raise additional capital.

We achieved 3% growth in ARR over the prior year on a constant currency basis. We closed 70 new accounts earning $2,495k in new ARR. We achieved sales into the existing customers of $3,004k. The combined total of new account ARR and upsell ARR represented 18.3% growth from our beginning ARR balance. The average contract value of new accounts was $35.6k.

The net increase in ARR for our search engine optimisation product, SLI Site Champion®, was $794k. This product remains a key differentiator and provides fantastic value for our customers. We improved the Site Champion® functionality by introducing its own Administrative Console and enhanced manual controls.

Our total lost customers for the year was 136 which reduced our ARR by $4,378k. Average contract value lost was $32.2k compared to our average contract value across all customers of $61k. We introduced a new metric to monitor our customer retention called Net Revenue Retention. It is the percentage value of the customers that we had 12 months ago, including lost customers, increases and decreases. This methodology is more commonly used than our previous measure for measuring retention of SaaS companies. We achieved a Net Revenue Retention rate of 93% increasing from the 86% we achieved in the previous year.

We continue to experience, on average, losing lesser value contract customers as we win larger value contract customers. Based on our historical experience these new customers will grow on average by over 60% in their first four years as an SLI customer through volume increases and additional product purchases.

Our ARR grew by $907k, to our ending ARR balance of $31.1m, and an overall net increase of 3.0%.

Regional Commentary

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New customer ARR growth as a percentage of the beginning ARR balance in total was 8%. Japan led performance at 224%, followed by UKI at 13%, ANZ at 7%, North America at 6% and LATAM at 3%. Overall the only region with a larger increase in new customers in FY 17 compared to FY 16 was Japan.

Upsells into existing accounts as a percentage of the beginning balance in total was 10%. Japan led performance at 66%, followed by ANZ at 18%, UKI at 10%, NAM at 8% and LATAM at 1%. The regions with growth exceeding the prior year growth were ANZ and Japan.

Customer Retention

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Our top 3 reasons for customer loss compared to the prior year in order of value is competition, replatforming and economics. Our customer loss to competitors is primarily due to lower priced solutions.

"We powered over 15 billion queries in FY 17 – driving billions of dollars in revenue for our customers."

Products

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We are very excited about the productivity and innovation coming from our product and development teams. During the past year, we recognised that preparing our architecture for our new strategy was crucial. As reported earlier, we invested by increasing our staffing to accelerate the key deliverables that has made us ready to launch our new products. Of the utmost importance was moving from our prior architecture to a public cloud that enables our open technology platform. This started with our new scalable platform for analytics and learning while advancing our already superior machine learning capabilities as well as leveraging the technology which is publicly available that allows our engineering efforts to focus on our core competencies and differentiation.

Recognising the criticality of merchandising functionality, we invested to improve our functionality in smarter facet based learning. We also made improvements in Rich Auto Complete™, keyword suggestions, additional language support and multi-site management for customers with several sites.

As already mentioned, we invested to significantly enhance our Site Champion product to deliver an independent Administrator Console and provide manual control over page approval.

We delivered a key requirement for enterprise and large enterprise markets to address SSL certificate management, along with speed and redundancy improvements which are critical to our customers.

To speed implementation and reduce post-sale customer support we expended significant effort in standardising the implementation of our services to maximise code reuse and avoid custom code.

Strategy

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We are excited to announce our new self-service strategy. Our next strategic move is innovative, bold, disruptive and driven by our highly extensible technology. This move will expand our addressable market considerably, enables us to meet the needs of an evolving market place, and allows us to compete far more aggressively. It enables a community of partnerships that will give us greater market reach, closer relationships with much larger e-commerce technology companies, better access to customers as well as building greater barriers against our competitors.

We are changing our pricing model. Rather than bundling software, services and post-sales support fees, we can now break them apart giving customers greater choice and enabling third-parties to build offerings. We envision attracting a community of various service providers, users and developers to leverage the power of our technology and products, combined with their unique services, in ways never possible before.

Most of these new services will be delivered by the end of this financial year. As we complete the development and delivery of the new services, and afterwards, we will support our current and prospective customers offering them the widest choice of alternative methods of deployment. We expect this will more effectively meet the needs of an evolving market and position SLI favourably to take advantage of new growth cycles.

In Summary

FY 17 was difficult but delivered reasonable results with growth. Conversely, with focus and hard work, we have prepared the company for the future. This restores our ability to meet the evolving needs of the market, expands our addressable market, enables SLI to partner, compete and win more effectively, and positions the company for growth and profitability. Successful execution in the next year as we prepare to deliver and operate in the new business model is crucial. Critical milestones will be tracked carefully with an eye toward continuous validation, achievement and avoiding the need for an additional capital raise.

We are excited for SLI and its future and are constantly seeking every opportunity to maximise value to our shareholders. The market we address remains strong and will continue to grow significantly for years to come. Our technology remains vital to e-commerce success. With the new business model, we can break through with self-service and a lower cost delivery strategy that can be the backbone of long-term success for our business and our shareholders.

Greg Cross
Chairman

Chris Brennan
Chief Executive Officer

The E-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 fiscal year include:

Infrastructure Improvements
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SLI customers worldwide now benefit from improved redundancy and delivery speed for all our solutions, particularly for mobile. On some client sites, we noticed improvements of up to 50% in page generation times.

Merchandising Console Improvements
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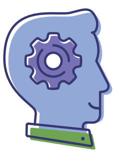
An important part of our service is the insights and controls available through our merchandising console. In response to customer requests we have continued to add additional metrics.

We have added detailed reporting and controls for our search engine optimisation product, Site Champion, making this product more attractive to a broader range of customers and prospects.



SLI Enhanced Search Personalisation™ (ESP)
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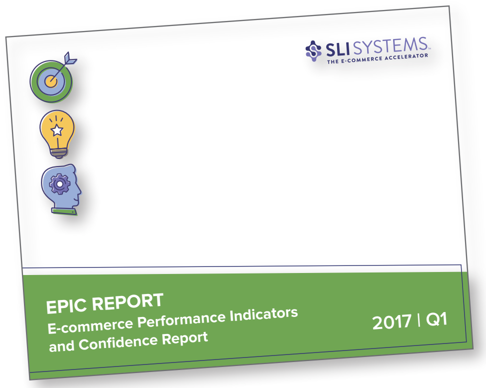
SLI ESP™ personalises the shopping experience for both first-time visitors and loyal customers, continuously learning, predicting and presenting in real time the products customers are most likely to buy. This further increases conversion rate and revenue per visitor. Footwear etc. saw a 10% increase in revenue per visitor when they introduced SLI ESP.

Providing Meaningful Insight



The EPIC Survey and Report
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The debut E-commerce Performance Indicators and Confidence (EPIC) Report was released in April. It included findings and analyses from an in-depth survey of more than 200 retail professionals worldwide and a look at consumer behaviour trends based on more than 1.5 billion site search queries.

Report highlights:

- **Widespread Confidence** – When asked about six areas of planned expansion in Q1, from product expansion to hiring, 94% of respondents selected at least one area of growth.
- **Q1 Revenues & Profits** – 80% of respondents expected an increase in online revenues and profits, and 46% expected an increase in their in-store revenues and profits.
- **Top Q1 Initiative** – Customer Experience (26%), Inventory, Logistics and Fulfillment (14%), Mobile Site (12%) and a three-way tie for fourth place (11% each): Personalisation, Advertising or Paid Search, and Replatforming.
- **Mobile** – 73% expected an increase in mobile transactions. Among those who cited mobile as their top initiative for the quarter, the group selected “Mobile Site” six times more than “Mobile App.”
- **Amazon** – 32% of US respondents, 38% of those in the UK, and 47% in Australia report Amazon was more of a competitive threat compared to the same quarter last year.

SLI Systems – with a reputation of being a clear industry leader, was mentioned in the industry press 20 times in the year.

Board of Directors

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
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Greg is Chief Business Officer of Soul Machines and 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 currently the Sir John Logan Campbell Executive in Residence at the University of Auckland Business School.

Previous roles include Executive Chairman of PowerbyProxi, 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 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)
Vice President of Corporate
Development and Co-Founder
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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.

Sarah Smith BCom, CFInstD
Independent Director

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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 plus 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.

Matthew Houtman MMS
Non-Executive Director

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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 and WhereScape. Matthew has a Master of Management Studies with distinction from the University of Waikato.

Andy Lark
Independent Director

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Andy is an internationally renowned marketer and entrepreneur with 30-plus years of experience as a chief executive, marketing and digital officer. He has run multi-billion dollar e-commerce businesses, launched applications used by millions, and won accolades for his brand and business building. He has held senior executive roles at Xero, Commonwealth Bank of Australia, Dell, LogLogic, Sun Microsystems and Nortel Networks, and is a former Senior Vice President and Partner at Fleishman-Hillard. Today he chairs Group Lark, accelerating digital and marketing strategies for leading brands. He is a Non Executive Director of Mighty River Power. Andy has received accolades for his contributions to New Zealand businesses including the Government's prestigious Worldclass New Zealander Award.

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.

Statement of 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 to oversee 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 SLI’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 five times during the period of 1 July 2016 to 30 June 2017. During this period, the Audit and Risk Management Committee met four times and the Nominations and Remuneration Committee met once.

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 2017, 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 2017 the Board consisted of:

- Greg Cross, Independent Chairman
- Chris Brennan, Managing Director
- Steven Marder, Non-Executive Director
- Matthew Houtman, Non-Executive Director
- Shaun Ryan, Executive Director
- Sarah Smith, Independent Director
- Andy Lark, Independent Director

Profiles of current board members are shown on pages 8 to 10.

As at 30 June 2017, six of the Company's directors were male and one was female (unchanged from June 2016), and all of the Company's seven key management personnel were male (30 June 2016 – nine male, one female). The key management personnel as of 30 June 2017, were the CEO, the Chief Financial Officer, the Vice President of Corporate Development, the Chief Technology Officer and Global Head of Customer Success, the Chief Information Officer, the Chief Product Officer and the Chief Marketing Officer.

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 procedures 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 long term incentive schemes as required. The committee has adopted a written charter.

Directors’ Remuneration

Directors' fees for the year ended 30 June 2017 were $60,000 per annum for the Chairman and $40,000 per annum for each non-executive director (including the Independent Directors). The actual aggregate amount of fees paid in the year ended 30 June 2017 was $221,000.

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.

Directors' 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.

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 2017.

Investor Name	Total Shares	%
Custodial Services Limited[1]	6,049,057	9.72
Premier Nominees Limited[2]	5,318,470	8.54
Marder Media Group Inc	3,031,290	4.87
Grant James Ryan & Shaun William Ryan[3]	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[4]	2,430,000	3.9
Robert Van Nobelen & Bws Trustee (2005) Limited[5]	2,007,612	3.22
Michael Arthur Grantham	1,946,012	3.13
Gareth Samuel Reuben Morgan & Gareth Huw Thomas Morgan & Charles Andrea Purcell[6]	1,795,843	2.88
Geoffrey Michael Brash	1,297,734	2.08
Custodial Services Limited	1,292,850	2.08
Steven Eliot Marder	1,268,032	2.04
Michael James Chisholm	1,095,002	1.76
Denise Jane Campbell	900,850	1.45
K One W One (No. 2) Limited	900,000	1.45
Forsyth Barr Custodians Limited	841,901	1.35
Jamie Glendinning Anstice	829,962	1.33
Shaun William Ryan	810,000	1.3
Warwick Desmond Croft & Elizabeth Prudence Croft	706,818	1.14

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1. *156,432 shares are held on behalf of Pioneer Capital Management Limited and 5,630,325 shares are held on behalf of Pioneer Capital Partners I LP and NZVIF (INF) Limited*
2. *Held by New Zealand Central Securities Depository Limited as custodian*
3. *As trustees of the Grant James Ryan Family Trust*
4. *As trustees of the Shaun W Ryan Family Trust*
5. *As trustees of the Rob Van Nobelen Family Trust*
6. *As trustees of the Jasmine Investment Trust No.2*

Spread of security holders as at 31 July 2017

Range of Number of Shares Held	Number of Holders	% of Shareholders	Issued Capital	% of Issued Capital
1-1,000	287	18.72	192,503	0.31
1,001-5,000	685	44.68	2,011,214	3.23
5,001-10,000	245	15.98	1,981,733	3.18
10,001-50,000	240	15.66	5,483,999	8.81
50,001-100,000	30	1.96	2,173,018	3.49
Greater than 100,000	46	3.00	50,418,349	80.98
Total	**1,533**	**100**	**62,260,816**	**100**

Substantial Product Holders

According to notices given under the Financial Markets Conduct Act 2013, the substantial product holders in ordinary shares (being the only class of listed voting securities) of the Company, as at 30 June 2017, 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]	5,871,764	9.93%
Steven Marder[4]	4,299,322	6.9%
Grant James Ryan[5]	3,918,711	6.29%

The total number of listed voting securities of the Company on issue at 30 June 2017 was 62,280,816 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 has advised that, on 26 June 2017, 283,473 shares were disposed of, meaning that the total interest for these entities is 5,800,090 shares as at 26 June 2017.*
   The legal holder of 5,786,757 of those shares is Custodian Services Limited. Pioneer Capital Partners I LP and NZVIF (INF) Limited remain the beneficial owner of 5,630,325 shares (the "PCP I/NZVIF Shares"). The remaining 156,432 shares are held for Pioneer Capital Management Limited (PCML).
   In addition, Pioneer Capital Management Limited has a relevant interest in the PCP I/NZVIF shares as it has the power to exercise voting rights attracting to, and the power to dispose of, the PCP I/NZVIF Shares.
   Matthew Houtman is also the legal and beneficial holder of 13,333 shares.
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 New Zealand Investments Limited has advised that, as at 30 August 2017, it holds a relevant interest in 6,261,635 shares. In addition, ANZ Bank New Zealand Limited has advised that, as at 30 August 2017, it has a relevant interest in 26,560 shares.
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.*
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.*

Statement of Directors' relevant interests

Directors held the following relevant interests in equity securities in the Company as at 30 June 2017:

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
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	5,786,757		5,800,090
Sarah Smith, Independent Director				
Quoted Shares		20,000		20,000

Directors also held the following relevant interests in securities that may convert to equity securities in the Company as at 30 June 2017:

- 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 613,083 unlisted exercisable options as legal and beneficial owner
- Chris Brennan held 1,839,249 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:

Steven Marder

Next Minute Limited.	Director	25 January 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 2017 are as follows:

	$	Nature of Remuneration
Greg Cross	60,000	Director Fees
Matthew Houtman	40,000	Director Fees
Steven Marder	40,000	Director Fees
Sarah Smith	40,000	Director Fees
Andy Lark	40,000	Director Fees
Chris Brennan	778,915	Salary and Entitlements
Shaun Ryan	307,406	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 2017 none of the Company's 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.

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.

Employee Remuneration

The list below shows the number of employees (excluding directors) of the SLI Group paid greater than $100,000 in the 12 months to 30 June 2017.

Salary Range NZ$	No. of employees
100,000-109,999	7
110,000-119,999	9
120,000-129,999	12
130,000-139,999	12
140,000-149,999	5
150,000-159,999	2
160,000-169,999	1
170,000-179,999	2
180,000-189,999	1
190,000-199,999	3
200,000-209,999	2
210,000-219,999	1
240,000-249,999	1
250,000-259,999	1
280,000-289,999	3
310,000-319,999	1
400,000-409,999	1
420,000-429,999	1
650,000-659,999	1

NZX waivers obtained during the period to 30 June 2017

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 2017.

Dividends

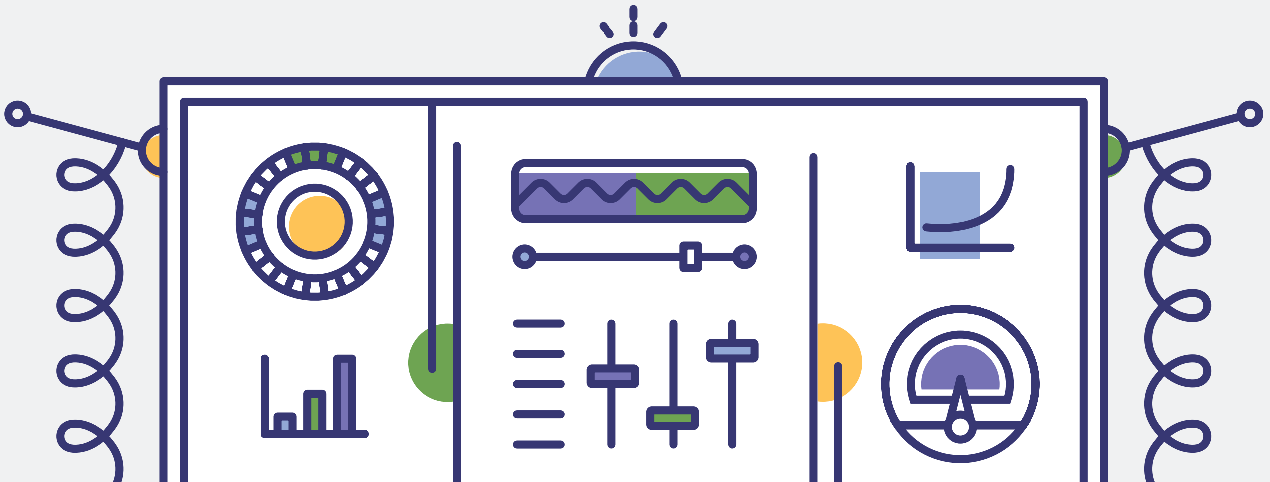
As part of the SLI Group's expansion and development plans, dividends are not currently paid, and will not be for the foreseeable future.

Subsidiary Company Directors

The following people held office as directors of subsidiary companies at 30 June 2017:

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

Financial Statements



Independent Auditor's Report

To the shareholders of SLI Systems Limited

The consolidated financial statements comprise:

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

Our opinion

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

Basis for opinion

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

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

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

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

Our audit approach

Overview

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

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

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

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

Materiality

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

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

PricewaterhouseCoopers
The PwC Centre, 60 Cashel Street, PO Box 13244, Christchurch 8013, New Zealand
T: +64 3 374 3000 , F: +64 3 374 3001, pwc.co.nz

Audit scope

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

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

Key audit matters

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

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

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

Information other than the financial statements and auditor's report

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
Christchurch
23 August 2017

Directors' Responsibility Statement

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

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

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

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

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

For and on behalf of the Board,

Greg Cross
Chairman of Board

Sarah Smith
Chair of Audit and Risk Management Committee

SLI Systems Limited and its Subsidiaries

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2017

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

		2017	2016
(Loss) per share			
Basic and diluted (loss) per share	24	(0.030)	(0.004)

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

SLI Systems Limited and its Subsidiaries

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2017

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

	Share Capital	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**	**(14,982)**	**4,912**
(Loss) for the year	-	-	-	(239)	(239)
Currency translation movement	-	-	(314)	-	(314)
Total comprehensive (loss) for the year	**-**	**-**	**(314)**	**(239)**	**(553)**
Transactions with owners					
Share options & share appreciation rights					
- exercised during year	646	(108)	-	-	538
- expense for the year	-	888	-	-	888
- expired / forfeited for the year	-	(424)	-	424	-
Balance at 30 June 2016	**18,771**	**1,848**	**(37)**	**(14,797)**	**5,785**

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

SLI Systems Limited and its Subsidiaries

Consolidated Balance Sheet

As at 30 June 2017

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

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

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

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2017

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

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

2. Summary of significant accounting policies

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

(a) Basis of preparation

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

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

Entities reporting

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

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

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

Historical cost convention

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

Critical accounting estimates and judgements

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

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

(b) Principles of consolidation

Subsidiaries

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

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

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

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

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Foreign operations

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

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

(d) Goods and Services Tax (GST)

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

(e) Segment reporting

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

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

(f) Changes in accounting policy and disclosures

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

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

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

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

(g) Accounting Policies disclosed in the Notes

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

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

3. Revenue and other income

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

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

Revenue by service type:

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

Accounting policy: Revenue recognition

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

(i) Provision of services

Subscription based contract revenue

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

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

Activity based revenue

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

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

(ii) Government grants

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

4. Operating expenses

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

5. Employee entitlements

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

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

6. Taxation

	2017	2016
	$'000	$'000
(a) Income tax expense can be reconciled to accounting (loss) as follows:		
Accounting (loss) before tax	(1,569)	(162)
Tax at the Group's effective income tax rate of 28%	(439)	(45)
Adjustments in respect of current income tax of previous years	(14)	(15)
Tax effect of non-deductible expenditure	283	273
Tax effect of deduction for share options exercised in UK	-	(26)
Unrecognised current year tax losses	394	-
Tax effect of foreign jurisdictions	15	11
Tax losses brought forward utilised	-	(201)
Adjustments in respect of deferred tax of previous years	45	-
Other	-	80
Aggregate income tax expense	**284**	**77**
Comprising		
Current tax		
- Current year tax	88	81
- Prior year adjustment	(14)	(15)
Deferred tax	210	11
Income tax expense	**284**	**77**

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

(c) Imputation credit balance

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

7. Deferred taxation

	2017	2016
	$'000	$'000
Deferred tax asset / (liability):		
Opening balance	662	676
Credited to income	(165)	68
Prior year adjustment	(45)	(79)
Other	(1)	(3)
Closing balance	**451**	**662**
Deferred income tax at 30 June relates to the following:		
Deferred tax assets:		
Employee entitlements and other temporary differences	232	281
Provisions	128	285
Doubtful debts	100	103
Other	8	6
Gross recognised deferred tax assets	**468**	**675**
Deferred tax liabilities:		
Property, plant and equipment	(17)	(13)
Gross recognised deferred tax liabilities	**(17)**	**(13)**
Net recognised deferred tax asset	**451**	**662**

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

Accounting policy: Income tax

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

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

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

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

8. Property, plant and equipment

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

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

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

Accounting policy: Property, plant and equipment

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

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

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

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

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

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

9. Intangible assets

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

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

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

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

All intangible assets have been purchased from third parties.

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

Accounting policy: Intangible assets

(i) Research costs are expensed as incurred.

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

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

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

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

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

The estimated useful lives are:

Trademarks / patents	5% - 10%
Software	48%

10. Cash and cash equivalents

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

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

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

Accounting policy: Cash and cash equivalents

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

11. Trade and other receivables

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

12. Trade receivables provisioning

(a) Impaired receivables

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

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

(b) Past due but not impaired

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

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

(c) Provision for impairment of receivables

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

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

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

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

Accounting policy: Trade receivables

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

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

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

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

13. Contributed equity

(a) Ordinary share capital

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

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

Accounting policy: Contributed capital
Ordinary shares are classified as equity.

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

(b) Redeemable shares

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

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

14. Trade and other payables

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

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

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

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

15. Employee benefits

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Current employee benefits

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

Non-current employee benefits

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

Accounting policy: Employee benefits

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

16. Operating lease commitment

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Non-cancellable operating lease rentals are payable as follows:

	2017	2016
	$'000	$'000
Less than one year	1,033	1,471
Between one and five years	1,172	489
More than five years	-	-
	2,205	**1,960**

Accounting policy: Leases

Operating leases

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

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

17. Capital commitments

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

18. Contingencies

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

19. Subsidiaries

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

20. Related parties

Parent and ultimate controlling party

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

Related party transactions and balances

Directors' holdings of options and SARs are disclosed in Notes 21 and 22.

Marder Media Group, Inc. (of which Steven Marder is a director) is a shareholder of Delivery Agent, which is a customer of S.L.I. Systems, Inc. Revenue recognised in the year $246,000 (2016 $312,000).

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

Key management personnel remuneration

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

The following table summarises remuneration paid to key management personnel:

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

21. Share options

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

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

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

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

Prior Year Reconciliation of outstanding options	Number of Options 2016	Weighted Average Exercise Price US$ 2016
Balance at 1 July 2015	7,191,927	0.64
Expired / forfeited during the year	(1,873,283)	0.81
Exercised during the year	(1,098,700)	0.33
Issued during the year	382,000	0.57
Balance at 30 June 2016	**4,601,944**	**0.66**
Exercisable at 30 June 2016	3,949,948	0.61

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

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

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

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

Measurement of fair value

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

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

US$ Options	2017	2016
Share price at grant date (weighted average US$)	0.41	0.41
Exercise price (weighted average US$)	0.43	0.43
Expected volatility (weighted average)	20% - 30%	20% - 30%
Expected life (weighted average)	4 years	4 years
Risk-free interest rate (weighted average)	3.0%	3.0%
Fair value at grant date (weighted average US$)	0.08	0.08

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

NZ$ Options	2017	2016
Share price at grant date (weighted average NZ$)	0.80	1.50
Exercise price (weighted average NZ$)	0.97	1.49
Expected volatility (weighted average)	30% - 40%	30%
Expected life (weighted average)	4 years	4 years
Risk-free interest rate (weighted average)	3.0%	3.5%
Fair value at grant date (weighted average NZ$)	0.28	0.46

Directors

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

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

Accounting policy: Equity settled share option plan

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

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

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

22. Share Appreciation Rights

Share Appreciation Rights (SARs), a share based payment plan, were developed as a Long Term Incentive plan for key executives and provides the company with the flexibility to settle any share appreciation in cash or shares. An appropriate Long Term Incentive plan is critical to attracting and retaining key executive talent.

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

The SARs will vest to the extent of 1/4 of the SARs as of the one year anniversary after the grant date, then an additional 1/36th of the remaining balance on a monthly basis, so that the SARs are fully vested on the fourth anniversary of the grant date. The SARs shall be available to exercise to the extent of 25% of the total number of SARs issued to the recipient at the one year anniversary of the grant date, then an additional 25% of the initially issued number of SARs will be able to be exercised on each of the second, third and fourth anniversaries of the base grant date. The SARs can only be exercised on the appropriate anniversary date or some other date as agreed, and if they are not exercised they will terminate after the expiry of the relevant exercise date.

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

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

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

Current Year **Reconciliation of outstanding SARs**	**Number of SARs 2017**	**Weighted Average Exercise Price NZ$ 2017**
Balance at 1 July 2016	4,583,757	0.85
Expired / forfeited during the year	(1,092,597)	0.76
Expired during the year & share options issued	(1,145,939)	0.85
Exercised during the year	-	-
Issued during the year	-	-
Balance at 30 June 2017	**2,345,221**	**0.37***

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

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

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

Measurement of fair value

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

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

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

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

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

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

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

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

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

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

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

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

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

23. Financial risk management

(i) Financial instrument classification

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

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

Accounting Policy: Financial assets

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

Classification

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

Accounting Policy: Financial liabilities

Trade payables are classified as financial liabilities.

Classification

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

Offsetting financial instruments

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

(ii) Financial risk factors

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

Interest rate risk

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

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

Liquidity risk

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

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

Credit risk

Where the Group has a receivable from another party, there is a credit risk in the event of non-performance by that other party. Financial instruments that potentially subject the Group to credit risk principally consist of bank balances and receivables.

The Group manages its exposure to credit risk by monitoring the credit quality of the financial institutions that hold its cash balances. The credit risk associated with trade receivables is small because of the inherently low individual transaction value and the spread over many customers.

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

Foreign currency risk

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

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

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

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

Capital risk management

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

Fair value

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

24. Earnings per share

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

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

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

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

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

26. Remuneration of auditors

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

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

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

27. Subsequent events

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

Directory

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Financial Calendar

Annual Meeting

–

3 November 2017

Financial Year End

–

30 June

SLI SYSTEMS
E-COMMERCE ACCELERATED