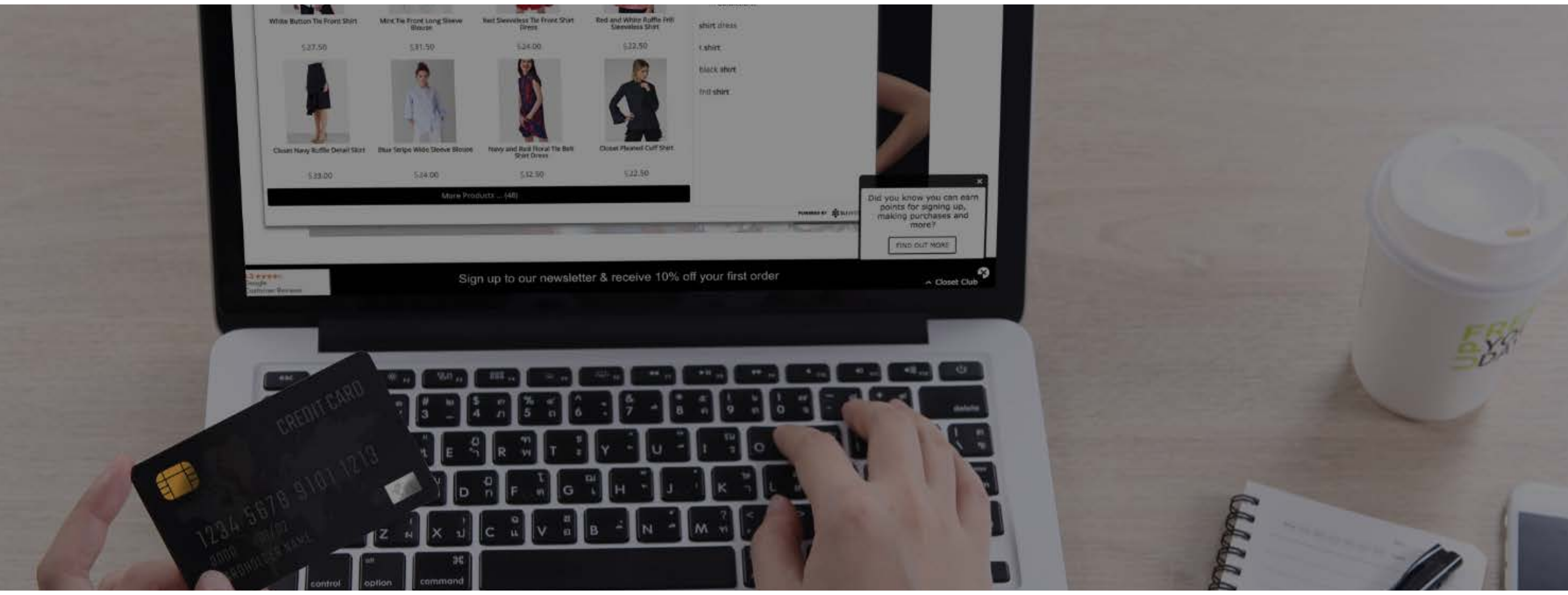
SLI SYSTEMS
THE E-COMMERCE ACCELERATOR



ANNUAL REPORT 2018

Contents

"We used SLI's product discovery solutions previously. When we replatformed, we decided to try the built-in platform search and quickly discovered it had a measurable negative impact on our business. We're very pleased with the results now that we've redeployed SLI."

– LAUREN POLLARD, DIGITAL STRATEGY & GROWTH MANAGER, CITY CHIC

Summary

ARR[1] of
$33.6m
in line with last year

Net Revenue Retention[2] of
93%

Operating Revenue of
$33.8m
up 7% on prior year

Cash of
$9.1m

Cash inflow of
$3.5m

Profit before tax of
$4.1m
compared to FY17 $1.6m loss

1. *Annualised Recurring Revenue (ARR) is a non-GAAP financial performance measure used internally by SLI as a basis for its expected forward revenue. ARR is calculated based on the subscription revenue from the existing customer base in the reference month and then annualised using exchange rates at the end of the reference month. ARR does not account for changes in behaviour of customers. For the Site Champion component of ARR it is necessary to apply judgement to mitigate the effects of one-off events that impact the reference month revenue of the calculation.*
2. *Net Revenue Retention (NRR) rate is the current ARR value in percentage terms of the customers SLI had 12 months ago.*

Chairman's/Chief Executive's Report

Dear Shareholders

We are pleased to report on our performance for the year ending 30 June 2018 having accomplished three major achievements; being profitable for the first time since listing, positive cash flows resulting in a significant increase in our cash balance, while managing incremental investments in product development. The management team has done an excellent job stewarding the company to greater financial strength and positioning the company for the future with the new products.

Our operating revenue increased by 7% to $33.8m assisted by exchange and one-off revenue compared to prior year. We achieved a net profit before tax of $4.1m for the year - a $5.7m turnaround from the $1.6m loss in the previous 12 months. This generated a cash inflow of $3.5m compared to an outflow of $1.1m last year resulting in an ending cash balance of $9.1m. While our financial performance for the year was very pleasing and is of great comfort to the directors to be building up our cash reserves our longer-term strategy is still to focus on our new product initiatives rather than short-term profits.

As we transition the business, we increased development resources which is crucial to achieve the earliest possible delivery of the new products. As reported earlier, conflicting priorities including the EU General Data Protection Regulation requirements and the complexity of the technology pivot did delay deliveries but we remain on plan to release the new product in the current financial year.

We are balancing our transition to the new product operating with our commitment to avoid an additional capital raise by decreasing spend rates primarily in marketing and sales, aligning our growth expectations and our achievement. Even with these reductions we maintained a relatively flat overall ARR increase for the year and received the benefit of exchange movement to show an 8% increase in reported ARR. On balance, the investment in the product, the advantage of building cash reserves while maintaining flat overall performance has improved our financial strength.

Our emphasis on customer satisfaction continues to see satisfaction scores increasing in direct customer feedback, and ultimately in our net revenue retention rate of 93% ending the year with 479 global customers. Losses continue to be lesser value customers and losses primarily attributable to customers switching their e-commerce platforms. Something we expect our new product should address more effectively.

Competition remains similar to the prior year without any single competitor causing significant recurring losses, other than the e-commerce platforms. There remain limited competitors who compete with SLI in all of our global operating regions as opposed to local competitors within specific geographic regions. Most importantly, to our knowledge, no single competitor has delivered a new product offering to compete directly with our new product strategy with our key elements of technical differentiation, expertise in online merchandising and especially in our learning systems capabilities.

Our global markets remain strong and SLI continues to rank as a top leader in the site search market place as reported by the IR 1000[1]. In the year coming, we are initiating measured investments in marketing to amplify our brand, increase demand creation as well as develop our partner eco-system and our SLI University. SLI University is an enabling aspect of our self-service strategy to provide an SLI product and business educational curriculum and certification program. All of these are critical elements to deliver on our self-service business strategy. The new year will see the first deliveries of our new products to our global markets along with our eco-system partners.

We remain very excited about the markets we compete in, our financial success in FY18, our new product and business strategy and our ability to compete successfully in the very large and lucrative global e-commerce market place. We are proud of the accomplishment our employees have achieved thus far that continues to make SLI a leader in the Software as a Service (SaaS) search market.

Greg Cross
Chairman

Chris Brennan
Chief Executive Officer

–

1. *Internet Retailer. 2018 Guide to E-Commerce Technology*

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
–
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)
Non-Executive Director and Co-Founder
–
Shaun has over 20 years' experience with governance, business and technology. He is currently chair of Fleetpin (GPS fleet tracking), RedSeed (retail training platform), and Archipro (online directory of building professionals and suppliers). As a founding CEO of SLI, he was one of the driving forces behind the development of SLI's unique "Learning Search" technology. Shaun was also an original founder and CTO of GlobalBrain . In his early career 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, were awarded 2014 NZ Engineering Entrepreneurs of the Year. Shaun has a PhD in Artificial Intelligence and is a member of the Institute of Directors.

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

Andy Lark
Independent Director
–
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 Mercury NZ. 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.

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 2018.

Investor Name	Total Shares	%
New Zealand Central Securities Depository Limited[1]	9,805,750	15.75
Marder Media Group Inc	3,031,290	4.87
Grant James Ryan & Shaun William Ryan[2]	2,953,116	4.74
Wayne Alistair Munro	2,940,120	4.72
Shaun William Ryan & Katherine Louise Ryan[3]	2,430,000	3.90
Lynnwood Holdings Limited	2,056,616	3.30
Robert Van Nobelen & Bws Trustee (2005) Limited[4]	2,007,612	3.22
Michael Arthur Grantham	1,946,012	3.13
Gareth Samuel Reuben Morgan & Gareth Huw Thomas Morgan & Charles Andrea Purcell[5]	1,795,843	2.88
Denise Jane Campbell	1,502,225	2.41
Geoffrey Michael Brash	1,297,734	2.08
Steven Eliot Marder	1,268,032	2.04
Michael James Chisholm	1,200,000	1.93
Custodial Services Limited	916,370	1.47
K One W One (No. 2) Limited	900,000	1.45
Jamie Glendinning Anstice	829,962	1.33
Forsyth Barr Custodians Limited	815,530	1.31
Shaun William Ryan	810,000	1.30
First NZ Capital Securities Limited	666,000	1.07
Caroline Robyn Ball & Christopher John Thomson Bush	616,383	0.99

1. *4,861,231 shares are held on behalf of Pie Funds Management Limited and 4,844,201 shares are held on behalf of Milford Funds Limited.*
2. *As trustees of the Grant James Ryan Family Trust.*
3. *As trustees of the Shaun W Ryan Family Trust.*
4. *As trustees of the Rob Van Nobelen Family Trust.*
5. *As trustees of the Jasmine Investment Trust No.2.*

Spread of security holders as at 31 July 2018

Range of Number of Shares Held	Number of Holders	% of Shareholders	Issued Capital	% of Issued Capital
1-1,000	266	18.06	177,675	0.29
1,001-5,000	633	42.97	1,839,679	2.95
5,001-10,000	224	15.21	1,811,639	2.91
10,001-50,000	258	17.52	6,139,665	9.86
50,001-100,000	36	2.44	2,635,001	4.23
Greater than 100,000	56	3.80	49,657,157	79.76
Total	**1,473**	**100**	**62,260,816**	**100**

Substantial Product Holders

According to notices given by substantial product holders 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 2018, are as follows:

Substantial Product Holder	Number of voting securities	%
Shaun William Ryan[1]	6,744,376	10.83%
Pie Funds Management Limited[2]	5,444,733	8.75%
Milford Funds Limited[3]	4,844,201	7.780%
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 2018 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. *The legal holder of the shares is TEA Custodians Limited.*
3. *The legal holder of the shares is National Nominees Limited. Milford Active Growth Wholesale Fund has a relevant interest in 2,844,256 shares. Milford NZ Equities Wholesale Fund has a relevant interest in 1,999,945 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 2018:

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, Non 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
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 2018:

- Greg Cross held 120,000 unlisted exercisable options as legal and beneficial owner
- Shaun Ryan held 200,000 unlisted exercisable options as legal and beneficial owner
- Chris Brennan held 1,226,166 unlisted exercisable options as legal and beneficial owner
- Chris Brennan held 1,226,166 share appreciation rights and 441,000 conditional share appreciation rights

Interest Register entries

The following represents the new interests of SLI directors in other companies as disclosed to the Company during FY18 and entered into the Interests Register on the dates below:

Sarah Smith		
Network Tasman Limited	Director	22 June 2018
Shaun Ryan		
Redseed Limited	Director	22 June 2018
Fleetpin Limited	Director	22 June 2018
Archipro Limited	Director	22 June 2018

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 2018 are as follows:

	$	Nature of Remuneration
Greg Cross	60,000	Director Fees
Andy Lark	40,000	Director Fees
Matthew Houtman	26,667[1]	Director Fees
Sarah Smith	40,000	Director Fees
Shaun Ryan	30,000[2]	Director Fees
Steven Marder	40,000	Director Fees
Chris Brennan	1,115,470	Salary, Entitlements and LTI value[3]
Shaun Ryan	233,302[2]	Salary, Redundancy, Entitlements and LTI value[3]

1. *Matthew Houtman retired from the Board during February 2018.*
2. *Shaun Ryan ceased to be an employee of SLI and became a non-executive director in October 2017.*
3. *LTI value represents the fair value expense recognised through the Statement of Comprehensive Income for the year.*

The directors of each SLI 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 2018 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.

CEO remuneration

The remuneration of the Chief Executive Officer (CEO) is designed to promote the achievement of strategies and business objectives to create value for shareholders. The Board is assisted in delivering its responsibilities and objectives for determining CEO remuneration by the Nominations and Remuneration Committee.

The Nominations and Remuneration Committee reviews the performance of the CEO to determine appropriate remuneration. The review considers external benchmarking to ensure competitiveness with comparable market peers, along with consideration of the CEO's performance, skills, expertise and experience before making a recommendation on the CEO's remuneration.

Total remuneration is made up of three components: fixed remuneration, short-term performance-based cash remuneration and long-term performance-based equity remuneration. A breakdown of total remuneration recorded as an expense to the Company for the years ended 30 June 2017 and 30 June 2018 is set out below:

Remuneration for years ended 30 June 2017 and 30 June 2018

	Fixed remuneration			Pay for performance				
	Salary	Other benefits[1]	Subtotal	STI	LTI[2]	Subtotal	Total remuneration	% of STI awarded against 100% on-plan performance
FY2018	$529,408	$93,513	$622,921	$309,411	$183,138	$492,549	$1,115,470	136%
FY2017	$490,677	$143,755	$634,432	$188,046	$498,038	$686,084	$1,320,516	89%

1. *Other benefits include medical insurance, employer taxes and accommodation allowance.*
2. *LTI value represents the fair value expense recognised through the Statement of Comprehensive Income for the year.*

Fixed remuneration
Fixed remuneration consists of base salary and other benefits.

Short-term incentives
Short-term incentives (STIs) are at-risk payments designed to motivate and reward performance in the current financial year. The CEO's on plan 100% STI payout is 43% of his base salary with a maximum STI payment of 86% of his base salary.

The CEO is given quarterly Key Performance Indicators (KPI) targets by the Board. His performance against those KPI targets determines his STI payouts that are paid on a quarterly basis. The four KPI target areas for 2018 are outlined below:

Target Area	Weighting
Sales	25%
Cashflow	25%
Customer retention	25%
Product or operational issues	25%

There is a floor and a ceiling within each target area.

- If the CEO does not achieve performance at the level of the floor within any of the target areas he will receive no payout for that metric.
- If the performance is at the level of the floor the CEO will receive a payout of between 8.0% and 10.7% of his quarterly base pay for that metric.
- If the performance exceeds the ceiling for a particular metric the CEO will be paid at 21.4% of his quarterly base pay for that metric.
- Any performance in between the floor and the ceiling will be paid out based on a linear relationship between these two targets based on the actual performance achieved.

Long-term incentives
The CEO was issued 2,452,332 Share Appreciation Rights (SARs) on his appointment to SLI in 2015. These SARs vest over a four year period. One quarter of the SARs are exercisable on each anniversary of the issue date. If the SARs are not exercised within a specified window the relevant tranche of SARs will terminate.

In the twelve months to 30 June 2018 the CEO was issued with 441,000 conditional SARs. The SARs include non-market performance obligations that will determine whether the SARs will be eligible to vest. The Board will determine by November 2018, or some other date determined by the Board, if the performance obligations have been satisfied.

On the date on which the SARs are either (i) exercised or (ii) terminated, fully vested share options are issued equal to the number of such exercised or terminated SARs, subject to Board approval. 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, unless the Board determines otherwise.

A breakdown of the LTI movements for the year ended 30 June 2018 is set out below:

CEO LTI movements for the year ended 30 June 2018

	SARs			Options		
	Strike price (weighted avg)	Issue	Vested	Strike price (weighted avg)	Issue	Vested
Balance as at 1 July 2017	$0.37	1,839,249	459,812	$0.83	613,083	613,083
Vested during the period	-	-	613,083	-	-	-
Granted	$0.25	441,000	-	$0.37	613,083	613,083
Exercised	-	-	-	-	-	-
Expired / Terminated	$0.37	(613,083)	(613,083)	-	-	-
Balance as at 30 June 2018	**$0.34**	**1,667,166**	**459,812**	**$0.60**	**1,226,166**	**1,226,166**

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 2018.

Remuneration Range NZ$	No. of employees
100,000-109,999	8
110,000-119,999	6
120,000-129,999	10
130,000-139,999	3
140,000-149,999	4
150,000-159,999	5
160,000-169,999	2
170,000-179,999	3
180,000-189,999	1
190,000-199,999	2
200,000-209,999	1
210,000-219,999	1
220,000-229,999	1
230,000-239,999	3
250,000-259,999	1
270,000-279,999	1
280,000-289,999	2
300,000-309,999	1
320,000-329,999	1
340,000-349,999	1
700,000-709,999	1

NZX waivers obtained during the period to 30 June 2018

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 2018.

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 2018:

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

Environmental, Social and Corporate Governance

Reporting Framework

A global general transition to more sustainable, resource efficient and energy efficient economies is occurring. The Company identifies its place in this movement by reference to the UN Sustainable Development Goals (UN Goals). The UN Goals provide a widely recognised framework for evidence-based decision-making with supporting knowledge, data and statistics that can guide the Company in its approach to environmental, social and corporate governance (ESG). The environmental and social sections of the ESG report have been prepared in this context.

Mapped against the UN Goals, the Company:

- Has a healthy workforce and implements health and safety practices
- Provides training and encourages continuing education and additional skills development
- Offers a diverse and inclusive work environment
- Offers competitive remuneration and a positive work culture
- Continually strives for further innovation in its service offering and protects its intellectual property
- Recognises the benefits of diversity and inclusion in its workforce
- Protects individual and customer data through strong privacy and security policies
- Implements environmentally sound waste practices appropriate for its business

Environmental

SLI as a SaaS Company

As a SaaS company, SLI has a relatively low environmental impact, reflective of an office-based workforce who are intensive users of technology.

The Board has a view that there are opportunities to minimise SLI's environmental impact by adopting behaviours, practices and a company culture that is guided by good corporate citizenship.

By supporting a culture that embraces an ESG perspective the Board anticipates a gradual reduction in SLI's environmental impact to a minimum practical level while at the same time maintaining an engaged workforce that is proud of the Company's role as a global leader in website search solutions.

Current Situation (Environmental)

SLI has staff working from its offices all around the world. International travel is minimised through employees using various web-based software applications for group or multi-site meetings and person to person communications. These systems are also used extensively for communication with customers, driving a materially lower level of emissions and environmental footprint, significantly lower travel bill and substantially higher productivity rate than would be the case with extensive employee travel.

The Board supports the view that each individual making a change can have a multiplier effect. SLI will put in place an Environmental Management System (EMS) to reduce SLI's environmental impact. The initial workstreams for the EMS have been set as targets below.

2019 Environmental Targets

Workstreams to be undertaken over the next 12 months:

- Establish an organisation-wide EMS; and
- Staff to be invited to put forward ideas for additional sustainability practices to be introduced at SLI.

Social

People and Culture

Social at SLI means our people, our work practices, and our interactions with our customers, suppliers, investors and the communities in which we operate.

SLI operates in an industry where there is a high demand for expertise and employs people with skills ranging from the leading edge of digital creativity, sales, highly technical programming and management. Work practices have changed markedly since SLI was established in 2001 and will continue to evolve. SLI embraces the change and ensures it stays with widely-accepted practices so it remains relevant and flexible.

Our staff are at the heart of making SLI's business a success. It is vital that they are able to operate as effectively and productively as possible and work in an environment that is safe and free from unacceptable or inappropriate conduct. A copy of SLI's Code of Conduct and staff handbook is available to all staff on the intranet. The handbook provides guidance in relation to SLI and its HR policies and procedures.

SLI's culture embodies the values of the organisation. The values provide the framework for interaction with our customers and colleagues and creates a platform on which to build a sustainable growth path. Unethical conduct is not accepted, and transparency and honesty are expected in all aspects of SLI's business. By conducting business in this manner, we honour our fellow employees and customers, demonstrate how much we value them, embrace diversity and inclusion, and help to build relationships based on trust.

Current Situation (People and Culture)

SLI has employees working in various locations around the world. Company-wide communications include regular all staff meetings that are held by the CEO using web-based software.

Staff health and well-being is monitored including programmes such as access to confidential counselling support and influenza injections.

SLI's remuneration policy is based on providing remuneration that is both competitive with its external markets and that remains affordable and sustainable for the Company.

Diversity and Inclusion

SLI's Diversity and Inclusion Policy commits the Company to integrating diversity throughout its Board and business. By maintaining an inclusive working environment, the Board expects to establish a competitive advantage by attracting and retaining the most talented employees, broadening collective perspectives and therefore delivering superior results on a global scale.

Employees' unique backgrounds, views, experiences and capabilities as well as their beliefs, physical differences, ethnicity, gender, age, thinking styles, preferences and behaviours are valued. The Board and senior management (Management) believe an inclusive workplace promotes innovation and enables greater diversity of thought which will lead to better business outcomes and create value for customers and shareholders.

Gender diversity

	30 June 2018		30 June 2017	
	Female	Male	Female	Male
Board	1 (17%)	5 (83%)	1 (14%)	6 (86%)
Management	1 (13%)	7 (87%)	0 (0%)	7 (100%)

Current Situation (Diversity and Inclusion)

SLI identified gender diversity as a key objective during FY18. While committed to improving and maintaining its gender diversity at all levels in the Company, there was a particular focus on improving the representation of females at senior levels within SLI. Given SLI has only recently identified improving the representation of females at senior levels within SLI as a key objective, it is not in a position to report on progress against that objective in this report.

2019 Social Targets

Workstreams to be undertaken over the next 12 months:

- Provide old IT and office equipment to a refuge centre; and
- Staff to be invited to put forward ideas for additional social and support initiatives.

Governance

Corporate Governance Statement

The Board of SLI is committed to ensuring that SLI maintains high standards of governance by implementing appropriate practices and processes in SLI's governance framework that it considers are consistent with good corporate governance principles.

SLI's governance framework is guided by the recommendations set out in the NZX Corporate Governance Code (NZX Code) and the requirements set out in the NZX Main Board Listing Rules (NZX Rules).

This Corporate Governance Statement follows the structure of the NZX Code and discusses SLI's compliance with the NZX Code's recommendations during the reporting period.

The Board considers that during the reporting period, SLI has materially complied with the recommendations in the NZX Code.

SLI's key corporate governance documents referred to in this Corporate Governance Statement, including charters and policies, can be found in the Foundational Documents section of the Investor Relations page that can be found at https://www.sli-systems.com/about/investors. These documents are collectively referred to as the SLI Code.

Principle 1 – Code of Ethical Behaviour

"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."

NZX RECOMMENDATION 1.1 (CODE OF ETHICS) *"The Board should document minimum standards of ethical behaviour to which the issuer's directors and employees are expected to adhere (a code of ethics)."*

The Code of Ethics is the framework of standards by which SLI's directors, employees, contractors and advisers are expected to conduct their professional lives. Every new director and employee is provided with a copy of the Code of Ethics.

The Code of Ethics is not an exhaustive list of acceptable or non-acceptable behaviour, rather it is intended to facilitate decisions by SLI's people that are consistent with SLI's values, business goals and legal and policy obligations.

The Code of Ethics provides guidance across a wide range of areas including: conflicts of interest; gifts; corporate opportunities; confidentiality; standards of behaviour; use of company information and assets; compliance with laws and policies; and delegated authorities.

The Code of Ethics sets out procedures for reporting any breach or suspected breach of the Code of Ethics or any breach of a legal obligation or SLI's policies. No breaches were identified during the reporting period.

NZX RECOMMENDATION 1.2 (FINANCIAL PRODUCT DEALING POLICY) *"An issuer should have a financial product dealing policy which applies to employees and directors."*

SLI's Securities Trading Policy and Guidelines sets out formal procedures governing trading in SLI's securities by SLI's directors and employees. It applies to all directors, officers, employees, contractors and advisers of SLI and its subsidiaries who intend to trade in SLI's listed securities.

Approval from SLI's Chief Financial Officer (CFO) is required before any trading by a director or employee of SLI can occur. A blackout period is imposed for all directors and employees on SLI's half year balance date and full year balance date until the day after the results for the relevant period are released to NZX. The policy also provides that SLI shares may not be traded at any time by any individual holding "material information".

Insider trading is prohibited at all times. The requirements in SLI's Securities Trading Policy and Guidelines are separate from, and in addition to, the legal prohibitions on insider trading in New Zealand.

Principle 2 – Board Composition & Performance

"To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives."

NZX RECOMMENDATION 2.1 (BOARD CHARTER) *"The Board of an issuer should operate under a written charter which sets out the roles and responsibilities of the Board."*

The SLI Code sets out how the Board exercises it powers and discharges its responsibilities. It outlines the role of the Board, its composition, policies and operations including how the Board uses board committees to exercise and discharge its power and responsibilities. It also sets out the roles and responsibilities of Management.

The Board is statutorily responsible for the management of the business and affairs of SLI and has overall responsibility for SLI's strategy and leadership, governance, culture and performance.

The Board delegates SLI's day to day management to the CEO. The CEO is assisted by Management in carrying out the strategy, plans and delegations approved by the Board. The Board monitors those matters delegated by the Board by receiving regular reports and plans from Management.

The Board uses Committees to address certain issues that require detailed consideration by members of the Board who have specialist knowledge and experience. The Board retains ultimate responsibility for the functions of and appointments to its Committees and determines their responsibilities.

The main functions of the Board include:

- Selecting, supporting and reviewing the performance of the CEO;
- Reviewing and approving the strategic, business and financial plans prepared by Management and monitoring performance against those plans;
- Approving major investments and divestments;
- Ensuring ethical behaviour by SLI, the Board, Management and SLI's employees;
- Ensuring the quality and independence of SLI's external audit process; and
- Assessing its own effectiveness in carrying out its functions.

NZX RECOMMENDATION 2.2 (DIRECTOR NOMINATION AND APPOINTMENT) *"Every issuer should have a procedure for the nomination and appointment of directors to the Board."*

The Nominations and Remuneration Committee is responsible, on behalf of the Board, for the nomination and appointment of directors to the Board and is comprised of a majority of Independent Directors.

The Nominations and Remuneration Committee charter sets out the procedure for nominating and appointing new directors.

The Nominations and Remuneration Committee identifies potential new directors using the Boards' network of business associates, professional intermediaries, any other resources considered appropriate by the Committee and any nominations made to the Board or the Committee.

Key considerations in assessing new directors include the candidate's suitability for the role having regard to skills, experience, capabilities and diversity to ensure that the Board is composed of people with the most appropriate balance of skills, qualifications, experience, perspectives and background to effectively govern SLI. If the Board determines that new or additional skills are required, training may be completed or a formal recruitment process may be undertaken.

The Board has determined that to operate effectively and to meet its responsibilities it requires skills and experience in disciplines including digital and technology, online retail, executive leadership and strategy, governance, finance and capital markets, risk and compliance, legal and regulation, and people. The current mix of skills and experience is considered appropriate for the responsibilities and requirements of governing SLI.

The Nominations and Remuneration Committee will also arrange for background checks on candidates including checks as to character, experience, education, criminal record and bankruptcy history.

The Nominations and Remuneration Committee will recommend candidates to the Board to either be approved by the Board (in the case of a casual vacancy) or to be put forward for approval by shareholders at the next general meeting. Shareholders will be notified of and are provided with all material information that is relevant to the decision on whether to elect a director.

NZX RECOMMENDATION 2.3 (WRITTEN AGREEMENTS WITH EACH DIRECTOR) *"An issuer should enter into written agreements with each newly appointed director establishing the terms of their appointment."*

All new directors will enter into a written agreement with SLI setting out the terms of their appointment.

NZX RECOMMENDATION 2.4 (INFORMATION ON EACH DIRECTOR) *"Every issuer should disclose information about each director in its annual report or on its website, including a profile of experience, length of service, independence and ownership interests."*

A profile of each director is set out on pages 5 and 6 and provides details of their skills, experience and background. A profile of each director is also included on SLI's website at https://www.sli-systems.com/about/sli-board-directors.

The Board is required to maintain at least a minimum 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.

The Board determines on a case-by-case basis who, in its view, are Independent Directors. SLI supplements the independence requirements in the NZX Rules with additional criterion set out in the SLI Code. These considerations include having previously been an SLI executive, holding more than 5% of issued shares and being an adviser to or having a significant business relationship with SLI or its subsidiaries.

NZX RECOMMENDATION 2.5 (DIVERSITY POLICY) *"An issuer should have a written diversity policy which includes requirements for the Board or a relevant Committee of the Board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the entity's progress in achieving them."*

SLI recognises the value in diversity of thinking and skills and seeks to ensure that the Board and workforce both comprise members reflecting diversity. SLI's formal Diversity and Inclusion Policy, adopted in May 2018, is designed to reinforce SLI's commitment to have a diversified, skilled and inclusive workplace. The policy applies to the Board, Management and all employees and contractors of SLI.

The Board is committed to integrating diversity throughout its Board, Management and business and creating an inclusive working environment in order to improve performance and gain a competitive advantage by attracting and retaining the most talented employees, broadening collective perspectives and therefore delivering superior results on a global scale.

SLI recruits, promotes and compensates on the basis of merit, regardless of gender, ethnicity, religion, age, nationality, sexual orientation, union membership or political opinion. SLI requires that people in the workplace are treated with respect in accordance with SLI's philosophies of equal employment opportunities, and anti-harassment and discrimination policies.

In accordance with SLI's Diversity and Inclusion Policy, the Board has set SLI's objectives for achieving workplace diversity and inclusiveness, how it will achieve those objectives and how it will measure performance against those objectives.

The Board is accountable for the policy, but responsibility for implementing, reviewing, reporting and overseeing the policy is delegated to the Nominations and Remuneration Committee.

The Nominations and Remuneration Committee is responsible for establishing measurable objectives for assessing performance against the policy including in respect of diversity. These measures are reviewed (and if necessary reset) each year.

Improving the representation of females at senior levels within SLI was identified as SLI's key diversity objective for the 2018 year. As the measurable objective was set by the Nominations and Remuneration Committee in May 2018, SLI has not yet measured its performance against the key objective of gender representation by role (as a percentage). The gender composition of SLI's directors and Management team is as follows:

	As at 30 June 2018		As at 30 June 2017	
Position	**Female**	**Male**	**Female**	**Male**
Board	1 (17%)	5 (83%)	1 (14%)	6 (86%)
Management	1 (13%)	7 (87%)	0 (0%)	7 (100%)

NZX RECOMMENDATION 2.6 (DIRECTOR TRAINING) *"Directors should undertake appropriate training to remain current on how to best perform their duties as directors of an issuer."*

The Board ensures that there is appropriate training available to all directors to enable them to remain current on how best to discharge their responsibilities and keep up to date on changes and trends in areas relevant to their work. Directors are provided with industry information and receive copies of appropriate SLI documents to enable them to perform their role.

The Board also ensures that new directors are appropriately introduced to Management and the business. They are given a briefing pack of key documents setting out SLI's business activities, financial position and forward plans and are offered Management briefings on strategic, financial and other matters.

NZX RECOMMENDATION 2.7 (BOARD PERFORMANCE EVALUATION) *"The Board should have a procedure to regularly assess director, Board and Committee performance."*

The Board is committed to annually assess its effectiveness in carrying out its functions and responsibilities. Using an evaluation process developed and recommended by the Nominations and Remuneration Committee, the Chair of the Board leads the review and evaluation of the Board as a whole, and of the Board Committees, against their charters. The evaluation process also requires the Chair of the Board to engage with individual directors to evaluate and discuss performance and professional development.

NZX RECOMMENDATION 2.8 (CHAIR AND THE CEO) *"The Chair and the CEO should be different people."*

The SLI Code endorses the separation of the roles of Chairperson and CEO.

Principle 3 – Board Committees

"The Board should use Committees where this will enhance its effectiveness in key areas, while still retaining Board responsibility."

The Board has two formally constituted committees – the Audit and Risk Management Committee and the Nominations and Remuneration Committee. Each Committee focuses on specific areas of governance and together they strengthen the Board's oversight of SLI. Committee members and the Committee Chair are appointed by the Board. Committee membership is reviewed annually.

NZX RECOMMENDATION 3.1 (AUDIT AND RISK MANAGEMENT COMMITTEE) *"An issuer's Audit Committee should operate under a written charter. Membership on the Audit Committee should be majority independent and comprise solely of non-executive directors of the issuer. The Chair of the Audit Committee should not also be the Chair of the Board."*

SLI's Audit and Risk Management Committee operates under a written charter and is made up of a majority of Independent Directors and all Committee members are non-executive directors. The Chair of the Audit and Risk Management Committee is not the chair of the Board and has a finance background.

The current members of the Audit and Risk Management Committee are Sarah Smith (Chair of Committee), Greg Cross and Shaun Ryan.

The Audit and Risk Management Committee's charter sets out its scope of operations including its purpose, role and duties and responsibilities. The primary functions of the Audit and Risk Management Committee are:

- To oversee the financial reporting process to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control;
- To provide the Board with an independent assessment of SLI's financial position and accounting affairs;
- To keep under review the effectiveness of SLI's procedures for the identification, assessment and reporting of material risks; and
- To oversee the appointment and performance of the external auditor.

The Audit and Risk Management Committee meets at least once a quarter during the year.

NZX RECOMMENDATION 3.2 (EMPLOYEE ATTENDANCE AT AUDIT COMMITTEE MEETINGS) *"Employees should only attend Audit Committee meetings at the invitation of the Audit Committee."*

SLI's directors who are not members of the Audit and Risk Management Committee may attend meetings of the Committee. The CEO and CFO are regularly invited to attend Audit and Risk Management Committee meetings. SLI's other employees only attend Audit and Risk Management Committee meetings at the invitation of the Audit and Risk Management Committee.

NZX RECOMMENDATION 3.3 (REMUNERATION COMMITTEE) *"An issuer should have a Remuneration Committee which operates under a written charter (unless this is carried out by the whole board). At least a majority of the Remuneration Committee should be Independent Directors. Management should only attend remuneration meetings at the invitation of the Remuneration Committee."*

SLI's Nominations and Remuneration Committee operates under a written charter and is made up of a majority of Independent Directors. The CEO and CFO are regularly invited to attend Nominations and Remuneration Committee meetings.

The current members of the Nominations and Remuneration Committee are Greg Cross (Chair of Committee), Steven Marder and Andy Lark.

The primary functions of the Nominations and Remuneration Committee are:

- Setting and reviewing remuneration policies and practices for directors and Management; and
- Reviewing and making recommendations on Board and Committee composition, succession and appointments.

The Nominations and Remuneration Committee meets at least once a quarter during the year.

NZX RECOMMENDATION 3.4 (NOMINATIONS COMMITTEE) *"An issuer should establish a Nomination Committee to recommend director appointments to the Board (unless this is carried out by the whole Board), which should operate under a written charter. At least a majority of the Nomination Committee should be Independent Directors."*

SLI's Nominations and Remuneration Committee recommends director appointments to the Board.

NZX RECOMMENDATION 3.5 (OTHER COMMITTEES) *"An issuer should consider whether it is appropriate to have any other Board Committees as standing Board Committees. All committees should operate under written charters. An issuer should identify the members of each of its committees and periodically report member attendance."*

The Board did not establish any new committees during the reporting period.

Director attendance at Board meetings and Committee member attendance at Committee meetings is shown below for the reporting period:

	Board	Audit and Risk Management Committee	Nominations and Remuneration Committee
Total number of meetings during reporting period	**8**	**4**	**4**
Greg Cross	7	1	3
Sarah Smith	8	4	-
Andy Lark	6	-	4
Chris Brennan	8	-	-
Matthew Houtman*	7	3	-
Shaun Ryan**	8	1	-
Steven Marder	7	-	4

**Matthew Houtman retired from the Board during February 2018.*
***Shaun Ryan was appointed to the Audit and Risk Management Committee during May 2018.*

NZX RECOMMENDATION 3.6 (TAKEOVER PROTOCOLS) *"The Board should establish appropriate protocols that set out the procedure to be followed if there is a takeover offer for the issuer."*

The Board has documented and adopted in May 2018 a formal protocol to be followed in the event of a takeover offer being made, including communication between insiders and any bidder.

In the event of takeover offer being made a Board committee and a takeover working group of non-interested directors would be formed to manage the takeover in accordance with the Board protocols and the New Zealand Takeovers Code.

Principle 4 – Reporting and Disclosure

"The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosure."

NZX RECOMMENDATION 4.1 (CONTINUOUS DISCLOSURE) *"An issuer's Board should have a written continuous disclosure policy."*

The Board recognises that the full and timely disclosure of material information promotes efficiency, growth and integrity in capital markets. SLI is committed to providing all its shareholders with the same access to material information about its business.

SLI's Continuous Disclosure Policy is designed to ensure that SLI follows best practice in complying with its continuous disclosure obligations. SLI amended its formal policy during the reporting period to incorporate the recommendations of the NZX Code and to make the procedures under the policy more efficient and user-friendly.

The policy applies to all SLI staff members, officers, directors, consultants and service providers.

NZX RECOMMENDATION 4.2 (MAKE KEY DOCUMENTS AVAILABLE) *"An issuer should make its Code of Ethics, Board and Committee charters and the policies recommended in the NZX Code, together with any other key governance documents, available on its website."*

SLI's key corporate governance documents, including charters and policies, can be found at https://www.sli-systems.com/about/investors.

NZX RECOMMENDATION 4.3 (FINANCIAL REPORTING) *"Financial reporting should be balanced, clear and objective. An issuer should provide non-financial disclosure at least annually, including considering material exposure to environmental, economic and social sustainability risks and other key risks. It should explain how it plans to manage those risks and how operational or non-financial targets are measured."*

Financial Reporting

The Board is committed to ensuring integrity and timeliness in its financial reporting and in providing information to the market and shareholders which reflects a balanced view on SLI's present and future prospects.

A programme of clear, meaningful, timely and effective communications with shareholders is centred around a comprehensive set of information regarding SLI's operations and results being available on SLI's website and in shareholder reports.

The Audit and Risk Management Committee oversees the quality and integrity of external financial reporting including the accuracy, completeness, balance and timeliness of financial statements. The Committee reviews interim and annual financial statements and makes recommendations to the Board concerning matters including accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of the external audit. All matters required to be addressed and for which the Committee has responsibility were addressed during the reporting period.

Interim and annual financial statements are prepared in accordance with New Zealand accounting standards, NZX Rules and other relevant requirements.

The CEO and CFO have provided the Board, through the Audit and Risk Management Committee, with assurances that, in their opinion, financial records have been properly maintained, that the financial statements comply with applicable accounting standards and present fairly the view of the financial position and performance. These representations are given on the basis that a sound system of internal controls and risk management is operating effectively in all material respects in relation to financial reporting.

Non-Financial Reporting

SLI reports a series of key operating metrics in each financial result. It has expanded its reporting of non-financial disclosures to include reporting of relevant environmental and social sustainability factors relating to its business (refer to the environmental and social sections on pages 13 to 15) to assist investors to understand a wider range of its drivers.

Principle 5 – Remuneration

"The remuneration of directors and senior management should be transparent, fair and reasonable."

NZX RECOMMENDATION 5.1 (DIRECTOR REMUNERATION) *"An issuer should recommend director remuneration to shareholders for approval in a transparent manner. Actual director remuneration should be clearly disclosed in the issuer's annual report."*

The total fee pool available for directors is approved by shareholders. The Board determines the actual fees paid to directors from within the overall director fee pool. The annual fee pool limit was last increased to $290,000 with the appointment of Andy Lark in December 2013 as provided for under Listing Rule 3.5. Any increase is required to be approved by shareholders.

Fees are currently paid at $40,000 per annum for independent and non-executive directors and $60,000 per annum for the Chair. Directors are not paid additional fees for being members of Committees. Non-executive directors do not receive any performance or equity based remuneration, or superannuation or retirement benefits.

Total remuneration received by each director in the reporting period is set out in the table on page 9.

NZX RECOMMENDATION 5.2 (REMUNERATION POLICY) *"An issuer should have a remuneration policy for remuneration of directors and officers, which outlines the relative weightings of remuneration components and relevant performance criteria."*

SLI's Nominations and Remuneration Committee manages SLI's remuneration policies and practices in line with the Nominations and Remuneration Committee charter and SLI's Remuneration Policy.

SLI's Remuneration Policy sets out the principles which apply to the remuneration of directors and employees.

Director Remuneration

Non-executive director remuneration is paid in the form of directors' fees. Executive directors are not paid director's fees.

Non-executive directors do not receive any performance remuneration, or superannuation or retirement benefits. Directors are not paid additional fees for being members of Committees.

Board fees are set at a level that ensures SLI's non-executive directors are fairly remunerated for their services, recognising the level of skill and experience required to fulfil the role, and to enable SLI to attract and retain talented non-executive directors. The process involves benchmarking against a group of peer companies. SLI has not used the services of a remuneration consultant.

Employee Remuneration

Total remuneration for all staff is reviewed annually. Considerations include employee performance, market movements, salary trends, SLI's current market alignment, general economic indicators and company performance. Employee remuneration may be made up of some or all of the following components.

Fixed remuneration
Fixed remuneration, consists of a base salary and benefits like Kiwisaver or its equivalent.

Short-term incentives
Executives and some specific employees may be eligible for a discretionary incentive scheme intended to motivate and reward for performance that is conditional on the achievement of specified criteria.

Long-term incentives
Some permanent employees may be eligible to participate in a long-term incentive plan.

If an employee is provided a long-term incentive, it will generally be in the form of options which will generally have a four-year vesting period or a combination of SARs and options that will generally have similar vesting characteristics to pure options. The intent is to align employee and shareholder interests, encourage employees to drive long-term sustainable performance and promote a culture of guardianship (care and responsibility).

NZX RECOMMENDATION 5.3 (CEO REMUNERATION) *"An issuer should disclose the remuneration arrangements in place for the CEO in its annual report. This should include disclosure of the base salary, short-term incentives and long-term incentives and the performance criteria used to determine performance based payments."*

Chris Brennan commenced his role as SLI's Managing Director and CEO in October 2015. For remuneration details please refer to pages 9 to 11.

Principle 6 – Risk Management

"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."

NZX RECOMMENDATION 6.1 (RISK MANAGEMENT FRAMEWORK) *"An issuer should have a risk management framework for its business and the issuer's Board should receive and review regular reports. A framework should also be put in place to manage any existing risks and to report the material risks facing the business and how these are being managed."*

Risk management is an integral part of SLI's business. A risk management framework incorporating a risk register is used to identify those situations and circumstances in which SLI may be materially at risk and for which risk mitigation activities are appropriate.

The Board is responsible for ensuring that key business and financial risks are identified, that appropriate controls and procedures are in place to effectively manage the risks and that a risk appetite framework is clearly defined.

The Audit and Risk Management Committee has overall responsibility for ensuring that SLI's risk management framework is appropriate and that it appropriately identifies, considers and manages risks.

The Committee reviews the risk register every quarter. The Committee receives reports on the operation of risk management policies and procedures. Management are required to regularly identify the major risks affecting the business, record them in the risk register and develop structures, practices and processes to manage and monitor these risks.

SLI considers the above to be a robust assessment process.

SLI also maintains insurance policies that it considers adequate to meet its insurable risks.

NZX RECOMMENDATION 6.2 (HEALTH AND SAFETY) *"An issuer should disclose how it manages its health and safety risks and should report on their health and safety risks, performance and management."*

The Board has responsibility for health and safety policies within SLI. SLI has a health and safety committee led by a Health and Safety Team Leader (H&S Leader) who is a designated senior employee within each office. The H&S Leaders are charged with identifying and managing health and safety risks and ensuring that processes and practices are fit for purpose, are being effectively implemented, regularly reviewed and continuously improved. Each office's H&S Leader confirms on a quarterly basis to the VP of Human Resources that there has been compliance with the health and safety processes for that office.

Detailed reporting is provided to the Board on health and safety incidents, injury rates by severity, local site health and safety committee meetings, and training initiatives.

Principle 7 – Auditors

"The Board should ensure the quality and independence of the external audit process."

NZX RECOMMENDATION 7.1 (ESTABLISH AUDIT FRAMEWORK) *"The Board should establish a framework for the issuer's relationship with its external auditors."*

SLI's External Audit Policy (see Section 9 of the SLI's Corporate Governance Code) sets out the work that SLI's external auditors can do for SLI and the services that SLI's external auditor are not permitted to do. The policy sets out how the Board's external auditor is appointed and how their independence is maintained to ensure that the external auditor's ability to carry out their role is not impaired or would not reasonably be perceived to be impaired.

The policy also covers auditor rotation, hiring of staff from the external auditor and reporting on fees and non-audit work. For further detail on non-audit work, please see note 26 of the financial statements.

Oversight of SLI's external audit arrangements to safeguard the integrity of financial reporting is the responsibility of the Audit and Risk Management Committee. All audit and non-audit work must be pre-approved by SLI's Audit and Risk Management Committee.

The role of the external auditor is to audit SLI's financial statements in accordance with applicable New Zealand auditing standards and to report on its findings to the Board and shareholders.

PricewaterhouseCoopers (PwC) is SLI's external auditor. Nathan Wylie has been the audit engagement partner for two years and will rotate off the audit in 2022 in accordance with the policy and NZX Rules.

The external auditor has provided the Audit and Risk Management Committee with written confirmation that, in his view, he was able to operate independently during the reporting year.

Fees paid to PwC are included in the notes to the financial statements.

The effectiveness, performance and independence of the external auditors is reviewed by the Audit and Risk Management Committee. The auditor is regularly invited to meet with the Committee including without Management present.

NZX RECOMMENDATION 7.2 (EXTERNAL AUDITOR ATTENDING ANNUAL MEETING) *"The external auditor should attend the issuer's Annual Shareholder Meeting to answer questions from shareholders in relation to the audit."*

SLI's external auditor attends the Annual Shareholder Meeting and will be available to answer questions about the audit process, SLI's accounting policies and their independence.

NZX RECOMMENDATION 7.3 (INTERNAL AUDIT FUNCTIONS) *"Internal audit functions should be disclosed."*

SLI does not have an internal auditor. SLI has internal processes that are delegated to the CFO to manage, that are considered by the Audit and Risk Management Committee to be appropriate for the size and complexity of SLI. The Audit and Risk Management Committee carefully considers the external auditor's management report which lists its key findings and recommendations about significant matters arising from the audit.

Principle 8 – Shareholder Relations

"The Board should respect the rights of shareholders and foster constructive relationship with shareholders that encourage them to engage with the issuer."

NZX RECOMMENDATION 8.1 (SHAREHOLDER RELATIONS) *"An issuer should have a website where investors and interested stakeholders can access financial and operational information and key corporate governance information about the issuer."*

SLI's Board is committed to maintaining open and transparent communications with investors and other stakeholders. Annual and interim reports, relevant NZX releases, governance policies and charters and a variety of corporate information is posted onto the investor relations section of SLI's website.

Each shareholder is also entitled to receive a hard copy of each annual and interim report.

NZX RECOMMENDATION 8.2 (INVESTOR COMMUNICATIONS) *"An issuer should allow investors the ability to easily communicate with the issuer, including providing the option to receive communications from the issuer electronically."*

The Board recognises that the Annual Shareholder Meeting is an important forum at which shareholders can meet with the directors and it encourages shareholders to use the forum to ask questions and make comments on SLI's performance. SLI's Annual Shareholder Meetings are held at locations that the Board believes to be most appropriate for shareholders and may vary from year to year. Shareholders are invited and encouraged to attend. The Chair and CEO's presentations are lodged with NZX prior to the meeting starting and are available on the SLI website.

Shareholders have the option of receiving their communications electronically. Shareholders can request electronic communications by contacting SLI's share registrar, Link Market Services Limited.

SLI has an investor relations programme that includes investor presentations and makes provision for dialogue and engagement with shareholders.

NZX RECOMMENDATION 8.3 (SHAREHOLDERS' RIGHT TO VOTE ON MAJOR DECISIONS) *"Shareholders should have the right to vote on major decisions which may change the nature of the company in which they are invested in."*

The Board is appointed by, and accountable to, shareholders. Directors' commitment to providing all SLI shareholders with full, fair and balanced information in a timely manner is set out in its Continuous Disclosure Policy. This commitment includes advising shareholders on any major decisions. Where voting on a matter is required the Board encourages investors to attend the shareholder meeting or to send in a proxy vote. Shareholders may raise matters for discussion at the Annual Shareholder Meeting either in person or by emailing questions to be asked to SLI's CFO.

NZX RECOMMENDATION 8.4 (VOTING) *"Each person who invests money in a company should have one vote per share of the company they own equally with other shareholders."*

SLI conducts voting at its Annual Shareholder Meetings by way of poll and on the basis of one share, one vote.

NZX RECOMMENDATION 8.5 (NOTICE OF MEETING) *"The Board should ensure that the annual shareholders notice of meeting is posted on the issuer's website as soon as possible and at least 28 days prior to the meeting."*

SLI's Notice of Meeting will available at least 28 days prior to the meeting on the SLI website and NZX.

Financial Statements Contents

Independent Auditor's Report

To the shareholders of SLI Systems Limited

The financial statements comprise:

- the consolidated balance sheet as at 30 June 2018;
- 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 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 2018, 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 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 areas of research and development grant application review, compliance assurance engagement over the interim financial statements and generic professional ethics 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 was $338,000, 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 measured by users, and is a generally accepted benchmark.

We have determined that there are two key audit matters:

- Revenue recognition
- Classification of research and development expenditure

PricewaterhouseCoopers
PwC Centre, Level 4, 60 Cashel Street, Christchurch Central, PO Box 13244, Christchurch 8141, New Zealand
T: +64 3 374 3000, F: +64 3 374 3001, pwc.co.nz

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 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 financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the 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 that the Group operates in. Our audit was conducted in New Zealand and the scope of our testing covered the transactions and balances for 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 financial statements of the current year. These matters were addressed in the context of our audit of the 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 comprises revenue from Software as a Service ("SaaS") agreements and amounted to $33.8 million for the year ended 30 June 2018. The Group's SaaS agreements include two main elements, subscription based contract revenue (billed in advance) and activity based (referrals) revenue (billed in arrears). Revenue is generated from a high volume of transactions and is dependent on the operation of IT systems. Revenue 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. Due to the significant audit effort required to assess the occurrence and cut-off of revenue recognition we determined this area to be a key audit matter.	Our audit procedures included the following: We obtained an understanding of the SaaS agreements. We evaluated and tested the Group's IT systems, processes and controls over revenue recognition to initiate, calculate and determine the amount and timing of subscription and activity based revenue transactions. We assessed the appropriateness of revenue recognition for subscription and activity based revenue by performing the following procedures, on a sample basis, for both existing and new contracts: • assessed the appropriateness of classification of revenue as subscription or activity based. This assessment was made with reference to the terms of the contract; • ensured revenue recognised from monthly subscription fees was supported by signed contracts; • assessed the existence of receivables, and thereby the occurrence of revenues, by testing the balances paid and outstanding to contracts and cash received; • reviewed credit notes issued after year-end; • tested evidence of the level of site activity (i.e. referrals) by agreeing the number of recorded visits to customers' websites in order to support the occurrence of activity based revenue recognised; and • reperformed a sample of the revenue in advance calculations for subscription revenue at balance date by agreement to supporting documentation 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 as a service provider, the Group incurs significant research and development costs on the development and maintenance of software. Development costs that meet certain criteria under the accounting standard NZ IAS 38 Intangible Assets 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 of these costs are expensed, and which are capitalised. As per Note 9 to the financial statements, $3.0 million of research costs were expensed during the year. No development costs were capitalised, as management assessed that they did not meet the capitalisation criteria.	Our audit procedures included the following: We obtained an understanding of the processes and controls over the recognition of research and development expenses as well as the trigger point for the capitalisation of these costs. We evaluated the appropriateness of the treatment of these costs as expenditure rather than being capitalised by meeting with project managers and reviewing all project plans to obtain an understanding of the nature of the projects. We also performed an assessment of the software projects against the accounting standard criteria including evaluating: how the software is used in the business, the stage of development, technical feasibility, the likelihood of the software being successfully completed and used to generate revenue exceeding costs beyond one year and whether the costs are maintaining or enhancements of an existing software product post release rather than new or substantially improved products. 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 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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/auditreport-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
28 August 2018

Directors' Responsibility Statement

The directors are responsible on behalf of the Company, including its subsidiaries (the Group), for presenting the consolidated financial statements in accordance with New Zealand law and Generally Accepted Accounting Practice, which present fairly the financial position of the Group as at 30 June 2018, its financial performance and its cash flows for the year ended on that date.

The financial statements presented cover a period of 12 months from 1 July 2017 to 30 June 2018.

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 28 August 2018.

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 2018

	NOTE	2018 $'000	2017 $'000
Operating revenue	3	33,802	31,546
Government grants received and receivable		615	489
Total revenue and other income		**34,417**	**32,035**
Operating expenses	4	(11,771)	(13,089)
Employee entitlements	5	(18,558)	(20,542)
Operating profit / (loss) before finance income		**4,088**	**(1,596)**
Finance income		18	27
Net finance income		**18**	**27**
Profit / (Loss) before tax		**4,106**	**(1,569)**
Income tax (expense)	6	(84)	(284)
Profit / (Loss) for the year		**4,022**	**(1,853)**
Other comprehensive income recycled through profit and loss			
Currency translation movement		150	(87)
Total comprehensive profit / (loss) for the year attributable to the shareholders of the company		**4,172**	**(1,940)**

		2018	2017
Earnings per share			
Basic and diluted earnings per share	24	0.065	(0.030)

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 2018

	Share Capital	Share Option Reserve	Translation Reserve	Accumulated Losses	Total Equity
	$'000	$'000	$'000	$'000	$'000
Opening balance at 1 July 2017	**18,771**	**2,091**	**(124)**	**(16,130)**	**4,608**
Profit for the year	-	-	-	4,022	4,022
Currency translation movement	-	-	150	-	150
Total comprehensive profit for the year	**-**	**-**	**150**	**4,022**	**4,172**
Transactions with owners					
Share options & share appreciation rights					
- exercised during year	-	-	-	-	-
- expense for the year	-	97	-	-	97
- expired / forfeited for the year	-	(449)	-	449	-
Balance at 30 June 2018	**18,771**	**1,739**	**26**	**(11,659)**	**8,877**

	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**

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 2018

	NOTE	2018 $'000	2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10	9,146	5,646
Trade and other receivables	11	7,515	6,341
Total current assets		**16,661**	**11,987**
Non-current assets			
Deferred tax assets	7	476	468
Property, plant and equipment	8	1,096	1,202
Intangible assets	9	87	139
Total non-current assets		**1,659**	**1,809**
Total assets		**18,320**	**13,796**
LIABILITIES			
Current liabilities			
Taxation payable	6	68	51
Trade and other payables	14	7,431	7,480
Employee benefits	15	1,888	1,612
Total current liabilities		**9,387**	**9,143**
Non-current liabilities			
Employee benefits	15	35	28
Deferred tax liabilities	7	21	17
Total non-current liabilities		**56**	**45**
Total liabilities		**9,443**	**9,188**
Net assets		**8,877**	**4,608**
EQUITY			
Share capital	13	18,771	18,771
Reserves		1,765	1,967
Accumulated losses		(11,659)	(16,130)
Total equity		**8,877**	**4,608**

	2018	2017
Net tangible asset backing per ordinary security	$0.13	$0.06

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

SLI Systems Limited and its Subsidiaries

Consolidated Statement of Cash Flows

For the year ended 30 June 2018

	NOTE	2018 $'000	2017 $'000
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		32,744	31,724
Interest received		14	25
Net GST (paid) / refund		(100)	146
Government grants		491	332
Cash was applied to:			
Payments made to suppliers and employees		(29,368)	(32,965)
Income tax (paid)	6	(75)	(54)
Net cash inflow / (outflow) from operating activities	**25**	**3,706**	**(792)**
Cash flows from investing activities			
Cash was applied to:			
Purchase of property, plant and equipment	8	(207)	(194)
Sale of property, plant and equipment		4	6
Purchase of intangibles	9	(3)	(139)
Net cash (outflow) from investing activities		**(206)**	**(327)**
Cash flows from financing activities			
Cash was provided from:			
Cash received from share options exercised		-	-
Net cash inflow from financing activities		**-**	**-**
Net increase / (decrease) in cash and cash equivalents		**3,500**	**(1,119)**
Cash and cash equivalents at the beginning of the year		5,646	6,765
Cash and cash equivalents at the end of the year	**10**	**9,146**	**5,646**

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

1. General information

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

The consolidated financial statements for the Group for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 28 August 2018.

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.

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 not 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:

1. Determining the classification of research related costs (note 9);
2. Determining the parameters of the Black-Scholes pricing model (note 21);
3. Determining deferred tax asset recognition (note 7);
4. Determination of share appreciation rights (SARs) being an equity settled share option scheme (note 22);
5. Determining the provision for doubtful debts required in relation to the level of receivables (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 2018 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.

NZ IFRS 9

NZ 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. It anticipates that the classification and measurement basis for its financial assets and liabilities will be largely unchanged by adoption of NZ IFRS 9. The main impact of adopting NZ IFRS 9 is likely to arise from the implementation of the expected loss model on trade receivables. The Group will use the simplified approach and group customers into risk bands by assessing the risk of a customer defaulting based on numerous factors including, customer industry, region, collections history and customer size. The expected credit loss will be calculated based on the customer risk profiles. No material impact is expected on profit for future periods, however additional disclosure will be required.

NZ IFRS 15

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 and will apply the modified retrospective method of adoption which will result in a cumulative adjustment to the opening retained earnings without restating the comparative.

The Group has a project team which has been reviewing SLI's two revenue streams being subscription based contract revenue and activity based revenue. To date, within SLI's two revenue streams, three performance obligations have been identified being the Learning Search (LS) suite, post contract support (PCS) and Site Champion. The LS Suite (including implementation) has been defined as a series of distinct services that are substantially the same and have the same pattern of transfer to the customer and therefore recognised over time. Site Champion is expected to be recognised over time as the benefits are consumed. There are expected to be some changes to the timing of revenue recognition under these methods, but these are still being quantified. To date, no significant variable consideration has been identified. Contract costs that are incremental costs to winning a contract will be capitalised and subsequently amortised over a period longer than the initial contract term. The impact of this is still to be quantified.

The disclosure requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are completely new and the project team has been working on ensuring systems are in place to capture the required information.

NZ IFRS 16

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 and other 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:

	2018	2017
	$'000	$'000
United States	17,896	17,906
United Kingdom	8,233	6,994
Australia	4,217	3,402
Brazil	1,176	1,272
New Zealand	1,262	1,190
Japan	624	267
Rest of the world	394	515
	33,802	**31,546**

Revenue by service type:

	2018	2017
	$'000	$'000
Learning Search suite	27,212	26,513
Site Champion	6,590	5,033
	33,802	**31,546**

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.

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.

(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

	2018	2017
	$'000	$'000
Operating expenses include:		
Amortisation of intangible assets	55	65
Bad debts written off	306	429
Movement in provision for doubtful debts	107	(120)
Depreciation on property, plant and equipment	216	295
Directors' fees	237	221
Remuneration paid to auditors (Note 26)	136	104
Operating leases expenses	1,149	1,546
(Gain) / loss on foreign exchange transactions	(72)	(17)

5. Employee entitlements

	2018	2017
	$'000	$'000
Wages and salaries	17,984	19,205
Share option and SARs expense	97	763
Employer contribution to defined contribution plans	305	295
Restructuring	172	279
Total employee entitlements	**18,558**	**20,542**

Employee benefit costs incurred on research activities are included within employee entitlements disclosed above. The cost of employee entitlements associated with research costs is $2,069,000 (30 June 2017 $1,127,000).

6. Taxation

	2018	2017
	$'000	$'000
(a) Income tax expense can be reconciled to accounting profit / (loss) as follows:		
Accounting profit / (loss) before tax	4,106	(1,569)
Tax at the Group's NZ statutory income tax rate of 28%	1,150	(439)
Adjustments in respect of current income tax of previous years	2	(14)
Tax effect of non-deductible expenditure	84	283
Unrecognised current year tax losses	-	394
Tax losses brought forward utilised	(1,247)	-
Effect of tax rates applying in foreign jurisdictions	40	15
Adjustments in respect of deferred tax of previous years	55	45
Aggregate income tax expense	**84**	**284**
Comprising		
Current tax		
- Current year tax	88	88
- Prior year adjustment	2	(14)
Deferred tax	(6)	210
Income tax expense	**84**	**284**

	2018	2017
	$'000	$'000
(b) Recognised tax (liability) / asset		
Opening balance	(51)	(34)
Charged to income	(88)	(88)
Tax paid	75	54
Prior year adjustment	(2)	15
Other	(2)	2
Closing balance	**(68)**	**(51)**

(c) Imputation credit balance

There is no imputation credit balance at 30 June 2018 (30 June 2017 nil).

7. Deferred taxation

	2018	2017
	$'000	$'000
Deferred tax asset / (liability):		
Opening balance	451	662
Credited to income	61	(165)
Prior year adjustment	(55)	(45)
Other	(2)	(1)
Closing balance	**455**	**451**
Deferred income tax at 30 June relates to the following:		
Deferred tax assets:		
Employee entitlements	265	232
Provisions	85	128
Doubtful debts	113	100
Other	13	8
Gross recognised deferred tax assets	**476**	**468**
Deferred tax liabilities:		
Property, plant and equipment	(21)	(17)
Gross recognised deferred tax liabilities	**(21)**	**(17)**
Net recognised deferred tax asset	**455**	**451**

As the Group continues to invest in development and marketing there is variability in trading performance. As such no deferred tax asset is recognised in relation to the carried forward tax losses as it is not assessed as probable the Group will generate sufficient assessable income in the foreseeable future. The Group has unrecognised New Zealand tax losses available to carry forward of $8,829,000 (30 June 2017 $12,547,000) subject to shareholder continuity being maintained as required by New Zealand tax legislation and subject to confirmation from the relevant tax authority.

US tax reform
On 22 December 2017, the US Government signed into law extensive changes to the US tax system. These changes were introduced by the 'Tax Cuts and Jobs Act' (the 2017 Act) and are known as the US tax reform. As at the date of signing these accounts the impact of the US tax reform on the financial statements has been determined as not material. A final assessment will be completed along with the lodgement of the US tax return.

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 2018			
Cost			
Balance at 1 July 2017	1,402	1,808	3,210
Currency translation movement	17	27	44
Additions	84	123	207
Disposals	(420)	(196)	(616)
Balance at 30 June 2018	**1,083**	**1,762**	**2,845**
Depreciation			
Balance at 1 July 2017	(1,208)	(800)	(2,008)
Currency translation movement	(15)	(18)	(33)
Depreciation expense	(108)	(108)	(216)
Disposals	410	98	508
Balance at 30 June 2018	**(921)**	**(828)**	**(1,749)**
Net carrying amount	**162**	**934**	**1,096**

	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**

The net carrying value at 30 June 2018 of property, plant and equipment held in New Zealand is $684,000 (30 June 2017 $763,000), within the United States $199,000 (30 June 2017 $261,000), within United Kingdom $191,000 (30 June 2017 $159,000), within Australia $19,000 (30 June 2017 $19,000) and within Japan $2,500 (30 June 2017 nil).

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 or the 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 2018			
Cost			
Balance at 1 July 2017	516	289	805
Additions	-	3	3
Balance at 30 June 2018	**516**	**292**	**808**
Amortisation			
Balance at 1 July 2017	(479)	(187)	(666)
Amortisation	(5)	(50)	(55)
Balance at 30 June 2018	**(484)**	**(237)**	**(721)**
Net carrying value	**32**	**55**	**87**

	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**

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
The total amount attributable to research costs during the year is $2,996,000 (30 June 2017 $1,512,000). 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.

The cost associated with maintaining computer software programs is 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.

(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 patents and trademarks 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:

- Patents and trademarks 5% - 10%
- Software 48%

10. Cash and cash equivalents

	2018	2017
	$'000	$'000
Cash at bank and on hand	4,771	3,660
Short-term bank deposits	4,375	1,986
	9,146	**5,646**

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

	2018	2017
	$'000	$'000
US dollars	2,355	2,009
Great British pounds	1,034	1,067
Australian dollars	882	367
Japanese yen	266	42

Accounting policy: Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions for less than 90 days 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

	2018	2017
	$'000	$'000
Gross trade receivables	5,918	4,398
Provision for impairment of receivables	(482)	(375)
Net trade receivables	**5,436**	**4,023**
Un-invoiced revenue	1,331	1,027
Prepayments and other receivables	748	1,291
Total trade and other receivables	**7,515**	**6,341**

12. Trade receivables provisioning

(a) Impaired receivables

As at 30 June 2018 trade receivables with a value of $482,000 (30 June 2017 $375,000) were impaired in respect of the Group. The ageing analysis of these trade receivables is as follows:

	2018	2017
	$'000	$'000
0-60 days overdue	100	74
61-90 days overdue	105	123
91+ days overdue	277	178
Impaired receivables	**482**	**375**

(b) Past due but not impaired

As at 30 June 2018 trade receivables of the Group of $531,000 (30 June 2017 $233,000) 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:

	2018	2017
	$'000	$'000
1-30 days overdue	283	153
Greater than 31 days overdue	248	80
	531	**233**

(c) Provision for impairment of receivables

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

	2018	2017
	$'000	$'000
Opening balance	375	495
Additional amounts provided	107	-
Unused amounts written back	-	(120)
Closing balance	**482**	**375**

(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$:

	2018	2017
	$'000	$'000
US dollars	3,554	3,263
Great British pounds	2,695	2,124
Australian dollars	760	473
Japanese yen	9	49

Accounting policy: Trade and other 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.

Un-invoiced revenue represents services that 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.

13. Contributed equity

(a) Ordinary share capital

	Number of Ordinary Shares 2018	2018	Number of Ordinary Shares 2017	2017
		$'000		$'000
Opening balance	62,260,816	18,771	62,260,816	18,771
Share options exercised	-	-	-	-
Closing balance	**62,260,816**	**18,771**	**62,260,816**	**18,771**

The total number of ordinary shares on issue as at 30 June 2018 is 62,260,816 (30 June 2017 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.

14. Trade and other payables

	2018	2017
	$'000	$'000
Trade payables, other payables and accrued expenses	1,540	2,248
Revenue in advance	5,891	5,232
	7,431	**7,480**

As at balance date the amounts payable (including revenue in advance and employee benefits) in foreign currency were as follows, all values shown in NZ$:

	2018	2017
	$'000	$'000
US dollars	4,721	5,114
Great British pounds	2,408	2,097
Australian dollars	900	785
Japanese yen	32	24

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.

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

15. Employee benefits

Current employee benefits

	2018	2017
	$'000	$'000
Liability for annual and long service leave	982	873
Other employee payables	906	739
	1,888	**1,612**

Non-current employee benefits

	2018	2017
	$'000	$'000
Liability for long service leave	35	28
	35	**28**

Accounting policy: Employee benefits

Liabilities for wages and salaries, 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 sick leave is recognised when the leave is taken and measured at the rates paid or payable.

16. Operating lease commitment

Non-cancellable operating lease rentals are payable as follows:

	2018	2017
	$'000	$'000
Less than one year	872	1,033
Between one and five years	817	1,172
More than five years	-	-
	1,689	**2,205**

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 2018 (30 June 2017 nil).

18. Contingencies

There are no contingencies at 30 June 2018 (30 June 2017 nil).

19. Subsidiaries

Name	Country of Incorporation	Ownership 2018	Ownership 2017
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 no longer a shareholder of Delivery Agent. Delivery Agent is a customer of S.L.I. Systems, Inc. Revenue recognised in the year while Marder Media Group, Inc. was a shareholder of Delivery Agent was nil (30 June 2017 $246,000).

Group Lark Pty Ltd (of which Andrew Lark is a director) provided consulting services to S.L.I. Systems, Inc. of $8,000 (30 June 2017 $6,000).

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

The following table summarises remuneration paid to key management personnel:

	2018	2017
	$'000	$'000
Directors' fees	237	221
Employee entitlements	2,933	3,639
Share options and SARs	74	738

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 ii) the last date for exercising the option following termination of the Optionee's Service; or iii) a date determined by the Board of Directors.

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

Current Year **Reconciliation of outstanding options**	**Number of Options 2018**	**Weighted Average Exercise Price NZ$ 2018**	**Weighted Average Exercise Price US$ 2018**
Balance at 1 July 2017	5,476,832	0.78	0.57
Expired / forfeited during the year	(1,149,703)	0.91	0.64
Exercised during the year	-	-	-
Issued during the year	810,000	0.31	0.22
Options issued from exercising or expiry of SARs	613,083	0.37	0.26
Balance at 30 June 2018	**5,750,212**	**0.66**	**0.45**
Exercisable at 30 June 2018	4,587,454	0.74	0.50

Prior Year **Reconciliation of outstanding options**	**Number of Options 2017**	**Weighted Average Exercise Price NZ$ 2017**	**Weighted Average Exercise Price US$ 2017**
Balance at 1 July 2016	4,601,944	0.93	0.66
Expired / forfeited during the year	(836,051)	1.41	1.01
Exercised during the year	-	-	-
Issued during the year	565,000	0.43	0.30
Options issued from exercising or expiry of SARs	1,145,939	0.85	0.60
Balance at 30 June 2017	**5,476,832**	**0.78**	**0.57**
Exercisable at 30 June 2017	4,627,248	0.79	0.58

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 30 Jun 2018 (years)**
300,000	US $0.29 - $0.33	1.9
1,635,829	US $0.3333	2.3
171,375	US $0.68	4.0
285,338	US $0.75	4.2
129,600	US $0.78	4.7
1,738,083	NZ $0.25 - $0.40	8.7
45,000	NZ $0.41 - $0.60	8.7
145,167	NZ $0.61 - $0.80	7.6
813,083	NZ $0.81 - $1.00	7.2
78,200	NZ $1.01 - $1.20	6.5
67,900	NZ $1.21 - $1.40	6.2
40,537	NZ $1.41 - $1.60	6.1
113,800	NZ $1.61 - $1.80	5.9
103,500	NZ $1.81 - $2.00	5.1
27,600	NZ $2.01 - $2.20	5.4
13,800	NZ $2.21 - $2.40	5.8
41,400	NZ $2.41 - $2.60	5.7

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	2018	2017
Share price at grant date (weighted average US$)	0.40	0.41
Exercise price (weighted average US$)	0.42	0.43
Expected volatility (weighted average)	20% - 30%	20% - 30%
Expected life (weighted average)	4.0 years	4.0 years
Risk-free interest rate (weighted average)	3.1%	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	2018	2017
Share price at grant date (weighted average NZ$)	0.62	0.80
Exercise price (weighted average NZ$)	0.69	0.97
Expected volatility (weighted average)	30% - 50%	30% - 40%
Expected life (weighted average)	4.0 years	4.0 years
Risk-free interest rate (weighted average)	2.8%	3.0%
Fair value at grant date (weighted average NZ$)	0.23	0.28

Directors
The following directors hold the following number of options as at 30 June 2018:

	Exercise price	
Christopher Brennan (issued in the current year)	NZ $0.37	613,083
Christopher Brennan	NZ $0.83	613,083
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.

The options are accounted for as equity settled share based payments as the Company has no legal or constructive obligation to repurchase or settle the options in cash.

There is, for most option holders, a requirement to remain an employee of the Company in order to retain the options.

22. 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 talent.

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

Conditional SARs
In the twelve months to 30 June 2018, SLI granted 1,038,000 SARs at a weighted average exercise price of NZ $0.25 cents. These conditional SARs are eligible to vest and become exercisable as of the one year anniversary after the grant date. The SARs can only be exercised on the appropriate anniversary date or some other date as agreed by the Board, and if they are not exercised they will terminate after the expiry of the relevant exercise date.

The SARs include non-market performance obligations that will determine whether the SARs will be eligible to vest. The Board will at its discretion determine if the performance obligations have been satisfied. All performance obligations will have been determined as satisfied or not by November 2018 or some other date determined by the Board.

Unconditional SARs

SARs issued in previous periods 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 unless otherwise determined by the Board. 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 by the Board, and if they are not exercised they will terminate after the expiry of the relevant exercise date.

Upon exercise of all types 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, or such other value determined by the Board, 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 is 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 2018**	**Weighted Average Exercise Price NZ$ 2018**
Balance at 1 July 2017	2,345,221	0.37
Expired / forfeited during the year	(550,972)	0.36
Expired during the year & share options issued	(613,083)	0.37
Exercised during the year	-	-
Issued during the year	1,138,000	0.25
Balance at 30 June 2018	**2,319,166**	**0.31**

Prior 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 30 June 2017 year to NZ $0.37 cents, the weighted average price of these prior to repricing was NZ $0.89 cents.*

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

Number of SARs	Exercise Price per Share	Weighted Average Contractual Life remaining at 30 Jun 2018 (years)
100,000	NZ $0.20	2.1
993,000	NZ $0.25	0.3
1,226,166	NZ $0.37	0.9

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 estimate the exercise price of options being the future share price at the time the associated SARs are exercised and the related options are granted. For the purposes of determining the fair value expense of the Conditional SARs non-market performance obligations are assumed to not be achieved.

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

	2018	2017
Fair value SARs expense through the Statement of Comprehensive Income	$'000	$'000
Expensed during the year	21	234
Expensed during the year – due to repricing	7	92
	28	**326**
Fair value SARs expense recycled through Equity		
Expired / forfeited during the year	(166)	(231)

	2018	2017
Fair value additional options expense through the Statement of Comprehensive Income	$'000	$'000
Expensed during the year	19	261
Expensed during the year – due to repricing	11	133
	30	**394**
Fair value options expense recycled through Equity		
Expired / forfeited during the year	(164)	-

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

SARs	2018	2017
Expected volatility (weighted average)	30% - 50%	30%
Expected life (weighted average)	1.9 years	2.5 years
Risk-free interest rate (weighted average)	2.3%	2.7%
Fair value at grant date (weighted average NZ$)	0.12	0.19
Fair value impact of repricing (weighted average NZ$)	0.15	0.24

Options not yet granted	2018	2017
Expected volatility (weighted average)	30% - 50%	30%
Expected life (weighted average)	4.5 years	4.0 years
Risk-free interest rate (weighted average)	2.6%	2.7%
Fair value at grant date (weighted average NZ$)	0.15	0.20
Fair value impact of repricing (weighted average NZ$)	0.20	0.26

The SARs weighted average share price at grant date is NZ $0.55 cents and exercise price is NZ $0.31 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 2018:

	Exercise price	
Christopher Brennan (issued in the current year)	NZ $0.25	441,000
Christopher Brennan	NZ $0.37	1,226,166

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 and other 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. As at 30 June 2018 these total $16,661,000 (30 June 2017 $11,987,000).

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 and other payables are classified as financial liabilities. As at 30 June 2018 these total $7,431,000 (30 June 2017 $7,480,000).

Classification

Trade and other 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 $35,000 at 30 June 2018 for long service leave that will be settled after more than 12 months (30 June 2017 $28,000).

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 relatively 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, Great 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 2018 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:

	2018	2017
	$'000	$'000
Appreciation of NZ$ against foreign currency (10%)		
(Decrease) in profit before tax	(349)	(137)
(Decrease) in equity after tax	(399)	(233)
Depreciation of NZ$ against foreign currency (10%)		
Increase in profit before tax	349	137
Increase in equity after tax	399	233

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 and SARs. There is no dilutive effect from the potential share options or SARs.

	2018	2017
Net profit / (loss) after tax	$4,022,000	($1,853,000)
Ordinary shares on issue	62,260,816	62,260,816
Weighted average number of shares on issue	62,260,816	62,260,816
Basic and diluted earnings per share	**0.065**	**(0.030)**

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

	2018	2017
	$'000	$'000
Net profit / (loss) after tax	4,022	(1,853)
Adjustments		
Depreciation	216	295
Amortisation	55	65
Profit / (loss) on currency translation movement	139	(80)
Loss on disposal of assets	104	-
Share option and SARs expense	97	763
Changes in working capital items		
(Increase) in trade receivables and prepayments	(515)	(196)
(Decrease) in trade payables and accruals	(415)	(47)
(Increase) / Decrease in GST	(10)	33
Decrease in tax	13	228
Net cash inflow / (outflow) from operating activities	**3,706**	**(792)**

26. Remuneration of auditor

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

	2018	2017
	$'000	$'000
Audit of financial statements		
Audit and review of financial statements[1]	128	97
Prior year audit fee under accrual	4	3
Other services		
Other services[2]	4	4
Total remuneration paid to auditor	**136**	**104**

1. *The audit fee includes the fees for both annual audit of the Group and SLI Systems (UK) Limited financial statements, the compliance assurance engagement on the Group interim financial statements and fee in relation to the costs of transitioning to new accounting standards.*
2. *Other services as at 30 June 2018 include professional services rendered in relation to research and development grant application review and presentation of generic professional ethics training.*

27. Subsequent events

There have been no material subsequent events after 30 June 2018.

Directory

Registered Office of the Company

–

1st Floor, Epic Centre
78-106 Manchester Street
PO Box 13-841
Christchurch, 8011
Phone: 0800 754 797
Facsimile: +64 (3) 961 3262
Email: info@sli-systems.com
Website: www.sli-systems.com

Office Directory

–

USA
Metro Plaza, Suite 230
101 Metro Drive
San Jose, CA 95110
USA
Toll Free: (866) 240 2812

Europe
5th Floor, Finsbury Court
101-117 Finsbury Pavement
London, EC2 1 RS
United Kingdom
Phone: 0800 032 4783

Australia
3rd Floor, Suite 308
235 Queen Street
Melbourne
VIC 3000
Australia
Phone: 1800 139 190

Japan
Taiyo Seimei Shinagawa Building 28F
2-16-2 Konan, Minato-ku, Tokyo,
Japan 108-0075
Phone: +81 03 5715-8052

New Zealand
1st Floor, Epic Centre
78 – 106 Manchester Street
Christchurch, 8011
New Zealand
Phone: 0800 754 797

Solicitors

–

Chapman Tripp
PwC Centre
Level 5, 60 Cashel Street
Christchurch

Auditor

–

PricewaterhouseCoopers
PwC Centre
Level 4, 60 Cashel Street
Christchurch

Registrar

–

Link Market Services Limited
Level 11, Deloitte Centre
80 Queen Street, Auckland
Phone: +64 (9) 375 5998
Facsimile: +64 (9) 375 5990
Email: enquiries@linkmarketservices.co.nz
Website: www.linkmarketservices.co.nz

This page has been intentionally left blank.

SLI SYSTEMS™
THE E-COMMERCE ACCELERATOR