# SLI Systems Limited

# and its Subsidiaries

# Financial Statements

For the period ended 30 June 2013

# SLI Systems Limited and its Subsidiaries

## Contents

**Director's Responsibility Statement**

The directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which give a true and fair view of the financial position of the Group as at 30 June 2013 and the results of the Group's operations and cash flows for the period ended on that date.

The company was incorporated on 17 April 2013 and a share exchange with S.L.I. Systems, Inc. occurred on 31 May 2013. The financial statements presented cover a period of only one month where there was any trading for SLI Systems Limited. Because this is a newly incorporated company there are no comparative figures for the corresponding prior period.

Shareholders will be interested in the performance of the Group compared to the Prospective Financial Information ("PFI") included in the Group's Investment Statement dated 6 May 2013. Comparisons to the PFI are set out in these financial statements at note 30 being pro forma financial statements for the period 1 July 2012 to 30 June 2013. These are prepared as if the Company had acquired S. L.I. Systems, Inc. on or before 1 July 2012. Historical financial statements for SLI systems Inc. can be found in the Company's Investment Statement.

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 the Financial Reporting Act 1993.

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 2013.

For and on behalf of the Board.

Greg Cross

Chairman of Board

Sarah Smith

Chair of Audit and Risk Committee

# *Independent Auditors' Report*

to the shareholders of SLI Systems Limited

## *Report on the Financial Statements*

We have audited the financial statements of SLI Systems Limited ('the Company') on pages 6 to 33, which comprise the balance sheets as at 30 June 2013, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2013 or from time to time during the financial period.

### *Directors' Responsibility for the Financial Statements*

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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

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

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

Other than in our capacity as auditors and providers of other assurance services we have no relationship with, or interests in, SLI Systems Limited or any of its subsidiaries.

# *Independent Auditors' Report*

SLI Systems Limited

### *Opinion*

In our opinion, the financial statements on pages 6 to 33:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 30 June 2013, and their financial performance and cash flows for the period then ended.

## *Report on Other Legal and Regulatory Requirements*

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the period ended 30 June 2013:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

## *Restriction on Distribution or Use*

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

Pricewaterhouse Coopers

Chartered Accountants
28 August 2013

Christchurch

# SLI Systems Limited and its Subsidiaries
## Income Statements
## For the Period Ended 30 June 2013

| | Note | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|---|
| Operating revenue | 3 | 1,583 | - |
| Other income | 3 | 25 | - |
| **Total revenue & other income** | | **1,608** | **-** |
| Delivery costs | | (441) | - |
| Administration and other costs | | (475) | - |
| Listing costs | | (1,129) | - |
| Employee entitlements | 5 | (1,454) | (168) |
| **Operating profit / (loss) before finance costs** | | **(1,891)** | **(168)** |
| Finance income | 6 | 50 | - |
| Finance costs | 6 | - | - |
| **Net financing income / (cost)** | | **50** | **-** |
| **Profit / (loss) before tax** | | (1,841) | (168) |
| Income tax (expense)/ credit | 7 | 24 | - |
| **Profit / (loss) for the period** | | **(1,817)** | **(168)** |
| **Profit / (loss) attributable to the Shareholders of the Company** | | **(1,817)** | **(168)** |
| **Earnings / (loss) per share** | | | |
| Basic earnings / (loss) per share | 25 | (0.077) | |
| Diluted earnings / (loss) per share | 25 | (0.077) | |

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

## SLI Systems Limited and its Subsidiaries
## Statements of Comprehensive Income
## For the Period Ended 30 June 2013

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| Profit / (loss) for period | (1,817) | (168) |
| **Other comprehensive income** | | |
| Currency translation movement | 46 | - |
| **Total comprehensive income / (loss) for the period attributable to the shareholders of the company** | **(1,771)** | **(168)** |

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

# SLI Systems Limited and its Subsidiaries
# Statements of Changes in Equity
# For the Period Ended 30 June 2013

| Group | Share Capital $'000 | Share Option Reserve $'000 | Translation Reserve $'000 | Accumulated Losses $'000 | Total Equity $'000 |
|---|---|---|---|---|---|
| **Opening balance at 17 April 2013** | - | - | - | - | - |
| Profit / (loss) for the period | - | - | - | (1,817) | (1,817) |
| Currency translation movement | - | - | 46 | - | 46 |
| **Total comprehensive income for the period** | - | - | 46 | (1,817) | (1,771) |
| **Transactions with owners** | | | | | |
| Share Options | | | | | |
| - Share options exercised during period | 30 | (5) | - | - | 25 |
| - Share option expense for the period | - | 189 | - | - | 189 |
| Issue of ordinary shares | | | | | |
| - On 31 May 2013 on acquisition of subsidiaries | 2,292 | 811 | - | - | 3,103 |
| - For cash at IPO | 15,000 | - | - | - | 15,000 |
| - IPO share issue cost | (791) | - | - | - | (791) |
| **Balance at 30 June 2013** | **16,531** | **995** | **46** | **(1,817)** | **15,755** |

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

# SLI Systems Limited and its Subsidiaries
# Statements of Changes in Equity
# For the Period Ended 30 June 2013

| Parent | Share Capital $'000 | Share Option Reserve $'000 | Accumulated Losses $'000 | Total Equity $'000 |
|---|---|---|---|---|
| **Opening balance at 17 April 2013** | - | - | - | - |
| Profit / (loss) for the period | - | - | (168) | (168) |
| **Total comprehensive income for the period** | - | - | (168) | (168) |
| **Transactions with owners** | | | | |
| Share Options | | | | |
| - Share options exercised during the period | 30 | (5) | - | 25 |
| - Share option expense for the period | - | 168 | - | 168 |
| - Share options pre share transfer for the period | - | 21 | - | 21 |
| Issue of ordinary shares | | | | |
| - On 31 May 2013 on acquisition of subsidiary | 2,292 | 811 | - | 3,103 |
| - For cash at IPO | 15,000 | - | - | 15,000 |
| **Balance at 30 June 2013** | **17,322** | **995** | **(168)** | **18,149** |

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

# SLI Systems Limited and its Subsidiaries
# Balance Sheets
# As at 30 June 2013

| | Note | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 11 | 15,382 | - |
| Trade and other receivables | 12 | 4,185 | - |
| Receivables from subsidiaries | 22 | - | 15,025 |
| **Total current assets** | | **19,567** | **15,025** |
| | | | |
| **Non-current assets** | | | |
| Deferred tax assets | 8 | 167 | - |
| Property, plant and equipment | 9 | 1,290 | - |
| Intangible assets | 10 | 162 | - |
| Investment in subsidiaries | 21 | - | 3,124 |
| **Total non-current assets** | | **1,619** | **3,124** |
| | | | |
| **Total assets** | | **21,186** | **18,149** |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Taxation payable | 7 | 76 | - |
| Trade and other payables | 15 | 3,739 | - |
| Employee benefits | 16 | 1,573 | - |
| **Total current liabilities** | | **5,388** | **-** |
| | | | |
| **Non-current liabilities** | | | |
| Employee benefits | 17 | 43 | - |
| **Total non-current liabilities** | | **43** | - |
| | | | |
| **Total liabilities** | | **5,431** | **-** |
| | | | |
| **Net assets** | | **15,755** | **18,149** |
| | | | |
| **EQUITY** | | | |
| Share capital | 14 | 16,531 | 17,322 |
| Reserves | | 1,041 | 995 |
| Accumulated losses | | (1,817) | (168) |
| **Total equity** | | **15,755** | **18,149** |

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

# SLI Systems Limited and its Subsidiaries
## Statement of Cash Flows
## For the Period Ended 30 June 2013

| | Note | Group 2013 $'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Cash was provided from:** | | |
| Receipts from customers | | 1,247 |
| Interest received | | 50 |
| Net GST received | | 36 |
| **Cash was applied to:** | | |
| Payments made to suppliers and employees | | (2,358) |
| Income tax paid | 7 | - |
| **Net cash inflow/(outflow) from operating activities** | 26 | **(1,025)** |
| **Cash flows from investing activities** | | |
| **Cash was provided from/(applied to):** | | |
| Purchase of property, plant & equipment | 9 | (56) |
| Cash acquired with subsidiary | 28 | 2,229 |
| **Net cash inflow from investing activities** | | **2,173** |
| **Cash flows from financing activities** | | |
| **Cash was provided from/(applied to):** | | |
| Net proceeds from issue of shares | | 15,000 |
| Cash received from share options exercised | | 25 |
| IPO share issue costs charged to equity | | (791) |
| **Net cash inflow from financing activities** | | **14,234** |
| **Net increase/(decrease) in cash and cash equivalents** | | **15,382** |
| Cash and cash equivalents at the beginning of the period | | - |
| **Cash and cash equivalents at the end of the period** | 11 | **15,382** |

The Parent has no bank account, therefore there are no cash transactions for the Parent

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

## 1. General information

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

The consolidated financial statements for the Group for the period ended 30 June 2013 were authorised for issue in accordance with a resolution of the Directors on 28 August 2013.

Note 30 sets out the comparison of actual results compared to the Prospective Financial Information as set out in the Group's Investment Statement dated 6 May 2013.

## 2. Summary of significant accounting policies

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice ("NZGAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

The financial statements presented are the first financial statements as at balance date 30 June 2013 of the Parent and Group, covering the period since incorporation on 17 April 2013 and accordingly no comparatives have been presented.

### (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***

The financial statements for the "Parent" are for SLI Systems Limited as a separate legal entity. The consolidated financial statements for the "Group" are for the economic entity comprising SLI Systems Limited and its Subsidiaries.

The Company and Group are designated as profit-oriented entities for financial reporting purposes.

***Statutory base***

SLI is a limited company, incorporated in New Zealand and registered under the New Zealand Companies Act 1993. The registered office of the Company is 78-106 Manchester Street, Christchurch, New Zealand. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

***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. There are no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements except for the determination of the functional currency for S.L.I. Systems, Inc.

Determination of functional currency: NZ IAS 21. The Effects of Changes in Foreign Exchange Rates defines the functional currency as the currency of the primary economic environment in which an entity primarily generates and expends cash. Although a majority of the sales are denominated in US dollars, as the services provided are web based the selling prices are influenced by a series of global factors. The New Zealand economic environment influences a significant proportion of the expenses incurred. In addition funding for the Company is sourced in New Zealand dollars. Therefore the Directors have concluded that the New Zealand dollar is the functional currency of the Company.

### (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 2013 and the results of the subsidiaries for the period then ended. SLI Systems Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

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

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The acquisition of the subsidiary S.L.I. Systems, Inc. has been accounted for as a capital reorganisation. The cost of the acquisition is measured as the predecessor value of the assets and liabilities assumed at the date of exchange.

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 based on monthly exchange rates. 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 income statement.

*(iii)* ***Foreign operations***

The results and balance sheets of all foreign operations that have a functional 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 income statements are translated at average exchange rates; and
- all resulting exchange differences are recognised as other comprehensive income.

### (d) Revenue recognition

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

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

The provision of services is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

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

*(ii)* ***Government grants***

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

### (e) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement. 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.

### (f) 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.

### (g) Leases

#### *(i) The Group is the lessee - Operating leases*

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 income statement on a straight-line basis over the period of the lease.

### (h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, 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.

### (i) Trade receivables

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

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

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within ‘operating expenses’. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against ‘administration and other costs’ in the income statement.

### (j) Financial assets

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

***Classification***

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Group’s loans and receivables comprise of ‘trade and other receivables’ and cash and cash equivalents in the balance sheet.

Loans and receivables are subsequently carried at cost.

***Offsetting financial instruments***

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

**(k) Property, plant and equipment**

All property, plant and equipment are 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 income statement during the financial period in which they are incurred.

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

- Computer Equipment 30% - 60%
- Furniture, Equipment & 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 income statement.

**(l) Intangible assets**

(i) Research costs are expensed as incurred.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. 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.

Directly attributable costs that are capitalised as part of the capitalised software development costs include the software development employee costs. Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives.

(ii) Other intangible assets acquired are initially measured at cost. Internally generated assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the income statement 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 income statement on a straight–line basis over the estimated useful life of the intangible asset, from the date it is available for use.

The estimated useful lives are:

| | |
|---|---|
| Trademarks / patents | 12 -17 years |
| Software | 3 - 5 years |

**(m) Investments in subsidiaries**

The investment in the subsidiaries in the Parent financial statements is stated at cost less impairment.

**(n) 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.

### (o) 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.

### (p) Provisions

The Group has no provisions for legal claims, service warranties and rental obligations.

### (q) Employee benefits

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

### (r) Equity settled share option plan

The Employee Share Option Plan allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense in the Group income statement with a corresponding increase in the share option reserve. In the Parent financial statements the charge relating to the fair value of options that were issued prior to 31 May 2013 is recognised as an increase in investment in subsidiaries. Any charges relating to the fair value of options that are issued on or after 31 May 2013 are recognised as an expense in the Parent. 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 valuation approach, 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.

### (s) 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 and the United Kingdom. Discrete financial information is not produced on a geographical basis and the operating results are reviewed on a group basis.

### (t) Standards, interpretations and amendments not yet effective

**NZ IFRS 9: Financial Instruments (effective 1 January 2015):**

This standard replaces the parts of *NZ IAS 39 Financial Instruments: Recognition and Measurement* that relates to the classification and measurement of financial instruments.
All financial assets are required to be classified into two measurement categories: at fair value and at amortised cost.
The determination is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.
The Group intends to adopt the new standard in the annual reporting period ending 30 June 2016.

**NZ IFRS 13 Fair Value Measurement (effective 1 January 2013):**

NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group intends to adopt the new standard in the annual reporting year ending 30 June 2014.

There are no other NZ IFRSs or NZ IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group or Parent.

### 3. Revenue and other income

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| Revenue from sale of services | 1,583 | - |
| Government grants received and receivable | 25 | - |
| **Total revenue and other income** | **1,608** | **-** |

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

| | 2013 $'000 |
|---|---|
| New Zealand | 27 |
| United States | 974 |
| United Kingdom | 276 |
| Australia | 194 |
| Rest of the world | 112 |
| | **1,583** |

### 4. Operating expenses

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| **Operating expenses include:** | | |
| Amortisation of intangible assets | 5 | - |
| Bad debts written off | 63 | - |
| Movement in provision for doubtful debts | (30) | - |
| Depreciation on property, plant & equipment | 22 | - |
| Directors fee | 18 | - |
| Fees paid to auditors | 168 | - |
| Operating leases expenses | 62 | - |
| Loss/(gain) on foreign exchange transactions | (43) | - |

### 5. Employee entitlements

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| Wages and salaries | 1,254 | - |
| Share option expense | 189 | 168 |
| Employer contribution to defined contribution plans | 11 | - |
| **Total employee entitlements** | **1,454** | **168** |

Employee benefit costs incurred on research activities are included within employee entitlements disclosed above.

### 6. Net financing income/(cost)

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| Interest income | 50 | - |
| **Finance Income** | **50** | **-** |
| Interest expense | - | - |
| **Finance cost** | **-** | **-** |
| **Net Financing income/(cost)** | **50** | **-** |

### 7. Taxation

| (a) Income tax (credit)/expense can be reconciled to accounting (loss)/profit as follows: | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| Accounting (loss) / profit before tax | (1,841) | (168) |
| Tax at the group's effective income tax rate of 28% | (515) | (47) |
| Tax effect of non deductible expenditure | 339 | 47 |
| Unrecognised current period tax losses | 158 | - |
| Other | (6) | - |
| **Aggregate income tax expense/(credit)** | **(24)** | **-** |
| **Comprising** | | |
| Current tax | 5 | **-** |
| Deferred tax | (29) | **-** |
| **Income tax expense/(credit)** | **(24)** | **-** |

| (b) Recognised tax liabilities | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| Balance at 17 April 2013 | - | - |
| On acquisition of subsidiary | 71 | - |
| Charged to income | 5 | - |
| Tax paid | - | - |
| **Closing balance** | **76** | **-** |

| (c) Imputation credit balance | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| Balance at 17 April 2013 | - | - |
| On acquisition of subsidiary | 25 | - |
| Loss of shareholder continuity | (25) | - |
| **Closing balance** | **-** | **-** |

### 8. Deferred taxation

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| **Deferred tax asset/(liability):** | | |
| Balance at 17 April 2013 | - | - |
| On acquisition of subsidiary (note 28) | 138 | - |
| Credited to income | 29 | - |
| **Closing balance** | **167** | **-** |

| **Deferred income tax at 30 June relates to the following:** | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| **Deferred tax assets:** | | |
| Employee entitlements and other temporary differences | 278 | - |
| **Gross recognised deferred tax assets** | **278** | **-** |
| | | |
| **Deferred tax liabilities:** | | |
| Property, plant and equipment | (111) | - |
| **Gross recognised deferred tax liabilities** | **(111)** | **-** |
| | | |
| **Net recognised deferred tax asset** | **167** | **-** |

It is not anticipated that deferred tax balances will be recovered within 12 months. Deferred tax assets and liabilities have been offset where the balances are due to / due from the same tax authority. The Group has unrecognised New Zealand tax losses available to carry forward of NZ $692,000 subject to shareholder continuity being maintained as required by New Zealand tax legislation and subject to confirmation from the relevant tax authorities.

### 9. Property, plant and equipment

| | Computer Equipment $'000 | Furniture, Equipment & Other $'000 | Total $'000 |
|---|---|---|---|
| **Group** | | | |
| **Cost** | | | |
| Balance at 17 April 2013 | - | - | - |
| On acquisition of subsidiary | 776 | 1,079 | 1,855 |
| Currency translation movement | 6 | 1 | 7 |
| Additions | 20 | 36 | 56 |
| **Balance at 30 June 2013** | **802** | **1,116** | **1,918** |
| | | | |
| **Depreciation** | | | |
| Balance at 17 April 2013 | - | - | - |
| On acquisition of subsidiary | (482) | (121) | (603) |
| Currency translation movement | (2) | (1) | (3) |
| Depreciation expense | (10) | (12) | (22) |
| **Balance at 30 June 2013** | **(494)** | **(134)** | **(628)** |
| **Net carrying amount** | **308** | **982** | **1,290** |

There are no fixed assets in the Parent company.

The net carrying value of property, plant and equipment held in New Zealand is $957,000, within the United States $216,000 within United Kingdom $91,000 and within Australia $26,000.

## 10. Intangible assets

| | Patents & Trademarks $'000 | Software $'000 | Total $'000 |
|---|---|---|---|
| **Group** | | | |
| **Cost** | | | |
| Balance at 17 April 2013 | - | - | - |
| On acquisition of subsidiary | 486 | 107 | 593 |
| **Balance at 30 June 2013** | **486** | **107** | **593** |
| | | | |
| **Amortisation** | | | |
| Balance at 17 April 2013 | - | - | - |
| On acquisition of subsidiary | (364) | (62) | (426) |
| Amortisation | (3) | (2) | (5) |
| **Balance at 30 June 2013** | (367) | (64) | (431) |
| **Net carrying value** | **119** | **43** | **162** |

There are no intangible assets in the Parent company.

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

All intangible assets have been purchased from third parties.

## 11. Cash and cash equivalents

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| Cash at bank and on hand | 2,537 | - |
| Short-term bank deposits | 12,845 | - |
| | **15,382** | **-** |

As at 30 June 2013 the amounts held in foreign currencies were as follows:

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| US dollars | 554 | - |
| Great British pounds | 465 | - |
| Australian dollars | 271 | - |

## 12. Trade and other receivables

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| Gross trade receivables | 2,842 | - |
| Provision for impairment of receivables | (268) | - |
| Net trade receivables | 2,574 | - |
| | | |
| Un-invoiced revenue | 1,051 | - |
| Prepayments and other receivables | 560 | - |
| **Total trade and other receivables** | **4,185** | **-** |

### 13. Trade receivables provisioning

#### (a) Impaired receivables

As at 30 June 2013 trade receivables with a nominal value of $268,000 were impaired in respect of the Group. For the Parent the amount was $nil. The ageing analysis of these trade receivables is as follows:

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| 1-60 days overdue | - | - |
| 61-90 days overdue | 16 | - |
| 91+ days overdue | 252 | - |
| Impairment provision | 268 | - |

#### (b) Past due but not impaired

As at 30 June 2013 trade receivables of the Group of $93,000 were past due but not impaired. The past due but not impaired for the Parent was $nil. 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:

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| 1-30 days overdue | 32 | - |
| Greater than 31 days overdue | 61 | - |
| | 93 | - |

#### (c) Provision for impairment of receivables

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

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| Opening balance at 17 April 2013 | - | - |
| On acquisition of subsidiary | 298 | - |
| Unused amounts written back | (30) | - |
| Closing balance | 268 | - |

#### (d) As at 30 June 2013 the amounts receivable in foreign currency were as follows:

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| US dollars | 2,518 | - |
| Great British pounds | 679 | - |
| Australian dollars | 416 | - |

## 14. Contributed equity

| | | Group | Parent |
|---|---|---|---|
| | 2013 | 2013 | 2013 |
| | Shares | $'000 | $'000 |
| **(a) Ordinary share capital** | | | |
| Ordinary shares | 58,137,106 | 16,531 | 17,322 |
| Authorised and issued (no par value) | | | |

The total authorised number of ordinary shares is 58,137,106 shares. All shares are fully paid.

| | | Group | Parent |
|---|---|---|---|
| | Number of Ordinary shares | 2013 $'000 | 2013 $'000 |
| Issued on Incorporation | 1 | - | - |
| Shares issued from share exchange | 48,068,531 | 2,292 | 2,292 |
| Shares issued at IPO | 10,000,000 | 15,000 | 15,000 |
| Share options exercised | 68,574 | 30 | 30 |
| IPO share costs | - | (791) | - |
| **Balance at 30 June 2013** | **58,137,106** | **16,531** | **17,322** |

All share issue costs were incurred by the subsidiaries.

In consideration for the net assets acquired, existing shareholders of S.L.I. Systems, Inc. exchanged all shares to acquire shares in SLI Systems Limited.

***Public offer***

On 31 May 2013, the Company allotted 10,000,000 ordinary shares at an issue price of $1.50 per share through a public offer. The Company's shares were listed on the New Zealand Stock Market on the 31 May 2013.
As part of the shares issued at the Initial Public Offering the following shares were issued to related parties who are all directors:

| | | |
|---|---|---|
| a) | Sarah Smith | 20,000 |
| b) | Sam Knowles | 66,667 |
| c) | Matthew Houtman | 13,333 |

**(b) Redeemable shares (at time of IPO)**

On 31 May 2013, the Company issued 399,999 unlisted redeemable shares, with an issue price of $1.50, which were allotted to independent directors, as contemplated in the Prospectus dated 6 May 2013 as follows:

| | |
|---|---|
| Greg Cross | 133,333 |
| Sarah Smith | 133,333 |
| Sam Knowles | 133,333 |
| | 399,999 |

The redeemable shares have the same rights and terms, and rank uniformly in all respects with the ordinary shares in the Company.

In satisfaction of the issue price of the redeemable shares, the Company's subsidiary, S.L.I. Systems, Inc. provided loans to the redeemable share holders of $600,000 in aggregate. The loans provided are interest free, have recourse only against the redeemable shares and are repayable in full on 31 May 2016, or some other date under certain conditions. The substance of these transactions is similar in nature to the issuing of share options and as such are valued in accordance with note 23 using the Blacks-Scholes pricing model. As at 30 June 2013, no cash has been exchanged in relation to this transaction and the aggregate value of the issue price, loans and receivable from subsidiary is not recognised in the financial statements.

The redeemable shares vest immediately. Upon repayment of the loan, the redeemable shares automatically reclassify into ordinary shares in the Company.

### 15. Trade and other payables

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| Trade payables | 481 | - |
| Revenue in advance | 2,683 | - |
| Other payables and accrued expenses | 575 | - |
| | **3,739** | **-** |

### 16. Current employee benefits

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| Liability for annual and long service leave | 685 | - |
| Other employee payables | 888 | - |
| | **1,573** | **-** |

As at 30 June 2013 the amounts payable (including revenue in advance and employee entitlements) in foreign currency were as follows:

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| US dollars | 3,025 | - |
| Great British pounds | 894 | - |
| Australian dollars | 471 | - |

### 17. Non-current employee benefits

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| Liability for long service leave | 43 | - |
| | **43** | **-** |

### 18. Operating lease commitment

| | Group 2013 $'000 | Parent 2013 $'000 |
|---|---|---|
| Non-cancellable operating lease rentals are payable as follows: | | |
| Less than one year | 683 | - |
| Between one and five years | 2,154 | - |
| More than five years | - | - |
| | **2,837** | **-** |

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

### 19. Capital commitments

The Parent and Group have no material contractual obligations to purchase plant and equipment at 30 June 2013.

### 20. Contingencies

There are no contingencies at 30 June 2013.

**21. Subsidiaries**

| Name | Country of Incorporation | Ownership 2013 |
|---|---|---|
| S.L.I Systems, Inc. | United States | 100% |
| SLI Systems (UK) Limited (owned 100% by S.L.I Systems, Inc) | United Kingdom | 100% |

The subsidiary's name has been changed from SLI Systems Limited to SLI Systems (UK) Limited. This was approved on 12 April 2013 by the Registrar of Companies for England and Wales under the Companies Act 2006.

**Shares in subsidiary**

| | Parent 2013 $'000 |
|---|---|
| Shares in subsidiary at cost (note 28) | 3,103 |
| Share options pre share transfer | 21 |
| | **3,124** |

In the Parent the charges relating to the fair value of options that were issued before 31 May 2013 is recognised as an increase in the investment in subsidiaries, 2013: $21,000.

**22. 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**

The Company provided funding to its subsidiary, S.L.I. Systems, Inc. during the period.

| | Parent 2013 $'000 |
|---|---|
| Receivables from subsidiary (S.L.I. Systems, Inc.) | |
| - IPO funds received | 15,000 |
| - Share options exercised | 25 |
| **Total receivable from subsidiary** | **15,025** |

The IPO related costs of $1,920,000 have been settled by S.L.I. Systems, Inc. on behalf of the Parent.
Director holders of options are disclosed in notes 14 and 23.
Marder Media Group is a shareholder of Delivery Agent which is a customer of S.L.I Systems, Inc.
Matthew Houtman is a director of Pioneer Capital Management Ltd which manages certain entities which are shareholders in the Company.

**Key management personnel remuneration**

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, and include the Chief Executive, his direct reports and Directors. The following table summarises remuneration paid to key management personnel.

| | Group 2013 $'000 |
|---|---|
| Directors Fees | 18 |
| Directors' redeemable preference shares expense | 166 |
| Short term employee benefits | 184 |
| Share options (under Employee Share Options Scheme) | 1 |

## 23. Share options

Options to subscribe for shares have been issued to certain Directors, employees and some advisors of the Company. The purpose of the plan is to provide an incentive to attract, retain and reward individuals performing services for the Company and to motivate such individuals to contribute to the growth and profitability of the Company.
The options shall be exercisable to the extent of 1/4 of the option as of the one year anniversary after the grant date, then an additional 1/36th of the remaining balance on a monthly basis, so that the options are fully exercisable on the fourth anniversary of the grant date. The options are no longer exercisable on the first to occur of i) the 10th anniversary of the Grant date, ii) the last date for exercising the option following termination of the Optionee's Service or (iii) its termination in connection with a change in control in the Company.

The functional and presentation currency of the financial statements is in New Zealand dollars however a significant majority of the options have an exercise price denominated in US dollars so the tables below are presented in USD where appropriate.

| ***Reconciliation of outstanding options*** | **No of options 2013** | **Weighted average exercise price US$ 2013** |
|---|---|---|
| Balance at 17 April 2013 | - | - |
| On acquisition of subsidiary | 8,263,152 | 0.41 |
| Exercised during the period | (68,574) | 0.29 |
| Issued | 468,996 | 1.29 |
| **Balance at 30 June 2013** | **8,663,574** | **0.46** |
| Exercisable at 30 June | 5,216,737 | 0.32 |

The weighted average of the total options at the end of the period is USD 46 cents which equates to NZD 59 cents at year end exchange rates.

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

**The following options are outstanding at balance date:**

| **Number of options** | **Range of exercise price per share** | **Weighted average contractual life at balance date 2013 (years)** |
|---|---|---|
| 516,000 | US $0.17 - $0.24 | 0.4 |
| 1,410,000 | US $0.29 - $0.33 | 3.8 |
| 4,513,878 | US $0.33 | 7.0 |
| 643,500 | US $0.68 | 8.9 |
| 656,400 | US $0.75 | 9.3 |
| 324,000 | US $0.78 | 9.7 |
| 530,796 | NZ $1.50 | 9.9 |
| 69,000 | NZ $1.94 | 10.0 |

***Measurement of fair value***

The fair value of the options granted was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility and internal valuation volatility.

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

| **USD$ options** | **2013** |
|---|---|
| Fair value at grant date (weighted average USD$) | 0.10 |
| Share price at grant date (weighted average USD$) | 0.40 |
| Exercise price (weighted average USD$) | 0.39 |
| Expected volatility (weighted average) | 20% to 30% |
| Expected life (weighted average) | 4 |
| Risk-free interest rate (weighted average) | 3.0% |

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

| **NZD$ options** | **2013** |
|---|---|
| Fair value at grant date (weighted average NZD$) | 0.43 |
| Share price at grant date (weighted average NZD$) | 1.55 |
| Exercise price (weighted average NZD$) | 1.55 |
| Expected volatility (weighted average) | 30% |
| Expected life (weighted average) | 4 |
| Risk-free interest rate (weighted average) | 2.6% |

***Directors***

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

| | ***Exercise price*** | ***US$0.33*** |
|---|---|---|
| Shaun Ryan | | 49,260 |
| Greg Cross | | 120,000 |

**24. Financial risk management**

**(i) Financial instrument classification**

| | **Group** | | **Parent** | |
|---|---|---|---|---|
| | **Loans and receivables 2013 $'000** | **Other at amortised cost 2013 $'000** | **Loans and receivables 2013 $'000** | **Other at amortised cost 2013 $'000** |
| **Assets** | | | | |
| Cash and cash equivalents | 15,382 | - | - | - |
| Trade and other receivables | 4,185 | - | 15,025 | - |
| **Total current assets** | **19,567** | **-** | **15,025** | **-** |
| **Total financial assets** | **19,567** | **-** | **15,025** | **-** |
| **Liabilities** | | | | |
| Trade and other payables | - | 5,388 | - | - |
| **Total current liabilities** | **-** | **5,388** | **-** | **-** |
| Other payables | - | 43 | - | - |
| **Total non-current liabilities** | - | **43** | **-** | **-** |
| **Total financial liabilities** | - | **5,431** | **-** | **-** |

**(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.

As at 30 June 2013 if interest rates had been 0.25% higher/lower with all other variables held constant, interest income, net profit/(loss) and accumulated losses for the Company and the Group would have decreased/increased by an immaterial amount in 2013.

***Liquidity risk***

Liquidity risk is the risk that the Company or Group cannot pay contractual liabilities as they fall due. The Group has no debt and therefore management remains focused on generating sufficient revenue from sales to cover the ongoing costs of operation.
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 $43,000 for long service leave that will be settled after more than 12 months.

***Credit risk***

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

Maximum exposure to credit risk at balance date:

| | **Group** | **Parent** |
|---|---|---|
| | **2013 $'000** | **2013 $'000** |
| Cash and cash equivalents | 15,382 | **-** |
| Trade and other receivables | 4,185 | - |
| **Total** | **19,567** | **-** |

***Foreign currency risk***

The Group faces the risk of movements in foreign currency exchange rates against the New Zealand dollar. The Group operates in three main currencies, being US dollars, UK pounds, and Australian dollars. As a result the Group's income statement 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 period ended 30 June 2013 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;

| | **Group** | **Parent** |
|---|---|---|
| | **2013 $'000** | **2013 $'000** |
| **Appreciation of NZD against foreign currency (10%)** | | |
| (Decrease)/increase in profit/(loss) before tax | (51) | - |
| (Decrease)/increase in equity after tax | (134) | - |
| **Depreciation of NZD against foreign currency (10%)** | | |
| (Decrease)/increase in profit/(loss) before tax | 51 | - |
| (Decrease)/increase in equity after tax | 134 | - |

***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 are assumed to approximate their fair values due to the short term maturity of these assets and liabilities.

### 25. 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 in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares are in the form of share options / performance rights.

| | **Group 2013** |
|---|---|
| Net profit/(loss) after tax | ($1,817,000) |
| Ordinary shares on issue | 58,137,106 |
| Weighted average number of shares on issue | 23,563,534 |
| Basic earnings/(loss) per share | (0.077) |
| Diluted earnings/(loss) per share | (0.077) |

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

| | **Group 2013 $'000** |
|---|---|
| Net (loss)/profit after tax | (1,817) |
| **Adjustments** | |
| Depreciation | 22 |
| Amortisation | 5 |
| Loss/(gain) on foreign exchange transactions | 42 |
| Share option expense | 189 |
| **Changes in working capital items** | |
| (Increase)/decrease in trade receivables & prepayments | (229) |
| (Decrease)/increase in trade payables & accruals | 776 |
| (Increase)/decrease in GST | 11 |
| (Increase)/decrease in tax | (24) |
| **Net cash outflow from operating activities** | **(1,025)** |

### 27. Remuneration of auditors

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

| | **Group 2013 $'000** | **Parent 2013 $'000** |
|---|---|---|
| Assurance services – due diligence on IPO | 142 | - |
| Audit and review of financial reports | 26 | - |
| **Total remuneration for audit services** | **168** | **-** |

### 28. Capital reorganisation

On 31 May 2013 the Company acquired 100% of the share capital of S.L.I Systems, Inc.

The acquisition has been accounted for as a capital reorganisation whereby the assets acquired and liabilities assumed are recognised at their predecessor values in the Group financial statements.

The book value of the assets and liabilities recognised as a result of the acquisition are as follows:

| | **$'000** |
|---|---|
| Cash | 2,229 |
| Trade and other receivables | 3,046 |
| Property, plant and equipment | 1,252 |
| Intangible assets | 167 |
| Deferred tax asset | 138 |
| Trade and other payables | (3,729) |
| **Net assets acquired at predecessor values** | **3,103** |

In consideration for the net assets acquired, existing shareholders of S.L.I. Systems Inc. exchanged all shares to acquire shares in the same proportion in SLI Systems Limited.

Included in the $3,103,000 of net assets acquired is a share option reserve of $811,000 that has been taken over by the Parent on 31 May 2013. Therefore the remaining balance of $2,292,000 is the amount of consideration in respect of the share transfer.

### 29. Subsequent events

There have been no material subsequent events after 30 June 2013.

### 30. Comparison to prospective financial information

The Company was formed on 17 April 2013. On 31 May 2013 as a result of a share exchange the Company took ownership of S.L.I. Systems, Inc. and SLI Systems (UK) Limited (refer note 28). The income statements, statements of comprehensive income, statements of changes in equity and statement of cashflows presented above are for the period from the date of the Company formation that covers a period of one month's trading only. The pro-forma statements set out below show the financial statements of the three entities for a twelve month period ended 30 June 2013 as if the Group was one reporting entity throughout this period. These 12 month figures have been audited.

**Pro-Forma Income Statements**
**For the 12 months to 30 June 2013**

| | Group Actual Year ended 30 June 2013 $'000 | Group Forecast Pro-Forma Year ended 30 June 2013 $'000 | Variance $'000 |
|---|---|---|---|
| Operating revenue | 18,310 | 18,285 | 25 |
| Other income | 645 | 534 | 111 |
| Operating expenses | (9,038) | (9,041) | 3 |
| Employee entitlements | (11,973) | (11,930) | (43) |
| **Operating profit / (loss) before finance costs** | **(2,056)** | **(2,152)** | **96** |
| Net financing income / (costs) | 66 | 46 | 20 |
| **Profit / (loss) before Income tax** | **(1,990)** | **(2,106)** | **116** |
| Income tax (expense)/ credit | (24) | (42) | 18 |
| **Profit / (loss) for the year** | **(2,014)** | **(2,147)** | **133** |
| **Profit / (loss) attributable to the Shareholders of the Company** | **(2,014)** | **(2,147)** | **133** |
| Operating Profit/(Loss) before financing costs | (2,056) | (2,152) | 96 |
| Add back: Depreciation and Amortisation | 286 | 296 | 10 |
| Earnings before interest, tax, depreciation and amortisation | **(1,770)** | **(1,856)** | **86** |

**Explanation of variance – Income Statement**

The Group performed favourably to the forecast loss position as a result of favourable revenue (0.7% favourable to forecast) but offset by unfavourable expenses (less than 0.2% of total expenses). In summary the Group has performed in line with expectations from a profitability point of view.

## SLI Systems Limited and its Subsidiaries
## Notes to the Financial Statements

**Pro-Forma Statement of Movement in Equity**
**For the 12 months to 30 June 2013**

| | Group Actual Year ended 30 June 2013 $'000 | Group Forecast Pro-Forma Year ended 30 June 2013 $'000 | Variance $'000 |
|---|---|---|---|
| Opening Balance 1 July 2012 | 2,033 | 2,033 | - |
| Loss for year | (2,014) | (2,147) | 133 |
| Net change in foreign currency translation reserve | 1 | - | 1 |
| Directors and employee share schemes | 363 | 354 | 9 |
| **Issue of ordinary shares** | | | |
| For cash | 16,163 | 16,139 | 24 |
| Share issue cost | (791) | (875) | 84 |
| **Balance end of year** | **15,755** | **15,503** | **252** |

**Explanation of variance – Statement of Movements in Equity**

The lower than expected loss for the period as explained in the previous page combined with lower than expected share issue costs results in an equity position $252,000 favourable to forecast.

**Pro-Forma Balance Sheet**
**As at 30 June 2013**

| | Group Actual 30 June 2013 $'000 | Group Forecast Pro-Forma 30 June 2013 $'000 | Variance $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 15,382 | 15,066 | 316 |
| Trade and other receivables | 4,185 | 3,106 | 1,079 |
| **Total current assets** | **19,567** | **18,172** | **1,395** |
| **Non- current assets** | | | |
| Property, plant and equipment | 1,290 | 1,353 | (63) |
| Intangible assets | 162 | 122 | 40 |
| Deferred tax assets | 167 | 135 | 32 |
| **Total non- current assets** | **1,619** | **1,611** | **8** |
| **Total assets** | **21,186** | **19,784** | **1,402** |
| **LIABILITIES** | | | |
| **Liabilities** | | | |
| Trade and other payables | 3,739 | 3,206 | (533) |
| Employee benefits | 1,616 | 1,066 | (550) |
| Taxation payable | 76 | 8 | (68) |
| **Total liabilities** | **5,431** | **4,280** | **(1,151)** |
| **EQUITY** | | | |
| Total equity | 15,755 | 15,503 | (252) |
| **Total Equity and liabilities** | **21,186** | **19,784** | **(1,402)** |

**Explanation of variance – Balance Sheet**

Cash on hand is $316,000 favourable to forecast as a result of working capital movements and the equity position as explained in the previous page. Trade receivables are materially higher than forecast as a result of collections being approximately $300,000 lower than expected. However the significant component of this receivables variance is due to the earlier billing of customers than forecast. This higher receivables balance is offset by the higher income in advance balance that is shown in trade and other payables above. The employees' benefits is higher than forecast partly due to the timing of the payroll periods.

**Pro-Forma Statement of Cash Flows**
**For the 12 months to 30 June 2013**

| | Group Actual Year ended 30 June 2013 $'000 | Group Forecast Pro-Forma Year ended 30 June 2013 $'000 | Variance $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | 17,784 | 18,102 | (318) |
| Receipts from other income | 372 | 515 | (143) |
| Interest received | 66 | 46 | 20 |
| Payments made to suppliers and employees | (19,351) | (19,952) | 601 |
| Income tax paid | (84) | (139) | 55 |
| Interest paid | - | - | - |
| **Net cash inflow/(outflow) from operating activities** | **(1,213)** | **(1,427)** | **214** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant & equipment | (1,218) | (1,212) | (6) |
| **Cash flows from financing activities** | | | |
| Net proceeds from capital contributed | 15,372 | 15,264 | 108 |
| **Net increase/(decrease) in cash and cash equivalents** | **12,941** | **12,625** | **316** |
| Cash and cash equivalents at the beginning of the year | 2,441 | 2,441 | - |
| **Cash and cash equivalents at the end of the year** | **15,382** | **15,066** | **316** |

**Explanation of variance – Statement of Cash Flows**

As explained in the analysis of the balance sheet, cash receipts from customers is slightly down on forecast (1.75%) but is offset by the timing of payments to suppliers and employees. The cash position is also favourably impacted by lower than forecast IPO costs.