



# 2015 Interim Report

# Highlights

› Gross margin  
**75%**

› Cash  
**\$7.4m**

› More than  
**1,000**  
e-commerce sites  
worldwide use SLI

› ARR<sup>1</sup> growth of  
**34%**<sup>2</sup>  
to \$28.9m  
from \$21.6m

› Customer  
retention rate  
**90%**  
by value

› Half year operating  
revenue rises  
**26%**  
to \$13.3m from \$10.6m

› Net cash outflow trending  
**down**  
in coming months

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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 annualized 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 judgment to mitigate the effects of one-off events that impact the base month revenue of the calculation.

2. 34% is the growth from the reported ARR of \$21.6m at December 2013. On a constant currency basis the growth over the past 12 months was 28%.



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SLI Systems helps  
online retailers  
increase sales by  
connecting shoppers  
with the products they  
are most likely to buy.

# Chairman and Chief Executive's Report



Greg Cross



Shaun Ryan

Dear Shareholders

In the first half of this financial year SLI has extended its track record of delivering strong year-on-year revenue growth. In the 12 months to 31 December 2014 Annual Recurring Revenue (ARR) grew 34% aided in part by favourable movements of the US dollar against the New Zealand dollar. We continue to outperform the global e-commerce market that is estimated to be growing at 18% per annum<sup>1</sup>. SLI's performance also represents a 50% increase over the company's ARR at the time of our May 2013 Initial Public Offering.

This strong performance reflects a continuing appetite amongst retailers and other online businesses for solutions that will help increase top-line sales and therefore bottom-line profit. Maintaining our tight focus on this mission has been a key component of the company's success as a global provider to the e-commerce industry.

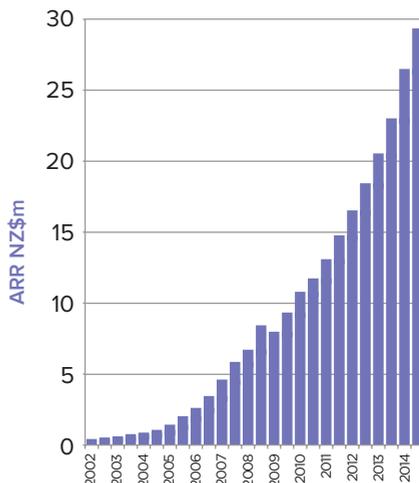
Half-year operating revenue in the six months to 31 December 2014 rose 26% to \$13.3 million from \$10.6 million in the same period the prior year. Gross margin and customer retention remained robust and in line with prior performance, at 75% and 90%, respectively.

1. eMarketer, December 2014.

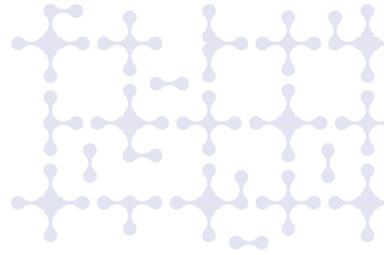
2. All points on this graph are calculated on a constant currency basis.

## Growth continues ahead of the market

ARR Growth (six monthly)<sup>2</sup>



SLI's Software-as-a-Service (SaaS) business model provides a recurring revenue stream at high margins, meaning that each dollar of ARR booked this year can be expected to bring in many multiples of its value in additional revenue in the years to come. To build this recurring revenue business, we have been investing in growing our business. That is also why we consider ARR to be one of the key indicators of our success.



As part of our investment strategy, the company's half year net loss rose to \$4.0 million from \$2.3 million at the same time last year. Our balance sheet continues to be strong, with no debt and \$7.4 million cash on hand as of 31 December 2014. We expect the company's revenue growth trajectory to exceed spending growth, and therefore we should start to see reductions in our cash outflow over the course of the next six months. We believe our present cash position is sufficient for our current growth plans.

## Global usage at an all-time high

The number of worldwide e-commerce sites using SLI services continues to expand, as does average size, traffic, geographic distribution and number of services used. All this expansion resulted in a new milestone for the company: In December 2014 the number of search queries served by SLI hit a peak of 1.7 billion, which is 54% higher than the previous December holiday season's high point.

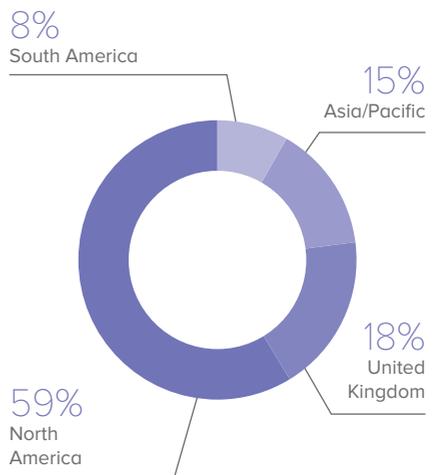
The company also recently announced that more than 1,000 e-commerce sites are using SLI services to increase their sales. SLI's customer numbers grew 22% in the past year, from 445 to 543. Notable new customers recruited in the past six months include Oscaro in the United States, Jigsaw in the UK, and Kathmandu in Australia and New

Zealand. During this time SLI has maintained its position as the most-chosen SaaS site search provider among the IR 1000, the 1,000 largest online retailers in the US as measured by *Internet Retailer Magazine*.

North America, the company's largest market with nearly 60% of total ARR, grew 27% year-on-year on a constant currency basis. The UK, Asia/Pacific, and South America grew 26%, 29% and 38%, respectively.

## An expanding global business

### ARR by Geography



## ARR Growth by Geography<sup>1</sup>

| Region         | % Change   |
|----------------|------------|
| North America  | 27%        |
| United Kingdom | 26%        |
| Asia/Pacific   | 29%        |
| South America  | 38%        |
| <b>Total</b>   | <b>28%</b> |

The company's revenue growth exceeded its growth in customer count, indicating that SLI's client base is increasing in average revenue size. This increase illustrates our success in penetrating larger retailers worldwide. To accommodate these global brands, we added three supported languages—Simplified Chinese, Turkish, and Hungarian—in the past six months, bringing our total count of supported languages to 17. This broad set of languages not only opens a bigger set of geographies as markets, it also expands our ability to support the requirements of large multinational retailers.

2014 was the year of third-party recognition for SLI. Over the course of the year the company received ten industry awards for its technology, its customer implementations, and its people (see pages 6 and 7 of this report). Named by such prestigious institutions as the Direct Marketing Association, *Retail Systems Magazine*, eCommerce Expo, *Direct Commerce Magazine* and the New Zealand Engineering Excellence Awards, these accolades from around the globe reflect how widely the company impacts online retail today.

1. Calculated on a constant currency basis. 34% is the growth from the reported ARR of \$21.6m at December 2013.

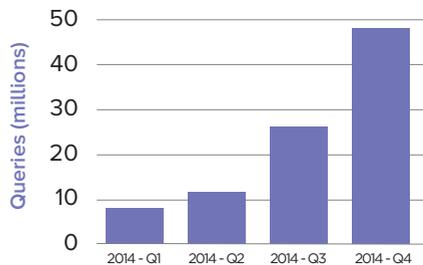
## Developing for the future

We continue to see adoption of the new products we launched in 2014.

SLI Learning Recommendations™ is an add-on to our foundational SLI Learning Search™ service, which provides recommendations for additional products to site visitors. This service learns from previous customers' behaviour to present the products that individual shoppers are most likely to choose. US jeweler Michael C. Fina implemented Learning Recommendations™ on its site, which then experienced a 34% clickthrough rate on the products suggested by the service. This solution combined with Learning Search™ increased conversion amongst site search users to 1.9 times its previous level and raised the revenue per shopper using site search by 313%.

## An accelerating pace for new product adoption

### Learning Recommendations™ queries



SLI Dynamic Product Banners™ helps retailers convert shoppers who come to their sites from public search engines such as Google or Bing. The service presents a series of products that are likely to be chosen by shoppers based on the product

being viewed. This technique increases the opportunity for a search engine user to land on a page containing a product he or she would consider purchasing. Dynamic Product Banners™ can improve conversion on both organic and paid search traffic, not only increasing sales but also making expensive online marketing campaigns more cost effective. US wine storage and accessories retailer Wine Enthusiast has seen a 17% clickthrough rate on its landing pages using Dynamic Product Banners™. Shoppers who interact with the banners convert at a higher rate, and revenue-per-click for Wine Enthusiast has increased by 48%.

We expect these and our entire portfolio of products to experience increased adoption amongst our customer base in the near future and the years to come. A significant contribution to that future success should come from the overall market trend towards personalisation. In the e-commerce world “personalisation” describes the practice of using technology to offer the best, customised experience for site visitors on a case-by-case basis. We have offered elementary personalisation in our search, navigation and recommendations products since they were launched. We will continue developing our capabilities in this regard, enabling more targeted online experiences that will yield increased revenue per shopper and therefore higher ROI for our customers.

## Outlook

In January 2015 we completed the transition to our new sales leadership. Newly-appointed Chief Revenue Officer and President of North America Neil Thomas has now assumed full responsibility for all sales and business development personnel, strategy and

operations. Neil has a near-twenty-year track record for establishing, developing and continuously improving highly successful global sales teams. We expect his contribution to further accelerate revenue growth for the business.

E-commerce is a thriving industry and by all reasonable expectations will continue that way for many years. Online retailers and business-to-business sites are growing in number and importance, and the vast majority of these online businesses still have not optimised in the areas where SLI can help them. Online retailers will increasingly learn that site search and related functions are critical components of their success and that by improving these segments of the path to purchase they can help their bottom line. At SLI we are taking measures to ensure we remain a top choice for retailers seeking to increase website sales.

We have a strong pipeline of new business opportunities and important product improvements on the way to help us close sales and delight our customers. We look forward to the remainder of the financial year with great confidence.



**Greg Cross**  
Chairman



**Shaun Ryan**  
Chief Executive Officer

A global  
team with  
global  
recognition



North  
America  
61 staff

In 2014 SLI received ten awards worldwide, demonstrating the company's leadership among e-commerce solutions providers.

## Awards to SLI



**eCommerce Awards for Excellence 2014 (UK)**

*Best Product*



**2014 ECMOD Direct Commerce Supplier of the Year Awards (UK)**

*Best Technology Solution*



**2014 New Zealand Engineering Excellence Awards (NZEEA) (New Zealand)**

*New Zealand Engineering Entrepreneurs of the Year – Shaun Ryan and Grant Ryan*



**Best in Biz (US)**

*Silver Most Customer Friendly Company Award*



**Retail Systems Awards 2014 (UK)**

*Highly Commended Online Technology Vendor of the Year*



## Awards to Our Customers



### Direct Marketing Association Stars of Search (US)

*Winner – Wine Enthusiast’s VP of eCommerce Glenn Edelman*



### Retail TouchPoints (US)

*Gold Customer Engagement, Analytics Award – Lakeshore Learning*



### World Retail Awards (France)

*Customer Experience of the Year Award – Appliances Online*



### Online Retail Industry Awards (ORIAS) (Australia)

*Best Pure Play Online Retailers – Appliances Online and SurfStitch*



### Retail TouchPoints (US)

*Channel Innovation Award – Wine Enthusiast*

# What our customers say about us

SLI enjoys the loyalty of the world's leading retailers because its patented technology delivers real performance improvements to retailers' e-commerce sites.

## HealthPost

• Better You, Better World •

### 60% increase

in use of the search function.

*"The SLI team has this incredibly flexible way of engaging with clients. They don't put many rules around what can and can't be done, or what can be achieved."*

- Abel Butler, CEO, HealthPost

## SurfStitch

### 25% increase

in time on site.

*"SLI hasn't just made it easier for our existing customers and visitors to find what they're looking for, it has also made it easier for new customers to find us online."*

- Lex Pedersen, Managing Director, SurfStitch

## Paul Smith

### 11% growth

 in revenue.

*"Implementing SLI Systems intelligent search solutions has been key to our e-commerce growth."*

- Simon Young, Web Development Manager, Paul Smith



## SPORTS AUTHORITY.

### 300% drop

in 'no results' searches.

*"SLI's cohesive leadership team and positive company culture show through in the way the company supports its clients."*

- Jason Ostendorf, Director of E-commerce Operations, Sports Authority



# Financial Statements

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# Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2014

|   |          | Unaudited<br>6 months<br>ended 31 Dec | Unaudited<br>6 months<br>ended 31 Dec | Audited<br>12 months<br>ended 30 Jun |
|---|----------|---------------------------------------|---------------------------------------|--------------------------------------|
|   | NOTE     | 2014<br>\$'000                        | 2013<br>\$'000                        | 2014<br>\$'000                       |
| Operating revenue   |          | 13,342                                | 10,596                                | 22,117                               |
| Other income  |          | 270                                   | 144                                   | 279                                  |
| <b>Total revenue &amp; other income</b>   | <b>3</b> | <b>13,612</b>                         | <b>10,740</b>                         | <b>22,396</b>                        |
| Operating expenses  |          | (7,277)                               | (5,529)                               | (12,296)                             |
| Employee entitlements   |          | (10,439)                              | (7,750)                               | (16,485)                             |
| <b>Operating profit / (loss) before finance costs</b>   |          | <b>(4,104)</b>                        | <b>(2,539)</b>                        | <b>(6,385)</b>                       |
| Finance income  |          | 139                                   | 260                                   | 472                                  |
| <b>Net financing income / (costs)</b>   |          | <b>139</b>                            | <b>260</b>                            | <b>472</b>                           |
| <b>Profit / (loss) before tax</b>   |          | <b>(3,965)</b>                        | <b>(2,279)</b>                        | <b>(5,913)</b>                       |
| Income tax (expense) / credit   |          | (30)                                  | (10)                                  | 191                                  |
| <b>Profit / (loss) for the period</b>   |          | <b>(3,995)</b>                        | <b>(2,289)</b>                        | <b>(5,722)</b>                       |
| <b>Other comprehensive income recycled through profit and loss</b>  |          |                                       |                                       |                                      |
| Currency translation movement   |          | 32                                    | 29                                    | (12)                                 |
| <b>Total comprehensive (loss) / income for the period attributable to the shareholders of the company</b> |          | <b>(3,963)</b>                        | <b>(2,260)</b>                        | <b>(5,734)</b>                       |
| <b>(Loss) / earnings per share</b>  |          |                                       |                                       |                                      |
| Basic (loss) / earnings per share   |          | (0.066)                               | (0.039)                               | (0.096)                              |
| Diluted (loss) / earnings per share   |          | (0.066)                               | (0.039)                               | (0.096)                              |

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

# Consolidated Statement of Changes in Equity

For the six months ended 31 December 2014

|  | Unaudited     | Unaudited            | Unaudited           | Unaudited          | Unaudited      |
|--|---------------|----------------------|---------------------|--------------------|----------------|
|  | Share Capital | Share Option Reserve | Translation Reserve | Accumulated Losses | Total Equity   |
|  | \$'000        | \$'000               | \$'000              | \$'000             | \$'000         |
| <b>Balance at 1 July 2014</b>                    | <b>17,674</b> | <b>1,216</b>         | <b>34</b>           | <b>(7,476)</b>     | <b>11,448</b>  |
| Profit / (loss) for the period                   | -             | -                    | -                   | (3,995)            | (3,995)        |
| Currency translation movement                    | -             | -                    | 32                  | -                  | 32             |
| <b>Total comprehensive income for the period</b> | <b>-</b>      | <b>-</b>             | <b>32</b>           | <b>(3,995)</b>     | <b>(3,963)</b> |
| <b>Transactions with owners</b>                  |               |                      |                     |                    |                |
| Share options                                    |               |                      |                     |                    |                |
| - Share options exercised during period          | 332           | (110)                | -                   | -                  | 222            |
| - Share option expense for the period            | -             | 273                  | -                   | -                  | 273            |
| - Share options expired for the period           | -             | (48)                 | -                   | 48                 | -              |
| <b>Balance at 31 December 2014</b>               | <b>18,006</b> | <b>1,331</b>         | <b>66</b>           | <b>(11,423)</b>    | <b>7,980</b>   |

|  | Unaudited     | Unaudited            | Unaudited           | Unaudited          | Unaudited      |
|--|---------------|----------------------|---------------------|--------------------|----------------|
|  | Share Capital | Share Option Reserve | Translation Reserve | Accumulated Losses | Total Equity   |
|  | \$'000        | \$'000               | \$'000              | \$'000             | \$'000         |
| <b>Balance at 1 July 2013</b>                    | <b>16,531</b> | <b>995</b>           | <b>46</b>           | <b>(1,817)</b>     | <b>15,755</b>  |
| Profit / (loss) for the period                   | -             | -                    | -                   | (2,289)            | (2,289)        |
| Currency translation movement                    | -             | -                    | 29                  | -                  | 29             |
| <b>Total comprehensive income for the period</b> | <b>-</b>      | <b>-</b>             | <b>29</b>           | <b>(2,289)</b>     | <b>(2,260)</b> |
| <b>Transactions with owners</b>                  |               |                      |                     |                    |                |
| Share options                                    |               |                      |                     |                    |                |
| - Share options exercised during period          | 916           | (207)                | -                   | -                  | 709            |
| - Share option expense for the period            | -             | 266                  | -                   | -                  | 266            |
| - Share options expired for the period           | -             | (13)                 | -                   | 13                 | -              |
| <b>Balance at 31 December 2013</b>               | <b>17,447</b> | <b>1,041</b>         | <b>75</b>           | <b>(4,093)</b>     | <b>14,470</b>  |

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

## Consolidated Balance Sheet

As at 31 December 2014

|  |      | Unaudited<br>31 Dec<br>2014<br>\$'000 | Unaudited<br>31 Dec<br>2013<br>\$'000 | Audited<br>30 Jun<br>2014<br>\$'000 |
|--|------|---------------------------------------|---------------------------------------|-------------------------------------|
|  | NOTE |                                       |                                       |                                     |
| <b>ASSETS</b>                                    |      |                                       |                                       |                                     |
| <b>Current assets</b>                            |      |                                       |                                       |                                     |
| Cash and cash equivalents                        |      | 7,359                                 | 13,621                                | 11,389                              |
| Trade and other receivables                      |      | 6,581                                 | 4,468                                 | 4,972                               |
| Taxation receivable                              |      | 5                                     | -                                     | 30                                  |
| <b>Total current assets</b>                      |      | <b>13,945</b>                         | <b>18,089</b>                         | <b>16,391</b>                       |
| <b>Non-current assets</b>                        |      |                                       |                                       |                                     |
| Deferred tax assets                              |      | 358                                   | 179                                   | 358                                 |
| Property, plant and equipment                    |      | 1,649                                 | 1,537                                 | 1,589                               |
| Intangible assets                                |      | 103                                   | 134                                   | 115                                 |
| <b>Total non-current assets</b>                  |      | <b>2,110</b>                          | <b>1,850</b>                          | <b>2,062</b>                        |
| <b>Total assets</b>                              |      | <b>16,055</b>                         | <b>19,939</b>                         | <b>18,453</b>                       |
| <b>LIABILITIES</b>                               |      |                                       |                                       |                                     |
| <b>Current liabilities</b>                       |      |                                       |                                       |                                     |
| Taxation payable                                 |      | -                                     | 78                                    | -                                   |
| Trade and other payables                         |      | 5,791                                 | 3,986                                 | 4,967                               |
| Employee benefits                                |      | 2,188                                 | 1,352                                 | 1,966                               |
| <b>Total current liabilities</b>                 |      | <b>7,979</b>                          | <b>5,416</b>                          | <b>6,933</b>                        |
| <b>Non-current liabilities</b>                   |      |                                       |                                       |                                     |
| Employee benefits                                |      | 81                                    | 53                                    | 57                                  |
| Deferred tax liabilities                         |      | 15                                    | -                                     | 15                                  |
| <b>Total non-current liabilities</b>             |      | <b>96</b>                             | <b>53</b>                             | <b>72</b>                           |
| <b>Total liabilities</b>                         |      | <b>8,075</b>                          | <b>5,469</b>                          | <b>7,005</b>                        |
| <b>Net assets</b>                                |      | <b>7,980</b>                          | <b>14,470</b>                         | <b>11,448</b>                       |
| <b>EQUITY</b>                                    |      |                                       |                                       |                                     |
| Share capital                                    | 5    | 18,006                                | 17,447                                | 17,674                              |
| Reserves   |      | 1,397                                 | 1,116                                 | 1,250                               |
| Accumulated losses                               |      | (11,423)                              | (4,093)                               | (7,476)                             |
| <b>Total equity</b>                              |      | <b>7,980</b>                          | <b>14,470</b>                         | <b>11,448</b>                       |
| Net tangible asset backing per ordinary security |      | \$0.13                                | \$0.24                                | \$0.19                              |

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

# Consolidated Statement of Cash Flows

For the six months ended 31 December 2014

|   |          | Unaudited<br>6 months<br>ended 31 Dec | Unaudited<br>6 months<br>ended 31 Dec | Audited<br>12 months<br>ended 30 Jun |
|---|----------|---------------------------------------|---------------------------------------|--------------------------------------|
|   | NOTE     | 2014<br>\$'000                        | 2013<br>\$'000                        | 2014<br>\$'000                       |
| <b>Cash flows from operating activities</b>                 |          |                                       |                                       |                                      |
| <b>Cash was provided from:</b>                              |          |                                       |                                       |                                      |
| Receipts from customers                                     |          | 12,969                                | 10,765                                | 22,109                               |
| Interest received   |          | 191                                   | 182                                   | 445                                  |
| Net GST received  |          | (46)                                  | 73                                    | 87                                   |
| Government grants   |          | 230                                   | 273                                   | 271                                  |
| Insurance proceeds  |          | -                                     | -                                     | 13                                   |
| <b>Cash was applied to:</b>                                 |          |                                       |                                       |                                      |
| Payments made to suppliers and employees                    |          | (17,318)                              | (13,334)                              | (27,030)                             |
| Income tax paid   |          | (5)                                   | (20)                                  | (91)                                 |
| <b>Net cash inflow/(outflow) from operating activities</b>  | <b>4</b> | <b>(3,979)</b>                        | <b>(2,061)</b>                        | <b>(4,196)</b>                       |
| <b>Cash flows from investing activities</b>                 |          |                                       |                                       |                                      |
| <b>Cash was provided from/(applied to):</b>                 |          |                                       |                                       |                                      |
| Purchase of property, plant & equipment                     |          | (259)                                 | (409)                                 | (689)                                |
| Purchase of intangibles                                     |          | (14)                                  | -                                     | (10)                                 |
| <b>Net cash inflow/(outflow) from investing activities</b>  |          | <b>(273)</b>                          | <b>(409)</b>                          | <b>(699)</b>                         |
| <b>Cash flows from financing activities</b>                 |          |                                       |                                       |                                      |
| <b>Cash was provided from/(applied to):</b>                 |          |                                       |                                       |                                      |
| Cash received from share options exercised                  |          | 222                                   | 709                                   | 902                                  |
| <b>Net cash inflow/(outflow) from financing activities</b>  |          | <b>222</b>                            | <b>709</b>                            | <b>902</b>                           |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |          | <b>(4,030)</b>                        | <b>(1,761)</b>                        | <b>(3,993)</b>                       |
| Cash and cash equivalents at the beginning of the period    |          | 11,389                                | 15,382                                | 15,382                               |
| <b>Cash and cash equivalents at the end of the period</b>   |          | <b>7,359</b>                          | <b>13,621</b>                         | <b>11,389</b>                        |

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

# Notes to the Financial Statements

## 1. General information

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

The consolidated financial statements for the Group for the period ended 31 December 2014 were authorised for issue in accordance with a resolution of the Directors on 23 February 2015.

## 2. Basis of preparation

These general purpose financial statements for the six months ended 31 December 2014 have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with NZ IAS 34 Interim Financial Reporting and consequently, do not include all the information required for full financial statements. These condensed Group interim financial statements should be read in conjunction with the annual report for the year ended 30 June 2014.

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

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

These consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited financial statements of SLI Systems Limited and its Subsidiaries for the year ended 30 June 2014 which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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

All significant accounting policies have been applied on a basis consistent with those used in the audited financial statements of SLI Systems Limited and its Subsidiaries for the year ended 30 June 2014.

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

### 3. Revenue and other income

|   | Unaudited<br>6 months<br>ended 31 Dec | Unaudited<br>6 months<br>ended 31 Dec | Audited<br>12 months<br>ended 30 Jun |
|---|---------------------------------------|---------------------------------------|--------------------------------------|
|   | 2014<br>\$'000                        | 2013<br>\$'000                        | 2014<br>\$'000                       |
| Revenue from sale of services             | 13,342                                | 10,596                                | 22,117                               |
| Government grants received and receivable | 270                                   | 144                                   | 267                                  |
| Insurance proceeds                        | -                                     | -                                     | 12                                   |
| <b>Total revenue and other income</b>     | <b>13,612</b>                         | <b>10,740</b>                         | <b>22,396</b>                        |

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

|  | Unaudited<br>6 months<br>ended 31 Dec | Unaudited<br>6 months<br>ended 31 Dec | Audited<br>12 months<br>ended 30 Jun |
|--|---------------------------------------|---------------------------------------|--------------------------------------|
|  | 2014<br>\$'000                        | 2013<br>\$'000                        | 2014<br>\$'000                       |
| Net (loss)/profit after tax                            | (3,996)                               | (2,289)                               | (5,722)                              |
| <b>Adjustments</b>                                     |                                       |                                       |                                      |
| Depreciation   | 204                                   | 164                                   | 391                                  |
| Amortisation   | 26                                    | 28                                    | 57                                   |
| Loss/(gain) on foreign exchange transactions           | 27                                    | 28                                    | (13)                                 |
| Share option expense                                   | 273                                   | 266                                   | 525                                  |
| <b>Changes in working capital items</b>                |                                       |                                       |                                      |
| (Increase)/decrease in trade receivables & prepayments | (605)                                 | 15                                    | (29)                                 |
| (Decrease)/increase in trade & other payables          | 42                                    | (332)                                 | 831                                  |
| (Increase)/decrease in GST                             | 25                                    | 69                                    | 46                                   |
| (Increase)/decrease in tax                             | 25                                    | (10)                                  | (282)                                |
| <b>Net cash outflow from operating activities</b>      | <b>(3,979)</b>                        | <b>(2,061)</b>                        | <b>(4,196)</b>                       |

## 5. Contributed equity

### (a) Ordinary share capital

#### Current Period

|  | Number of ordinary shares | \$'000        |
|--|---------------------------|---------------|
| <b>Balance at 31 December 2013 (unaudited)</b> | <b>60,046,686</b>         | <b>17,447</b> |
| Share options exercised                        | 451,332                   | 227           |
| <b>Balance at 1 July 2014 (audited)</b>        | <b>60,498,018</b>         | <b>17,674</b> |
| Share options exercised                        | 478,094                   | 332           |
| <b>Balance at 31 December 2014 (unaudited)</b> | <b>60,976,112</b>         | <b>18,006</b> |

The total authorised number of ordinary shares is 60,976,112 shares as at 31 December 2014. All shares are fully paid.

#### Prior Period

|  | Number of ordinary shares | \$'000        |
|--|---------------------------|---------------|
| <b>Balance at 1 July 2013 (audited)</b>        | <b>58,137,106</b>         | <b>16,531</b> |
| Share options exercised                        | 1,909,580                 | 916           |
| <b>Balance at 31 December 2013 (unaudited)</b> | <b>60,046,686</b>         | <b>17,447</b> |

The total authorised number of ordinary shares is 60,046,686 shares as at 31 December 2013. All shares are fully paid.

### (b) Redeemable shares

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.

On 20 December 2013, the Company issued 107,527 unlisted redeemable shares, with an issue price of \$1.86, to Andrew Lark, an independent director, as approved by Board resolution on the 19 December 2013.

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 provided loans to the redeemable shareholders of \$800,000 in aggregate. The loans provided are interest free, have recourse only against the redeemable shares and are repayable in full on 31 May 2016 (\$600,000) and 20 December 2016 (\$200,000), 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 6 using the Blacks-Scholes pricing model. As at 31 December 2014, no cash has been exchanged in relation to these transactions and the loans are not recognised in the financial statements.

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

The unlisted redeemable shares as at 31 December 2014 are as follows:

|              | Unlisted<br>redeemable<br>shares | Loan \$        |
|--------------|----------------------------------|----------------|
| Greg Cross   | 133,333                          | 200,000        |
| Sarah Smith  | 133,333                          | 200,000        |
| Sam Knowles  | 133,333                          | 200,000        |
| Andrew Lark  | 107,527                          | 200,000        |
| <b>Total</b> | <b>507,526</b>                   | <b>800,000</b> |

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

The functional and presentation currency of the financial statements is in New Zealand dollars 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.

## Current Period

| Reconciliation of outstanding options  | Number of options | Weighted average exercise price US\$ |
|--|-------------------|--------------------------------------|
|  |                   | 2014                                 |
| Balance at 1 July 2014                 | 6,786,960         | 0.71                                 |
| Expired during the period              | (285,306)         | 1.02                                 |
| Exercised during the period            | (478,094)         | 0.38                                 |
| Issued                                 | 1,264,700         | 1.01                                 |
| <b>Balance at 31 December 2014</b>     | <b>7,288,260</b>  | <b>0.72</b>                          |
| <b>Exercisable at 31 December 2014</b> | <b>4,508,586</b>  | <b>0.52</b>                          |

## Prior Period

| Reconciliation of outstanding options  | Number of options | Weighted average exercise price US\$ |
|--|-------------------|--------------------------------------|
|  |                   | 2013                                 |
| Balance at 1 July 2013                 | 8,663,574         | 0.46                                 |
| Expired during the period              | (472,897)         | 0.68                                 |
| Exercised during the period            | (1,909,580)       | 0.30                                 |
| Issued                                 | 753,927           | 1.57                                 |
| <b>Balance at 31 December 2013</b>     | <b>7,035,024</b>  | <b>0.60</b>                          |
| <b>Exercisable at 31 December 2013</b> | <b>4,064,276</b>  | <b>0.39</b>                          |

The weighted average exercise price of the total options at the end of the period is USD 72 cents which equates to NZD 92 cents at 31 December 2014 exchange rates.

The tables above include the unlisted redeemable shares as detailed in note 5 (b). Note the 1,264,700 options issued in the six months to 31 December 2014 include a single tranche of 600,000 options issued to a new senior employee in the US. The Board decided this level of options was required to be issued to attract the appropriate talent for this position.

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

The following options are outstanding at 31 December 2014:

| Number of options | Range of exercise price per share | Weighted average contractual life at 31 December 2014 (years) |
|-------------------|-----------------------------------|---|
| 566,800           | US\$ 0.29 – \$0.33                | 2.2   |
| 2,966,844         | US\$ 0.3333                       | 5.6   |
| 270,375           | US\$ 0.68                         | 7.4   |
| 465,938           | US\$ 0.75                         | 7.7   |
| 259,200           | US\$ 0.78                         | 8.2   |
| 889,800           | NZ\$ 1.20 - \$1.39                | 10.0  |
| 205,900           | NZ\$ 1.40 - \$1.59                | 9.7   |
| 525,396           | NZ\$ 1.60 - \$1.79                | 8.5   |
| 260,080           | NZ\$ 1.80 - \$1.99                | 9.4   |
| 601,927           | NZ\$ 2.00 - \$2.19                | 8.9   |
| 96,600            | NZ\$ 2.20 - \$2.39                | 8.9   |
| 55,200            | NZ\$ 2.40 - \$2.59                | 9.3   |
| 124,200           | NZ\$ 2.60 - \$2.80                | 9.2   |

#### 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 and industry peer 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. No options have been issued in USD during the period (Dec 2013 nil):

| USD\$ Options                                      | Dec 2014   | Dec 2013   | Jun 2014   |
|--|------------|------------|------------|
| Share price at grant date (weighted average USD\$) | 0.41       | 0.42       | 0.42       |
| Exercise price (weighted average USD\$)            | 0.42       | 0.42       | 0.42       |
| Expected volatility (weighted average)             | 20% to 30% | 20% to 30% | 20% to 30% |
| Expected life (weighted average)                   | 4          | 4          | 4          |
| Risk-free interest rate (weighted average)         | 3.0%       | 3.0%       | 3.0%       |
| Fair value at grant date (weighted average USD\$)  | 0.09       | 0.10       | 0.10       |

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                                      | Dec 2014 | Dec 2013 | Jun 2014 |
|--|----------|----------|----------|
| Share price at grant date (weighted average NZD\$) | 1.57     | 1.76     | 1.86     |
| Exercise price (weighted average NZD\$)            | 1.57     | 1.76     | 1.86     |
| Expected volatility (weighted average)             | 30%      | 30%      | 30%      |
| Expected life (weighted average)                   | 4        | 4        | 4        |
| Risk-free interest rate (weighted average)         | 3.7%     | 3.1%     | 3.4%     |
| Fair value at grant date (weighted average NZD\$)  | 0.47     | 0.50     | 0.54     |

## Directors

The following directors hold the following number of options as at 31 December 2014:

|            | Exercise Price |         |
|------------|----------------|---------|
| Shaun Ryan | US\$0.33       | 49,260  |
| Greg Cross | US\$0.33       | 120,000 |

## 7. Related parties

### Parent and ultimate controlling party

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

### Related party transactions and balances

Directors' holdings of options, preference shares and associated loans are disclosed in Notes 5 and 6.

Marder Media Group. Inc. (of which Steven Marder is a director) is a shareholder of Delivery Agent which is a customer of S.L.I Systems, Inc. Revenue recognised in the period \$89,000 (Dec 2013 \$82,000).

Group Lark Pty Ltd (of which Andrew Lark is a director) provided consulting services to S.L.I Systems, Inc. Consultancy fees charged to the Group for the period in which Mr Lark was a director were \$28,000 (Dec 2013 nil).

## 8. Interest bearing liabilities

There are no interest bearing liabilities in the six months to 31 December 2014.

## 9. Contingencies

There are no contingencies at 31 December 2014.

## 10. Commitments

### (a) Operating lease commitments

|   | Unaudited<br>6 months<br>ended 31 Dec<br>2014<br>\$'000 | Unaudited<br>6 months<br>ended 31 Dec<br>2013<br>\$'000 | Audited<br>12 months<br>ended 30 Jun<br>2014<br>\$'000 |
|---|---|---|--|
| Non-cancellable operating lease rentals are payable as follows: |   |   |  |
| Less than one year  | 1,160   | 1,076   | 1,129  |
| Between one and five years                                      | 2,170   | 2,745   | 2,758  |
| More than five years  | -   | -   | -  |
|   | <b>3,330</b>  | <b>3,821</b>  | <b>3,887</b>   |

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.

### (b) Capital commitments

There are no material contractual obligations to purchase plant and equipment at 31 December 2014.

## 11. Segmental information

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

The Group currently operates in one business 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.

## 12. Events occurring after 31 December 2014

There are no events occurring after 31 December 2014 that materially affects the information within the financial statements.

# Board and Management

## Board

**Greg Cross**  
Independent Chairman

**Dr. Shaun Ryan**  
Chief Executive Officer and Co-Founder

**Steven E. Marder**  
Non-Executive Director and Co-Founder

**Matthew Houtman**  
Non-Executive Director

**Sarah Smith**  
Independent Director

**Sam Knowles**  
Independent Director

**Andrew Lark**  
Independent Director

## Management

**Dr. Shaun Ryan**  
Chief Executive Officer and Co-Founder

**Rod Garrett**  
Chief Financial Officer

**Tim Callan**  
Chief Marketing Officer

**Neil Thomas**  
Chief Revenue Officer and President of North America

**Dr. Wayne Munro**  
Chief Technology Officer and Co-Founder

**Dr. Blair Cassidy**  
Vice President of Product Management

**Chris Riland**  
Vice President of Customer Success

**Michael Grantham**  
Chief Information Officer and Co-Founder

**Heather Kinghorn**  
Vice President of Human Resources

# 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@slj-systems.com](mailto:info@slj-systems.com)  
Website: [www.slj-systems.com](http://www.slj-systems.com)

## Office Directory

### USA

333 West San Carlos, 12th Floor  
San Jose, CA 95110, USA  
Toll Free: (866) 240-2812

### Europe

Fifth Floor Kemp House, 152-160 City Road,  
London, EC1V 2NP, United Kingdom  
Phone: +44 (0)203 217 0321

### Australia

L5, Suite 3, 189 Flinders Lane  
Melbourne, VIC 3000, Australia  
Phone: 1800 139 190

### New Zealand

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

### Japan

Cerulean Tower 15F, 26-1  
Sakuragaoka-cho, Shibuya-ku,  
Tokyo, 150-0082, Japan  
Phone: +81 03 5456 5891

## Solicitors

### Chapman Tripp

245 Blenheim Road  
Riccarton  
Christchurch 8011

## Auditor

### PricewaterhouseCoopers

5 Sir Gil Simpson Drive  
Canterbury Technology Park  
Christchurch

## Registrar

### Link Market Services Limited

Level 7, Zurich House  
21 Queen Street  
Auckland 1010  
PO Box 91976  
Victoria Street West, Auckland 1142  
Phone: +64 (9) 375 5998  
Facsimile: +64 (9) 375 5990  
Email: [enquiries@linkmarketservices.co.nz](mailto:enquiries@linkmarketservices.co.nz)  
Website: [www.linkmarketservices.co.nz](http://www.linkmarketservices.co.nz)

# Investor Calendar

## **Financial Year End**

30 June 2015

## **Full-year Results Announcement**

August 2015

## **Annual Meeting**

October 2015

