

SLI Systems Limited
and its Subsidiaries

Interim Report

For the Six Months Ended 31 December 2014

SLI Systems Limited and its Subsidiaries Contents For the Six Months Ended 31 December 2014

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SLI Systems Limited and its Subsidiaries Consolidated Statement of Comprehensive Income For the Six Months Ended 31 December 2014

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

SLI Systems Limited and its Subsidiaries Consolidated Statement of Changes in Equity For the Six Months Ended 31 December 2014

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

Balance at 1 July 2013	16,531	995	46	(1,817)	15,755
Profit / (loss) for the period	-	-	-	(2,289)	(2,289)
Currency translation movement					
	-	-	29	(2,289)	(2,260)
	916	(207)	-	-	709
	-	266	-	-	266
	-	(13)	-	13	-
	17,447	1,041	75	(4,093)	14,470
	-	-	29	-	29

Total comprehensive income for the period

Transactions with owners

Share options

- Share options exercised during period
- Share option expense for the period - Share options expired for the period

Balance at 31 December 2013

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

SLI Systems Limited and its Subsidiaries
Notes to the Financial Statements

Net assets		7,980		
EQUITY				
Share capital	5	18,006	17,447	17,674
Reserves		1,397	1,116	1,250
Accumulated losses		<u>(11,423)</u>	<u>(4,093)</u>	<u>(7,476)</u>
Total equity		<u>7,980</u>	<u>14,470</u>	<u>11,448</u>

Net tangible asset backing per ordinary security		\$0.13	\$0.24	\$0.19
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The accompanying notes form part of, and should be read in conjunction with, these financial statements.

SLI Systems Limited and its Subsidiaries Consolidated Statement of Cash flows For the Six Months Ended 31 December 2014

	Note	Unaudited 6 months ended 31 December 2014 \$'000	Unaudited 6 months ended 31 December 2013 \$'000	Audited 12 months ended 30 June 2014 \$'000
Cash flows from operating activities				
Cash was provided from:				
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
Cash was applied to:				
Payments made to suppliers and employees		(17,318)	(13,334)	(27,030)
Income tax paid		(5)	(20)	(91)
Net cash inflow/(outflow) from operating activities	4	<u>(3,979)</u>	<u>(2,061)</u>	<u>(4,196)</u>
Cash flows from investing activities				

Cash was provided from/(applied to):			
Purchase of property, plant & equipment	(259)	(409)	(689)
Purchase of intangibles	(14)	-	(10)
Net cash inflow/(outflow) from investing activities	(273)	(409)	(699)
Cash flows from financing activities			
Cash was provided from/(applied to):			
Cash received from share options exercised	222	709	902
Net cash inflow/(outflow) from financing activities	222	709	902
		(1,761)	(3,993)
Net increase/(decrease) in cash and cash equivalents	(4,030)	15,382	15,382
		13,621	11,389
		Cash and cash equivalents at the beginning of the period	
		11,389	
Cash and cash equivalents at the end of the period	7,359		

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

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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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

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.

SLI Systems Limited and its Subsidiaries
Notes to the Financial Statements

3 Revenue and other income

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

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

	Unaudited 6 months ended 31 December 2014 \$'000	Unaudited 6 months ended 31 December 2013 \$'000	Audited 12 months ended 30 June 2014 \$'000
Net (loss)/profit after tax	(3,996)	(2,289)	(5,722)
Adjustments			
Depreciation	204	164	391
Amortisation	26	28	57
Loss/(gain) on foreign exchange transactions	27	28	(13)
Share option expense	273	266	525
Changes in working capital items			
(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)
Net cash outflow from operating activities	<u>(3,979)</u>	<u>(2,061)</u>	<u>(4,196) 5</u>
Contributed equity			

(a) Ordinary share capital

Current Period

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

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

Prior Period

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

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

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

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

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.

	7,288,260	0.72
	4,508,586	0.52
	No of options 2013	Weighted average exercise price US\$ 2013
	8,663,574	0.46
	(472,897)	0.68
	(1,909,580)	0.30
	753,927	1.57
	7,035,024	0.60
Current Period		
	No of options 2014	Weighted average exercise price US\$ 2014
Reconciliation of outstanding options		
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
Balance at 31 December 2014		
Exercisable at 31 December 2014		
Prior Period		
Reconciliation of outstanding options		
Balance at 1 July 2013		
Expired during the period		
Exercised during the period		
Issued		
Balance at 31 December 2013		
Exercisable at 31 December 2013	4,064,276	0.39

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.

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

Directors

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

	<i>Exercise price</i>	
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 6 months ended 31 December 2014 \$'000	Unaudited 6 months ended 31 December 2013 \$'000	Audited 12 months ended 30 June 2014 \$'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	-	-	-
	<u>3,330</u>	<u>3,821</u>	<u>3,887</u>

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	-	-	-
	<u>3,330</u>	<u>3,821</u>	<u>3,887</u>

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.

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

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.