



2015 Annual Report



Higher Conversions

SLI Systems increases top-line revenue for online retail and B2B commerce sites worldwide by connecting shoppers with the products they want to buy.

Better User Experience

Increased Traffic

Contents

- 02** Highlights
- 03** Chairman and Chief Executive's Report
- 07** Proven Customer Success
- 08** SLI Connect
- 10** New Product Innovation
- 12** Board
- 15** Management
- 18** Corporate Governance
- 21** Shareholder and Statutory Information
- 28** Financial Statements
- 56** Directory
- 57** Financial Calendar

Highlights

➤ ARR¹ growth of
39%
to \$34.6m

➤ Gross margin
74%

➤ Net cash flow
improved
over previous six months

➤ Growth of
27%
in Operating Revenue

➤ Cash of
\$5.6m

➤ Retention Rate
87%
by value

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

Chairman and Chief Executive's Report



Dear Shareholders,

In the 2015 financial year SLI has continued to grow revenue and lifted the adoption of its services by e-commerce sites worldwide. We grew operating revenue by 27% to \$28.1 million, increasing our high-margin recurring revenues.

We hit new heights in customer numbers, query volumes, and the number of websites that deploy our solutions. We released major product improvements and made great strides in enhancing the effectiveness of our sales and marketing teams as we continue to grow.

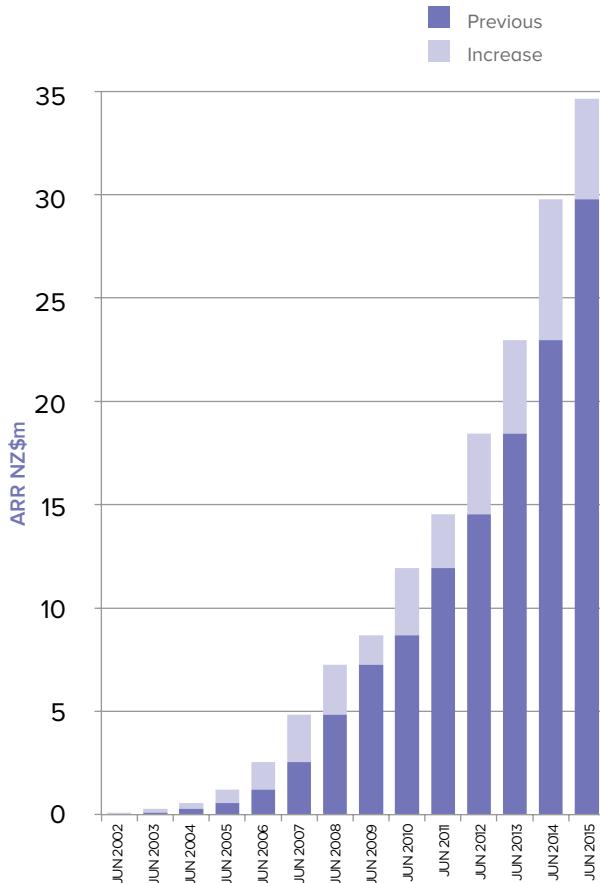
True to forecast, our cash outflows are reducing as we improve the productivity and efficiency of our growth engine.

SLI, as a Software-as-a-Service (SaaS) business, enjoys strong, growing, high-margin recurring revenues. Our key indicator of our long-term prospects is Annualised Recurring Revenue, or ARR, which measures the subscription revenue from our existing customer base in the reference month and then annualises it. It is, in effect, a good estimate of what our annual revenue would be assuming we achieved no further net growth and the foreign exchange rates remain materially the same.

ARR as at 30 June 2015 stood at \$34.6 million, a 39% year-on-year increase from the \$24.9 million at the same point in the prior year. This growth, which will translate into operating revenue growth, was lifted by the strength of the US dollar and the British pound, currencies in which the company generates 56% and 21% of its ARR, respectively. On a constant-currency basis ARR growth was 16%. Gross margin for the period was 74%, materially in line with what we achieved last year.

Constant currency ARR growth was slower than previous years as we made some important changes in our North American sales organisation. While these changes leave us better positioned moving forward, they had a disruptive effect on sales operation in the short term.

SLI ARR Growth to June 15 (Constant Currency)



Sales were also impacted by weakness in the Brazilian economy.

Customer retention remains strong at 87%¹, slightly lower than the 90% recorded in the prior year due to the deflection

1. Customer retention by value

of a small number of large clients who switched e-commerce platforms. Indeed, if the four largest departing customers had remained with SLI, our retention rate would have been in line with prior years.

It is not uncommon for SLI to lose clients when they switch e-commerce platforms and then regain them as they further optimise their e-commerce sites. We recognise customer retention is important to our long-term revenue performance, and as part of the broader sales team restructuring, we have instituted a series of initiatives to ensure we keep retention as high as possible.

We recorded a loss for the year of \$7.2 million, reflecting that our growth investment in sales and product development is all expensed. Our total cash outflow of \$5.8m for the year has fallen rapidly in the second half, for which it was \$1.8 million, down from \$4.0 million in the first half.

We benefited from growth in operating revenue, a shift to more cost-effective opportunity-generation programmes, and the depreciation of the New Zealand dollar, in which we incur nearly a third of our expenses and bring in less than 5% of revenue.

These spending efficiency improvements are not compromising our growth ambitions, and we expect them to continue.

Achieving new customer milestones

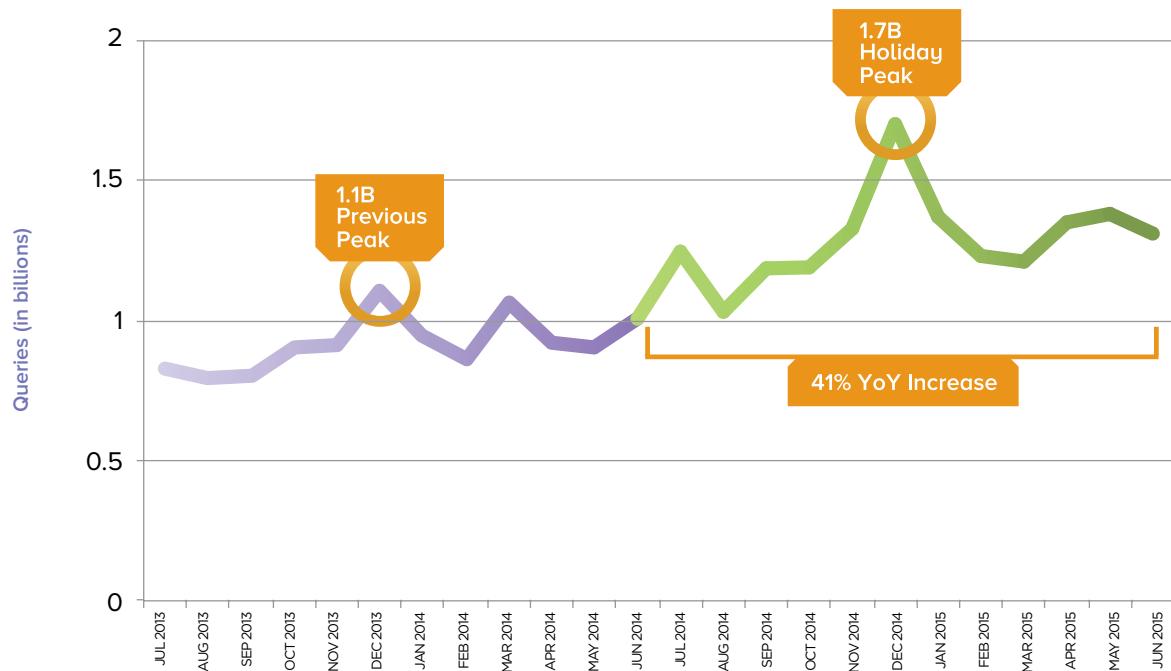
SLI has a clear and growing target market for our services. We offer SaaS services to online retailers and business-to-business e-commerce sites. Our services improve top line sales for these sites by more effectively connecting site visitors with the products they're most likely to buy.

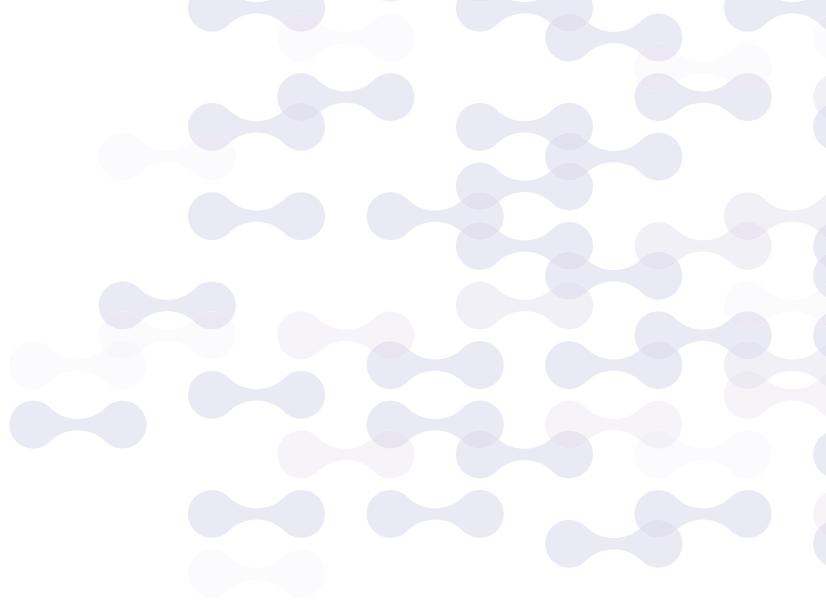
Our services accomplish this task by 'learning' from the behaviour of previous site visitors and using that information to improve the experience for subsequent visitors, enhancing the rate of conversion of site visits to sales. We call this 'e-commerce accelerated.'

In the year to 30 June customer numbers hit a new high of 586, up from 511 in the prior year. Many of these customers operate more than one e-commerce site, and this year we exceeded 1,000 web sites using our services.

Customers added this year included Harvey Norman, Briscoes, Country Road, and Kathmandu here in New Zealand. We also added major retailers in our other markets. For example, leading UK retailer Jigsaw joined our customer base along with worldwide fashion brand Paul Smith. In the USA we brought on Dressbarn, a well-known US retailer with more than 800 stores nationwide and consumer electronics giant Lenovo (annual revenue USD\$46 billion).

SLI Serves Billions of E-Commerce Queries Worldwide





We continue to be the most chosen provider of SaaS site search among the Internet Retailer top 1,000, which are the USA's 1,000 largest online retail sites as measured by *Internet Retailer Magazine*. This year's report shows that use of our services has grown to 87, or 8.7%, of the Internet Retailer 1,000.

We also hit new highs in the volume of consumer shopping behaviours we influenced. This year SLI served more than 15 billion search queries, a 41% increase over the previous year. Our high point in the fiscal year was December, when holiday shopping spikes pushed our search query volume to 1.7 billion in a single month, a 55% rise over the previous December's volume.

SLI and our customers have won numerous awards for implementations of our solutions. These and our customers' frequent and strong advocacy of SLI's services at venues including leading marketing conferences such as ClickZ and eTail are testimony to the success these solutions achieve for online businesses.

Improving our selling machine

At the end of calendar year 2014, the company began to transform its worldwide sales and service effort. The review has touched all aspects of our new business sales, account management, and customer service teams, strategies, and processes. We saw early indications of the success of these initiatives in our sales performance for the fourth quarter of this year, during which time we achieved our highest ever numbers for new business and add-on sales.

SLI has also made great progress in developing our marketing programme, which reaches out directly to new customers and leverages the strong relationships we have with our existing customers.

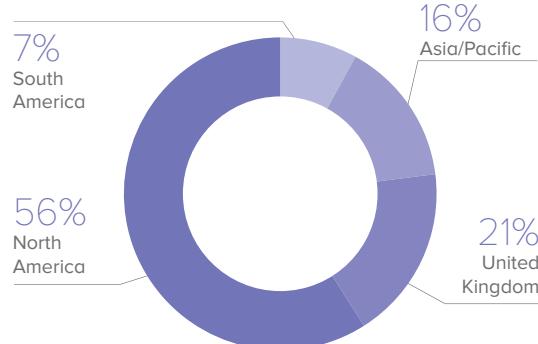
We have revamped our internal processes, launched a new visual brand identity that matches the expectations our target buyers have for a SaaS online retail business, and instituted a series of customer summits, named SLI Connect, in our major markets.

SLI Connect gathers together SLI customers and other e-commerce industry leaders for an intensive conference focused on the best practices in online retail and how to use SLI services to increase sales.

Last year we held SLI Connect summits in the USA, the UK, and Australia, with a total of more than 400 delegates across the various locations. These events were well attended, highly praised by those present, and even covered by the retail press. This coming year we are expanding to additional locations in the USA and adding Japan to the SLI Connect lineup.

"In the fourth quarter of this year we achieved our highest ever numbers for new business and add-on sales."

A Global Business - ARR by Geography



We remain focused on growing our share in our core markets of North America, the United Kingdom, Brazil, Australia, and New Zealand. At the same time we continue our penetration into new markets such as Japan, where we now have our first paying customer and several other sites in pilot. We are exploring cost-effective ways to sell our products into additional geographies as well.

Technology innovation

In 2015 SLI continued improving its products with a series of releases designed to maintain our best-in-class status in our core categories. Major product releases in 2015 served to improve the relevance and delivery speed of search results, enhance the mobile experience we provide, increase our e-commerce platform support, and provide better omnichannel capabilities.

Providing a best-in-class mobile experience is critical as mobile devices in use now outnumber desktop computers worldwide and many online retailers experience mobile traffic that rivals or exceeds traffic from desktops.

E-commerce platforms are the most common way for online businesses to offer services today, and by integrating SLI solutions with them we can provide easier onboarding and management for our clients.

Omnichannel is a retail industry megatrend in which retailers seek to offer an optimised and consistent shopping experience across brick-and-mortar stores, online, mobile applications, outbound marketing programmes, and other means of interacting with customers.

By enhancing our products to support our customers with these important initiatives, we continue to add value and differentiate ourselves from lower-end or homegrown substitutes.

Governance

After two and a half years on the SLI board Sam Knowles has decided that, due to other workload commitments, he will be retiring and not seeking re-election at the annual meeting on October 16. We would like to thank Sam for his contribution over the last two and a half years and make particular reference to the valuable input he provided during our IPO process and our first years as a public company.

We will be looking for a director to replace Sam during this financial year. Potentially his replacement will be US based.

In conclusion

SLI has continued to grow while maintaining its position as the premium provider of SaaS-based site search and related products for the online retail and business-to-business e-commerce industry.

We have a large and growing set of respected, successful customers who are highly vocal about the value they gain from SLI solutions and who are recognised for their success by industry peers.

We have made great improvements to our sales and marketing functions, and we continue to develop our products to increase the value we add and maintain our lead over low-end alternatives. We are confident that these initiatives will drive future growth in this large and fast-growing market.

We continue to seek to increase our market share, expand our geographic footprint, and reduce the costs associated with our current growth rate.

We are looking ahead with confidence in our ability to make the most of the significant opportunities we see.



Greg Cross
Chairman



Shaun Ryan
Chief Executive Officer

SLI's award-winning solutions have been recognised by customers and industry watchers as a consistent driver of increased sales and positive return on investment.

Proven Customer Success

ChemistDirect

175%

**higher conversion rate
for site search users**

"With an online catalogue of over 20,000 products and processing between 70,000 and 80,000 transactions each month, putting the right products in front of customers as quickly as possible is critical. The only way to do it well is using intelligent search."

- Stephen Lovell, CIO



168%

increase in online revenue

"SLI has proven that it has the technology we need. We appreciate the ease of integration and the excellent results achieved since deployment."

- Helen Everitt, E-commerce Manager



104%

increase in e-commerce revenue

"Integrating site search from SLI has dramatically improved the overall search functionality of our website and made it easier for shoppers to find and buy products with just a few clicks."

- Reggie Johal, Managing Director

eason

73%

**of total revenue attributed
to site search**

"We already see the value of our investment since our deployment of SLI last year. Conversion rate is higher and customers find products more quickly."

- Yvonne Phillips, E-commerce Manager



68%

drop in bounce rate

"MarineDepot.com visitors who use site search powered by SLI are finding what they need faster and converting into customers almost four times more than non-search customers, contributing to an 11% increase in revenue and driving the average order value up 7%."

- Wayland Wong, COO



SLI CONNECT

ACCELERATING E-COMMERCE

SLI Connect brings together thought leaders and top-tier retailers for a one-day educational e-commerce summit held annually around the globe. More than 300 delegates attended SLI Connect events in 2015.

2015 SLI Connect Events

London
Seattle
Sydney
Melbourne

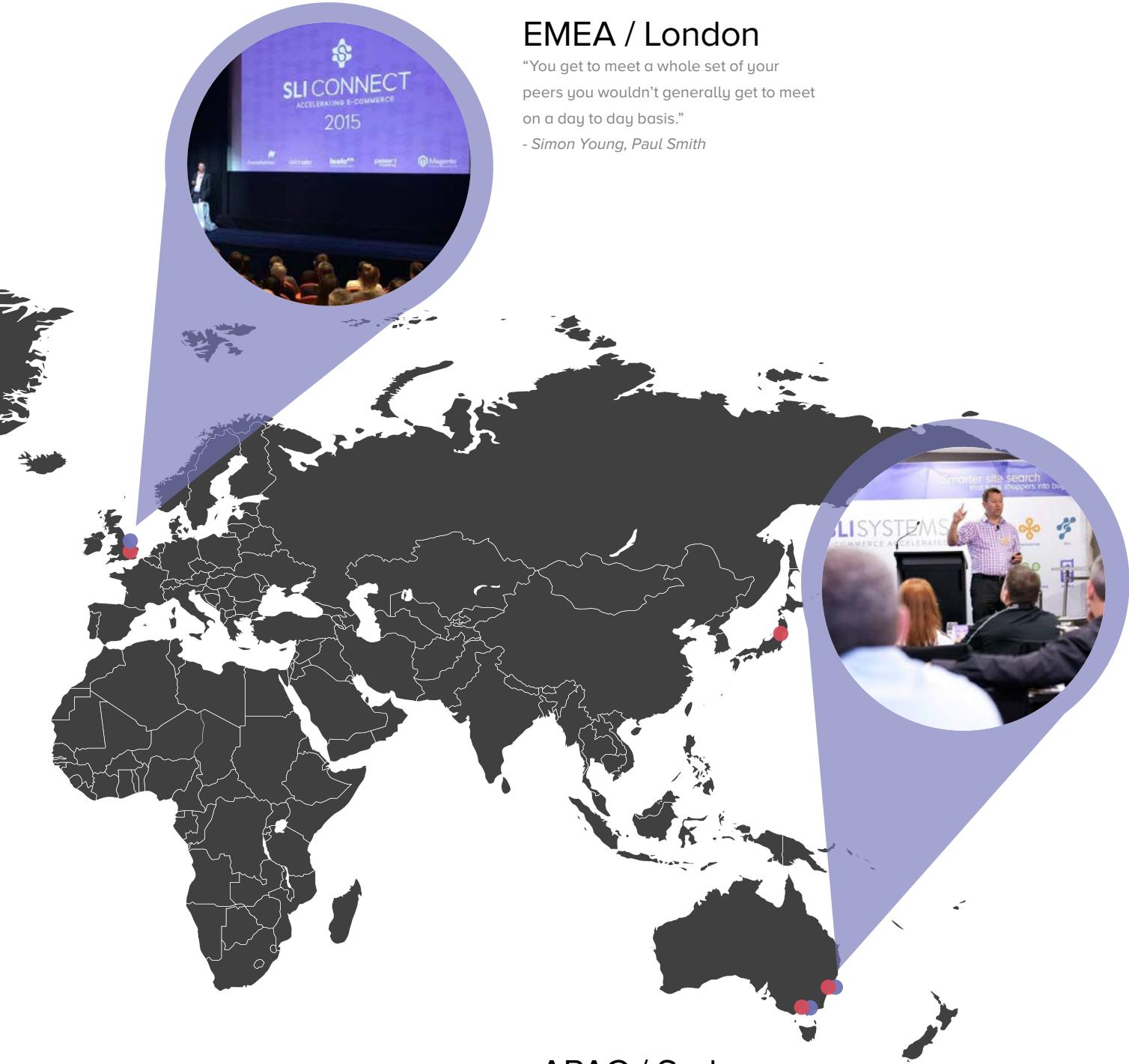
2016 Scheduled SLI Connect Events

London
New York City
Sydney
Melbourne
Tokyo
Las Vegas



Americas / New York City

The next SLI Connect will be September 24 in New York City at the historic Carnegie Hall. Top retailers like L'Oréal, the NBA, and UPS have registered to attend. SLI customers Dressbarn, Sports Authority, and Frontgate are excited to speak, and our partners Magento, Merkle RKG and Bronto will sponsor the event.



EMEA / London

"You get to meet a whole set of your peers you wouldn't generally get to meet on a day to day basis."

- Simon Young, Paul Smith

APAC / Sydney

"It was very good to hear from some of the other speakers, see what some of the other retailers and multi-channel retailers are doing in this space."

- Elizabeth Emery, Group Web & E-Commerce Manager, Super Retail Group

New Product Innovation

Retail is an industry in transformation. New technology and changes in consumer attitudes force stores to adapt or die. This year we helped our customers stay current with new technology enhancements to take advantage of the most important industry trends.



Increasing revenue per shopper

Retailers continuously feel pressure to maximise revenue per shopper through improved conversion and cross-selling additional items per basket. Providing the most relevant search results improves these key metrics.

SLI released:

- Landing Page Creator™. This major capability upgrade gives marketing teams the ability to create their own pages for merchandising campaigns without involving IT development resources.
 - Major speed enhancements in delivering search results.
-



Mobile

Online shoppers increasingly turn to their phones and tablets. Online retailers must provide the best possible experience to convert these visitors to customers.

SLI released:

- Mobile enhancements to all our offerings for easier browsing and navigation.
 - Improved results in popular search engines while using mobile devices.
-



Platform support

Online retailers are increasingly choosing integrated e-commerce platforms rather than internally building their e-commerce technology.

SLI released:

- Expanded e-commerce platform support.
 - hybris connector. This plug-in makes integration plug-and-play easy between SLI Learning Search® and the popular hybris e-commerce platform.
-



Omnichannel

Retailers seek to provide a consistent and integrated experience across different purchasing channels.

SLI released:

- Geolocation integration. This capability enables “click-and-collect” by providing search results based on available inventory in stores near the shopper.
 - Flexible recommendations in e-mail campaigns, packing slips, and other consumer touchpoints.
 - Enhanced mobile support.
-



Globalisation

E-commerce is blossoming in all parts of the world, and large retailers increasingly seek to capitalise on this trend by expanding to additional geographic regions.

SLI released:

- Support for three new languages.
 - Enhancements to Japanese language support.
 - Portuguese and Japanese management consoles.
-

Board

SLI's diverse and experienced Board of Directors add valuable expertise and contacts to contribute to the company's ongoing success.



Greg Cross
Independent Chairman

Greg is a director with over 25 years of experience in the technology sector working in growth companies in international markets. Greg is Chief Executive, Executive Director and Co-Founder of PowerbyProxi, a company which is growing rapidly in the Industrial Component and Consumer Electronics markets. Greg has been on the board of SLI as an Independent Director since July 2003 and has been Chair since 2005. Greg is currently the Sir John Logan Campbell Executive in Residence at the University of Auckland Business School.

Previous roles include Chairman of the IceHouse, a technology incubator associated with the University of Auckland Business School, Chairman of NZTE Beachhead Advisory Board, CEO of Advantage Group Limited which was a listed NZX company and Managing Director of Microsoft New Zealand.



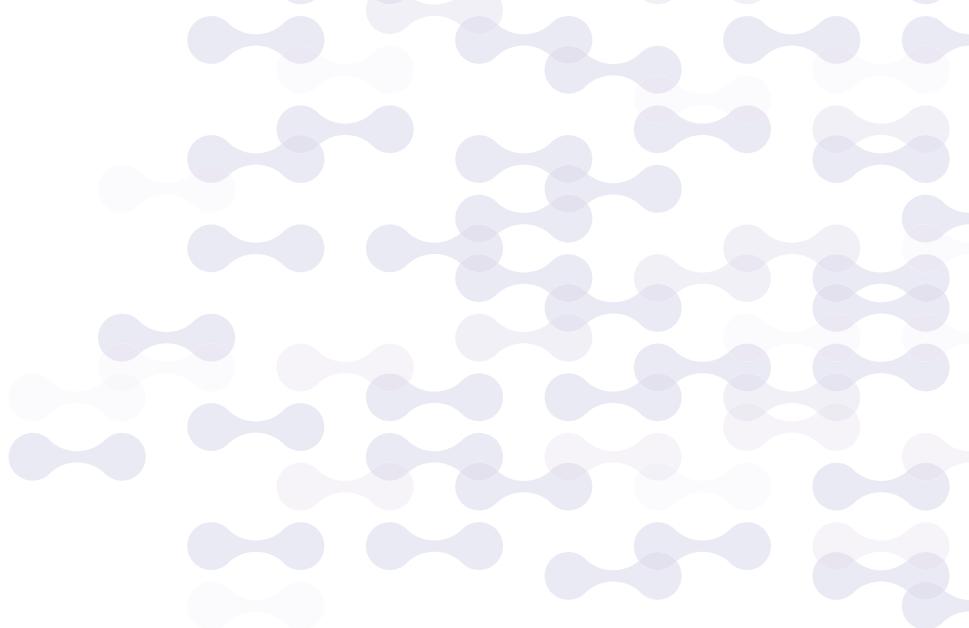
Dr Shaun Ryan
PhD, BEng (Hons)
Chief Executive Officer and Co-Founder

Shaun has more than 15 years experience in search technologies. As a co-founder of SLI, he was one of the developers of SLI's unique "Learning Search" site search technology. Shaun was also an original founder of GlobalBrain (in 1998), the search technology company which was bought by NBCi, in 2000. Shaun and his fellow founders formed S.L.I. Systems, Inc. and bought back the GlobalBrain technology. Prior to GlobalBrain, he worked as a contract software developer for a number of organisations, including the international health technology company Invacare. Shaun and his brother, fellow SLI co-founder, Grant Ryan, were awarded 2014 NZ Engineering Entrepreneurs of the Year. Shaun has a PhD in Artificial Intelligence from the University of Canterbury.



Sarah Smith
BCom, CA, CFIInstD
Independent Director

Sarah has extensive business and governance experience in both the private and public sectors. She has held key financial and business development roles in a variety of businesses both in New York and New Zealand. As an independent director, Sarah has 20 years experience and is currently Chairman of Ngai Tahu Tourism. Sarah is also a Director of Christchurch City Holdings, WhereScape Software, and EcoCentral and is a Trustee for several charitable organisations. She is a member of Chartered Accountants Australia and New Zealand and is a Chartered Fellow of the Institute of Directors.



Matthew Houtman

MMS

Non-Executive Director

Matthew is a co-founder and Managing Director of Pioneer Capital Partners, an investor in New Zealand businesses that are focussed on growth into large international markets. In addition to SLI, he has portfolio responsibilities with Orion Health, Pukeko Pictures, WhereScape and YikeBike. Before joining Pioneer Capital Partners, Matthew had a career in investment banking; most recently with UBS Investment Bank, where he worked in the Auckland then London offices. Activities during this period included: mergers, acquisitions, trade sales, balance sheet recapitalisations, IPOs and debt funding. Matthew has a Master of Management Studies with distinction from the University of Waikato.



Andrew Lark

Independent Director

Andy is an internationally renowned marketer with 25 years' experience running multi-billion dollar e-commerce businesses and building highly successful online and marketing teams. Andy has served as Chief Marketing and Online Officer at Commonwealth Bank of Australia (CBA), where he revitalized the CBA brand and played a key role in establishing the bank's digital and online leadership. Prior to this he was a Vice President & General Manager at Dell, where he was head of global marketing for the computer manufacturer's Enterprise and Public group. He has led marketing teams at LogLogic, Sun Microsystems and Nortel Networks, and is a former Senior Vice President and Partner at Fleishman-Hillard. Today he is chief marketing officer for Xero - a leading global provider of software solutions to small businesses. He also chairs Group Lark, a consulting firm accelerating digital and marketing strategies for leading brands. His achievements have earned him recognition including the New

Zealand Government's prestigious Worldclass New Zealander Award. Andy is a member of the boards of Mighty River Power, Fronde, and Simple HQ. A native of Auckland, Andy has received accolades for his contributions to New Zealand business.



Steven E Marder

JD, BA

Non-Executive Director

Silicon Valley-based Steven Marder has over 25 years executive, advisory, and investment experience in the global technology, media and communications sectors. In addition to serving as a Co-Founder and Director at SLI Systems, Steven currently serves as a Director, Investment Banking & Capital Markets for global financial services firm BTIG. Previously he served as an Operating Partner for the Technology, Media & Telco Group at merchant bank, Morgan Joseph TriArtisan, while also serving on the board of Ingenious Ventures and the board of advisors for PlayNext Games, Platform Purple and AdMedia. Prior, serving as an Operating Partner for New York-based private equity firm Avista Capital Partners, Steven served as Director for portfolio companies WideOpenWest (WOW!) and InvestorPlace Media in addition to serving as Director/co-founder of social search company Eurekster. Steven also co-founded and served as Managing Director, North America for Gramercy Venture Advisors, co-founded

and served as Chairman/ CEO of eMemberDirect, Inc. (FKA PetPlanet.com), served as a Director for New Zealand based technology company GlobalBrain and as a senior executive at major media companies EMI Music and Tribune Company (Compton's NewMedia). A graduate of St. John's School of Law, Columbia College/Columbia University and Horace Mann School, Steven is also an attorney and member of the State Bar of New York and California and an investment banker holding FINRA Series 79, 62 and 63 licenses.



Sam Knowles

MSc

Independent Director

Sam has held senior positions for major banks in both Australia and New Zealand and has extensive experience in strategy, marketing, organisational capability building, and private and public sector governance experience, including over 10 years on boards of NZX listed companies. Sam is perhaps best known for his role in establishing Kiwibank and leading it from startup to a large successful business. Since leaving Kiwibank in 2010, Sam has taken on governance roles in growth businesses, primarily with a technology focus. His current roles include Director of Trustpower and Synlait Milk, both NZX listed companies, and Chairman of Partners Life, ON-Brand Partners Umajin and Adminis. He is also a Director of Magritek and Rangatira.

Management

SLI's seasoned management team brings the company extensive industry knowledge and experience in a breadth of disciplines including accounting and finance, software development, and marketing. The executive leadership team includes three original founders (Shaun Ryan, Wayne Munro, and Michael Grantham) and three PhD holders.



Dr Shaun Ryan

PhD, BEng (Hons)

Chief Executive Officer and Co-Founder

Shaun has more than 15 years experience in search technologies. As a co-founder of SLI, he was one of the developers of SLI's unique "Learning Search" site search technology. Shaun was also an original founder of GlobalBrain (in 1998), the search technology company which was bought by NBCi, in 2000. Shaun and his fellow founders formed S.L.I. Systems, Inc. and bought back the GlobalBrain technology. Prior to GlobalBrain, he worked as a contract software developer for a number of organisations, including the international health technology company Invacare. Shaun and his brother, fellow SLI co-founder, Grant Ryan, were awarded 2014 NZ Engineering Entrepreneurs of the Year. Shaun has a PhD in Artificial Intelligence from the University of Canterbury.



Dr Wayne Munro

PhD, BEng (Hons)

Chief Technology Officer and Co-Founder

Wayne leads SLI's engineering team. He is responsible for the production and maintenance of the client searches as well as the development of the SLI products. Wayne is a co-founder of SLI and has developed some of SLI's core algorithms as well as managing and developing the internal processes that have allowed the SLI engineering team to grow efficiently. Before joining the Company, he held senior technical positions with NBCi and GlobalBrain, specialising in software development and theoretical research. Wayne also worked as a research scientist for the Wool Research Organisation of New Zealand. He has a PhD in engineering from the University of Canterbury in New Zealand, where he developed new numerical models for structural simulation. Wayne has also published papers in international journals.



Rod Garrett

BCom (Hons)

Chief Financial Officer

Rod has over 20 years experience in finance and related roles. He worked for Pricewaterhouse in New Zealand and London mainly on Insolvency/Corporate Recovery assignments before moving into the commercial sector. Before joining SLI in 2006, he was CFO of Christchurch electronics developer and manufacturer Eaton Power Quality Ltd. Rod originally worked for New Zealand owned Swichtec which was acquired by British company Invensys and, ultimately, by the Eaton group. He has an honours degree in Accounting and Finance from Otago University.



Dr Blair Cassidy

PhD, BSc (Hons)

Vice President of Product Management

Blair is responsible for product development and on-going product management. He has extensive experience leading high performance technical teams, focusing on the design, implementation and usage of highly scalable IT systems. Previously, he was VP of Engineering at Eurekster, the pioneering social search company. He spent several years at PA Consulting Group, an international management consultancy, living and working throughout Asia and the US. He also worked as the data engineer for the search product at NBCi. Blair has held research positions within New Zealand and Japanese institutions, and holds a PhD in Computational Modelling from Lincoln University.



Tim Callan

BA

Chief Marketing Officer

As CMO for SLI Systems, Tim is focused on driving sales growth within the e-commerce sector and increasing SLI's market share with its SaaS-based search and navigation offerings. Tim previously served as CMO at RetailNext, a leading provider of in-store Big Data and analytics solutions, and as VP of marketing for online security leader Verisign, where he led the creation and launch of the Verisign Secured seal. Tim currently sits on the board of IT security company DigiCert and has served on the board of the Online Trust Alliance. A 20-year technology industry veteran, Tim has also held marketing executive positions at Melbourne IT Digital Brand Services and Caere, which later became Nuance. Tim earned a bachelor's degree with the highest honors from UCLA.



Heather Kinghorn

BSocSc

Vice President of Human Resources

Heather has over 25 years' experience in building highly effective HR programmes in rapid-growth companies. She has been with SLI Systems since 2010 and leads the Company in its talent identification, organisational development, and strategic human resources planning. Prior to joining SLI, Heather spent more than 15 years in the consulting engineering industry, where she specialised in acquisitional growth, diversity management, and conflict resolution. Heather holds a bachelor's degree in industrial psychology and industrial sociology.



Michael Grantham

BSc

Chief Information Officer
and Co-Founder

Michael is responsible for SLI's global technical infrastructure. As a co-founder of SLI, he has helped design and implement many of SLI's products. Prior to SLI, he gained valuable experience in search and systems design at NBCi and GlobalBrain, where he was a lead developer and systems engineer. Michael has also held lead developer positions at Australia and New Zealand's largest banks. He holds a bachelor's degree in computer science from the University of Canterbury.



Corporate Governance

Best practice and governance

The Board has overall responsibility to ensure that the Company is properly managed and to enhance investor value and confidence through good corporate governance. The Board has adopted a corporate governance code ("Code"). A copy of the Code is available on the Company's website (www.sli-systems.com).

The Board considers that the Company's corporate governance policies, practices, and procedures materially comply with the NZX Corporate Governance Best Practice Code.

The Company will continue to monitor best practice in the governance area and update its policies to ensure it maintains the most appropriate standards. The Company's principal governance statements are outlined in this report.

The role of the Board

The Board assumes accountability for the success of the SLI Group by taking responsibility for the direction and management of the Company.

The main functions of the Board include:

- reviewing and approving the strategic, business, and financial plans prepared by management;
- ensuring the Company has appropriate management to enable it to achieve its objectives;
- reviewing and approving individual investment and divestment decisions which the Board has determined should be referred to it before implementation;
- monitoring the Company's performance against its approved plans and overseeing the Company's operating results;

- ensuring the quality and independence of the Company's external audit process;
- monitoring compliance and risk management;
- establishing and monitoring SLI's health and safety policies; and
- ensuring the ethical behaviour of the Company, the Board and management.

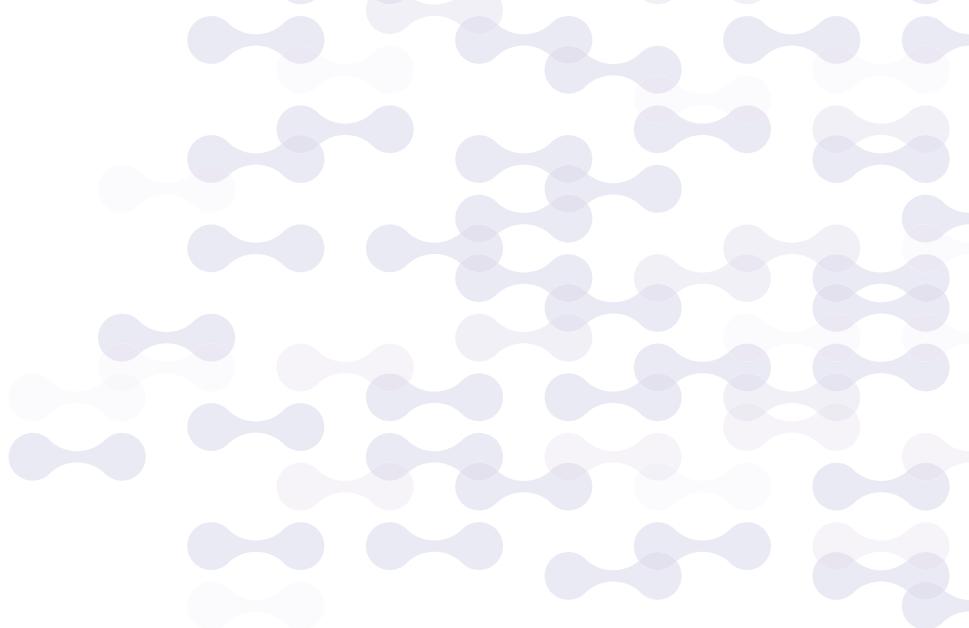
Board and committee meetings

The Board formally met 10 times during the period of 1 July 2014 to 30 June 2015. During this period, the Audit and Risk Management Committee met four times and the Nominations and Remuneration Committee met once.

Board membership and composition

The Board is required to maintain at least a minimum number of two Independent Directors, or where the Board comprises eight or more directors the number of Independent Directors must be at least three or one-third of all directors (rounded down to the nearest whole number of directors), whichever is the greater. As at 30 June 2015, the Board had four Independent Directors as noted below. In order for a director to be independent, the Board has determined that he or she must not be an executive of the Company and must have no disqualifying relationship as defined in the Code and the NZX Listing Rules.

Each director of the Company is a skilled and experienced business person and has been elected based on the value he or she brings to the Board. Together they provide value by making quality contributions to corporate governance matters, conceptual thinking, strategic planning and policies, and by providing guidance to management.



As at 30 June 2015 the Board consisted of:

Greg Cross
Chairman and Independent Director

Steven Marder
Non-Executive Director

Matthew Houtman
Non-Executive Director

Shaun Ryan
Executive Director

Sam Knowles
Independent Director

Sarah Smith
Independent Director

Andrew Lark
Independent Director

Profiles of current board members are shown on pages 12 to 14.

As at 30 June 2015, six of the Company's directors were male and one was female (unchanged from June 2014), and six of the Company's seven key management personnel were male and one, being the Vice President of Human Resources, was female (30 June 2014 – nine male, one female). The other six key management personnel as of 30 June 2015 were the CEO, the Chief Technology Officer, the Chief Information Officer, the Vice President of Product Management, the Chief Financial Officer, and the Chief Marketing Officer.

Nomination and appointment of directors

The Board is responsible for identifying and recommending candidates. Directors may also be nominated by shareholders under NZSX Listing Rule 3.3.5.

A director may be appointed by ordinary resolution, and all directors are subject to removal by ordinary resolution.

The Board may at any time appoint additional directors. A director appointed by the Board shall only hold office until the next annual meeting of the Company but shall be eligible for election at that meeting.

One third of directors must retire from office at the annual meeting each year but are eligible for reappointment by shareholders at the annual general meeting. The directors to retire shall be those who have been longest in office since they were last elected or deemed to be elected.

The number of elected directors and the procedure for their retirement and re-election at annual meetings of shareholders are set out in the Company's Constitution.

Board committees

The Board uses committees to deal with issues requiring detailed consideration by members of the Board with specialist knowledge and experience, thereby enhancing the efficiency and effectiveness of the Board. The committees examine proposals and, where appropriate, make recommendations to the Board. Committees do not take action or make decisions on behalf of the Board unless specifically authorised to do so by the Board. The two formally constituted committees are as follows:

Audit and Risk Management Committee

The members of the Audit and Risk Management Committee are Sarah Smith, Matthew Houtman, and Sam Knowles. The purpose of the committee is to assist the Board in fulfilling its responsibilities regarding external financial reporting, ensuring the quality and independence of the Company's external audit processes, and providing a formal forum for communication between the Board and senior financial management staff.

A majority of the committee's members must be independent directors, and at least one director must be a chartered accountant or have another recognised form of financial expertise. The committee has adopted a written charter.

Nominations and Remuneration Committee

The members of the Nominations and Remuneration Committee are Greg Cross, Steven Marder, and Sam Knowles. This committee is responsible for reviewing and making recommendations of any changes to the Board. The committee is also responsible for setting and reviewing the Company's remuneration policies including making remuneration recommendations for directors and senior executives of the Company. It also reviews any company-wide employee or director incentive and share option schemes as required. The committee has adopted a written charter.

Directors' remuneration

Directors' fees for the year ended 30 June 2015 were \$60,000 per annum for the Chairman and \$40,000 per annum for each non-executive director (including the Independent Directors). The actual aggregate amount of fees paid in the year ended 30 June 2015 was \$260,000.

To provide for flexibility, shareholder approval was obtained prior to listing for aggregate non-executive directors' fees of \$250,000 which increased to \$290,000 with the appointment of Andrew Lark in December 2013 as provided for under Listing Rule 3.5.1.

The directors are also entitled to be paid for all reasonable travel, accommodation, and other expenses incurred by them in connection with their attendance at Board or shareholders' meetings or otherwise in connection with the Company's business.

Director and staff share dealings

The Company has adopted a securities trading policy which sets out the procedure to be followed by directors and staff when trading in the Company's listed securities, to ensure that no trades occur while that person is in possession of material information which is not generally available to the market.

Directors' indemnity and insurance

The Company has insured all of its directors and the directors of its subsidiaries against liabilities to other parties (except the Company or a related party of the Company) that may arise from their positions as director. The insurance does not cover liabilities arising from criminal actions. In addition, the Company has executed a Deed of Indemnity, indemnifying all directors to the extent permitted by section 162 of the Companies Act 1993.

Code of ethics

The Code includes a policy on business ethics which is designed to govern the Board's conduct. The Code addresses conflicts of interest, receipt of gifts, confidentiality, and fair business practices.

Disclosure

The Company adheres to the NZX continuous disclosure requirements, which govern the release of all material information that may affect the value of the Company's listed shares.

Shareholder and Statutory Information

Stock Exchange Listing

The Company's ordinary shares are quoted on the NZX Main Board licensed equity securities market operated by NZX Limited.

Twenty Largest Registered Shareholders

The table below shows the names and holdings of the 20 largest registered shareholders as at 31 July 2015.

Investor Name	Total Shares	%
Pioneer Capital I Nominees Limited	5,913,798	9.66
Custodial Services Limited	4,333,822	7.08
Grant James Ryan & Shaun William Ryan ¹	2,953,116	4.82
Premier Nominees Limited ⁶	2,944,949	4.81
Wayne Alistair Munro	2,940,120	4.8
Lynnwood Holdings Limited	2,661,816	4.35
Shaun William Ryan & Katherine Louise Ryan ²	2,430,000	3.97
Michael Arthur Grantham	2,065,500	3.37
Robert Van Nobelen & Bws Trustee (2005) Limited ³	2,007,612	3.28
Gareth Samuel Reuben Morgan & Gareth Huw Thomas Morgan & Charles Andrea Purcell ⁴	1,795,843	2.93
Kevin James Taylor & Anna Patricia Taylor ⁵	1,742,928	2.85
Tea Custodians Limited ⁶	1,668,106	2.72
JPMORGAN Chase Bank ⁶	1,595,271	2.61
Geoffrey Michael Brash	1,297,734	2.12
Custodial Services Limited	1,080,004	1.76
Accident Compensation Corporation ⁶	988,362	1.61
K One W One (No. 2) Limited	900,000	1.47
Jamie Glendinning Anstice	829,962	1.36
Shaun William Ryan	810,000	1.32
Forsyth Barr Custodians Limited	793,480	1.3

¹ As trustees of the Grant James Ryan Family Trust

² As trustees of the Shaun W Ryan Family Trust

³ As trustees of the Rob Van Nobelen Family Trust

⁴ As trustees of the Jasmine Investment Trust No.2

⁵ As trustees of the Anne and Kevin Taylor Family Trust

⁶ Held by New Zealand Central Securities Depository Limited as custodian

Spread of security holders as at 31 July 2015

Range	Number of holders	%	Issued Capital	%
1-1,000	341	20.49%	234,218	0.38%
1,001-5,000	837	50.30%	2,459,245	4.02%
5,001-10,000	268	16.11%	2,117,207	3.46%
10,001-50,000	159	9.56%	3,246,036	5.30%
50,001-100,000	16	0.96%	1,155,249	1.89%
Greater than 100,000	43	2.58%	52,018,201	84.96%
Total	1664	100%	61,230,156	100%

Substantial Product Holders

According to notices given under the Financial Market Conducts Act 2013, the substantial product holders in ordinary shares (being the only class of listed voting securities) of the Company, as at 30 June 2015, are as follows:

Substantial Product Holder	Number of voting securities	%
Shaun William Ryan ¹	6,944,376	11.35%
Pioneer Capital Management Limited / Pioneer Capital Partners I LP and NZVIF Investments Limited / Matthew Gainsford Houtman ²	6,083,563	9.95%
ANZ New Zealand Investments Limited ³	4,569,249	7.47%
Steven Marder ⁴	4,299,322	7.03%
Grant James Ryan ⁵	4,119,246	6.73%
First NZ Capital Securities Limited and Harbour Asset Management Limited ⁶	3,057,655	5.00%

The total number of listed voting securities of the Company on issue at 30 Jun 2015 was 61,162,116 fully paid ordinary shares.

1. Shaun is legal and beneficial holder of 810,000 ordinary shares, holds 2,430,000 ordinary shares as trustee of an associated family trust and holds 3,704,376 ordinary shares as trustee of his brother's and parents' family trusts.
2. Pioneer Capital Management Limited is legal and beneficial holder of 156,432 ordinary shares in the Company and is the investment manager of Pioneer Capital Partners I LP and NZVIF Investments Limited. Pioneer Capital Partners I LP and NZVIF Investments Limited are beneficial owners and co-investors in the 5,913,798 ordinary shares in the Company held by Pioneer Capital I Nominees Limited. Matthew is legal and beneficial holder of 13,333 ordinary shares in the Company and owns, in conjunction with a family trust in which he is a trustee, 50% of Pioneer Capital Management Limited.
3. ANZ New Zealand Investments Limited acts as an investment manager for certain investment funds and as a result has a relevant interest in the units as it has:
 - a conditional power to exercise the right to vote attached to the units; and
 - a conditional power to acquire or dispose of the units.
4. Steven is legal and beneficial holder of 1,268,032 ordinary shares and has a deemed relevant interest in the 3,031,290 ordinary shares held by Marder Media Group, Inc. arising from his power to control Marder Media Group, Inc. All of the shares in which Steven has a relevant interest are registered in the name of Custodial Services Limited, a nominee.
5. Grant is legal and beneficial holder of 450,000 ordinary shares, holds 2,953,116 ordinary shares as trustee of an associated family trust and holds 751,260 ordinary shares as trustee of his parents' family trust.
6. First NZ Capital Securities Limited and Harbour Asset Management Limited are related companies. Harbour Asset Management Limited act as a fund manager for certain investment funds and as a result has a relevant interest in the units as it has:
 - a power to exercise the right to vote attached to the products; and
 - a power to acquire or dispose of the products,
 under the powers of investment contained in investment management contracts with clients (the beneficial owners of the products). First NZ Capital Securities Limited is a NZX Market Participant and, as part of normal trading activity, transacts in securities for its own account.

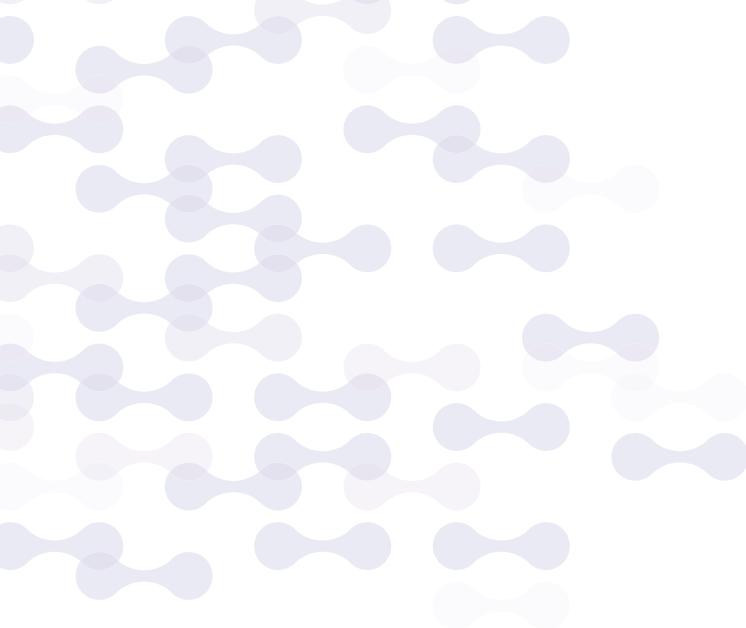
Statement of directors' relevant interests

Directors held the following relevant interests in equity securities in the Company as at 30 June 2015:

Director	Held as legal and beneficial owner	Held as trustee of family trust / associated company	Held as trustee of trust not established for benefit of director's immediate family	Total
Greg Cross, Chairman				
<i>Unlisted redeemable shares</i>	133,333			133,333
Dr Shaun Ryan, Executive Director				
<i>Quoted shares</i>	810,000	2,430,000	3,704,376	6,944,376
Steven Marder, Non-Executive Director				
<i>Quoted shares</i>	1,268,032	3,031,290		4,299,322
Matthew Houtman, Non-Executive Director				
<i>Quoted shares</i>	13,333	6,070,230		6,083,563
Sarah Smith, Independent Director				
<i>Quoted Shares</i>		20,000		20,000
<i>Unlisted redeemable shares</i>	133,333			133,333
Sam Knowles, Independent Director				
<i>Quoted Shares</i>	66,667			66,667
<i>Unlisted redeemable shares</i>	133,333			133,333
Andy Lark, Independent Director				
<i>Unlisted redeemable shares</i>	107,527			107,527

Directors also held the following relevant interests in securities that may convert to equity securities in the Company as at 30 June 2015:

- Greg Cross held 120,000 unlisted exercisable options as legal and beneficial owner.
- Shaun Ryan held 49,260 unlisted exercisable options as legal and beneficial owner.



Interest Register entries

Directors disclosed interests, or cessations of interest, in the following entities pursuant to section 140 of the Companies Act 1993 during the year ended 30 June 2015.

Greg Cross	
PowerbyProxi Inc.	Director
PowerbyProxi Pty Limited	Director
Meteorological Service of New Zealand Limited	Ceased to be a director
Andy Lark	
Simple MRM Pty Ltd	Director
Ian Samuel Knowles	
Adminis Limited	Chairman
Steven Marder	
Biomym, Inc.	Director
Platform Purple, Inc.	Ceased to be a director
Sarah Smith	
Meteorological Service of New Zealand Limited	Resigned as Chairperson
Ngai Tahu Tourism Limited	Director

Directors' remuneration and other benefits

Directors' fees have been fixed at \$60,000 per annum for the Chairman, and \$40,000 per annum for the non-executive directors (including the Independent Directors).

Directors' fees and other remuneration and benefits received or receivable from the Company during the accounting period ended 30 June 2015 are as follows:

	\$	Nature of Remuneration
Greg Cross	60,000	Director Fees
Matthew Houtman	40,000	Director Fees
Steven Marder	40,000	Director Fees
Sam Knowles	40,000	Director Fees
Sarah Smith	40,000	Director Fees
Andy Lark	40,000	Director Fees
Shaun Ryan	288,957	Salary and Entitlements

The directors of each group company are also entitled to be paid for all reasonable travel, accommodation, and other expenses incurred by them in connection with their attendance at board or shareholders' meetings or otherwise in connection with the Company's business.

Director share dealings

During the accounting period ended 30 June 2015, the following directors disclosed under Section 148 of the Companies Act 1993 that they acquired or disposed of relevant interests in shares issued by the Company:

Director	Shares in Company disposed during the year	Nature of relevant interest	Consideration received	Date of acquisition or disposal
Steven Marder	410,000 ordinary shares	230,000 ordinary shares which were held by Steven Marder as legal and beneficial owner; and 180,000 ordinary shares which were held by an associated company, Marder Media Group, Inc.	\$471,500	22 September 2014

Directors' indemnity insurance

The Company entered into an indemnity in favour of its directors under an indemnity deed. The Company has insured all of its directors against liabilities and costs referred to in section 162(5) of the Companies Act 1993.

Employee remuneration

The list below shows the number of employees of the SLI Group paid greater than \$100,000 in the 12 months to 30 June 2015.

Remuneration range NZ\$	No. of employees
100,000 - 109,999	12
110,000 - 119,999	8
120,000 - 129,999	3
130,000 - 139,999	5
140,000 - 149,999	3
150,000 - 159,999	2
160,000 - 169,999	4
170,000 - 179,999	3
180,000 - 189,999	1
190,000 - 199,999	4
200,000 - 209,999	1
210,000 - 219,999	1
230,000 - 239,999	1
240,000 - 249,999	1
250,000 - 259,999	3
280,000 - 289,999	1
290,000 - 299,999	1
310,000 - 319,999	2
330,000 - 339,999	1
350,000 - 359,999	1
390,000 - 399,999	1
470,000 - 479,999	1
570,000 - 579,999	1

NZX waivers obtained during the year ended 30 June 2015

None were obtained.

Audit Fees

The amounts payable to PricewaterhouseCoopers as auditor of the SLI Group are as set out in the notes to the financial statements.

Donations

The SLI Group made no donations for the period ended 30 June 2015.

Dividends

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

Subsidiary Company Directors

The following people held office as directors of subsidiary companies at 30 June 2015:

S.L.I. Systems, Inc.: Greg Cross, Shaun Ryan, Matthew Houtman, Sarah Smith, Steven Marder, Andy Lark and Sam Knowles

SLI Systems (UK) Limited: Shaun Ryan

SLI Systems (Japan) K.K: Terrie Lloyd

Financial Statements

- 29** Independent Auditors' Report
- 31** Directors' Responsibility Statement
- 32** Consolidated Statement of Comprehensive Income
- 33** Consolidated Statement of Changes in Equity
- 34** Consolidated Balance Sheet
- 35** Consolidated Statement of Cash Flows
- 36** Notes to the Financial Statements

Presentation of the Financial Statements

SLI Systems Limited and its subsidiaries are pleased to present a new structure for our audited financial statements.

The major changes are:

Separate financial statements for SLI Systems Limited are no longer presented; and Accounting policies can be found throughout the notes to the financial statements.



Independent Auditors' Report

to the shareholders of SLI Systems Limited

Report on the Financial Statements

We have audited the Group financial statements of SLI Systems Limited ("the Company") on pages 32 to 55, which comprise the consolidated balance sheet as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the financial statements that include significant accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 30 June 2015 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards 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's preparation and fair presentation of the financial statements 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'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.

We are independent of the Group. Our firm carries out other services for the Group in the areas of tax and other assurance services. The provision of these other services has not impaired our independence.

PricewaterhouseCoopers, 5 Sir Gil Simpson Drive, Canterbury Technology Park, PO Box 13 244, Christchurch 8053,
New Zealand; T: +64 (3) 374 3000, F: +64 (3) 374 3001, www.pwc.com/nz



Opinion

In our opinion, the financial statements on pages 32 to 55 present fairly, in all material respects, the financial position of the Group as at 30 June 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Restriction on Use of our Report

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers".

Chartered Accountants
Christchurch

24 August 2015



Directors' Responsibility Statement

The directors are responsible on behalf of the Company for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which give a true and fair view of the financial position of the Group as at 30 June 2015 and the results of the Group's operations and cash flows for the year ended on that date.

The financial statements presented cover a period of 12 months from 1 July 2014 to 30 June 2015.

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

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

The Board of Directors of the Group authorised the financial statements presented for issue on 24 August 2015.

For and on behalf of the Board,



Greg Cross
Chairman of Board



Sarah Smith
Chair of Audit and Risk Management Committee

SLI Systems Limited and its Subsidiaries

Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2015

	NOTE	2015 \$'000	2014 \$'000
Operating revenue		28,126	22,117
Other income		466	279
Total revenue and other income	3	28,592	22,396
Operating expenses	4	(13,990)	(12,296)
Employee entitlements	5	(22,007)	(16,485)
Operating (loss) before finance income		(7,405)	(6,385)
Finance income		174	472
Net financing income		174	472
(Loss) before tax		(7,231)	(5,913)
Income tax credit	6	101	191
(Loss) for the year		(7,130)	(5,722)
Other comprehensive income recycled through profit and loss			
Currency translation movement		243	(12)
Total comprehensive (loss) for the year attributable to the shareholders of the company		(6,887)	(5,734)
(Loss) / earnings per share			
Basic (loss) / earnings per share	23	(0.117)	(0.096)
Diluted (loss) / earnings per share	23	(0.117)	(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 Year Ended 30 June 2015

	Share Capital	Share Option Reserve	Translation Reserve	Accumulated Losses	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance at 1 July 2014	17,674	1,216	34	(7,476)	11,448
(Loss) for the year	-	-	-	(7,130)	(7,130)
Currency translation movement	-	-	243	-	243
Total comprehensive income for the year	-	-	243	(7,130)	(6,887)
Transactions with owners					
Share Options					
- Share options exercised during year	451	(148)	-	-	303
- Share option expense for the year	-	526	-	-	526
- Share options expired for the year	-	(102)	-	102	-
Balance at 30 June 2015	18,125	1,492	277	(14,504)	5,390

	Share Capital	Share Option Reserve	Translation Reserve	Accumulated Losses	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance at 1 July 2013	16,531	995	46	(1,817)	15,755
(Loss) for the year	-	-	-	(5,722)	(5,722)
Currency translation movement	-	-	(12)	-	(12)
Total comprehensive income for the year	-	-	(12)	(5,722)	(5,734)
Transactions with owners					
Share Options					
- Share options exercised during year	1,143	(241)	-	-	902
- Share option expense for the year	-	525	-	-	525
- Share options expired for the year	-	(63)	-	63	-
Balance at 30 June 2014	17,674	1,216	34	(7,476)	11,448

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

SLI Systems Limited and its Subsidiaries

Consolidated Balance Sheet

As at 30 June 2015

	NOTE	2015 \$'000	2014 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	10	5,582	11,389
Trade and other receivables	11	6,631	4,972
Taxation receivable	6	-	30
Total current assets		12,213	16,391
Non-current assets			
Deferred tax assets	7	502	358
Property, plant and equipment	8	1,582	1,589
Intangible assets	9	99	115
Total non-current assets		2,183	2,062
Total assets		14,396	18,453
LIABILITIES			
Current liabilities			
Taxation payable	6	24	-
Trade and other payables	14	6,179	4,967
Employee benefits	15	2,774	1,966
Total current liabilities		8,977	6,933
Non-current liabilities			
Employee benefits	15	17	57
Deferred tax liabilities	7	12	15
Total non-current liabilities		29	72
Total liabilities		9,006	7,005
Net assets		5,390	11,448
EQUITY			
Share capital	13	18,125	17,674
Reserves		1,769	1,250
Accumulated losses		(14,504)	(7,476)
Total equity		5,390	11,448
Net tangible asset backing per ordinary security		\$0.09	\$0.19

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

SLI Systems Limited and its Subsidiaries

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2015

	NOTE	2015 \$'000	2014 \$'000
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		27,938	22,109
Interest received		246	445
Net GST received / (paid)		(15)	87
Government grants		378	271
Insurance proceeds		-	13
Cash was applied to:			
Payments made to suppliers and employees		(34,193)	(27,030)
Income tax received / (paid)	6	8	(91)
Net cash (outflow) from operating activities	24	(5,638)	(4,196)
Cash flows from investing activities			
Cash was provided from / (applied to):			
Purchase of property, plant and equipment	8	(433)	(689)
Sale of property, plant and equipment	8	1	-
Purchase of intangibles	9	(40)	(10)
Net cash outflow from investing activities		(472)	(699)
Cash flows from financing activities			
Cash was provided from / (applied to):			
Cash received from share options exercised		303	902
Net cash inflow from financing activities		303	902
Net (decrease) in cash and cash equivalents		(5,807)	(3,993)
Cash and cash equivalents at the beginning of the year		11,389	15,382
Cash and cash equivalents at the end of the year	10	5,582	11,389

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

Notes to the Financial Statements

1. General information

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

The consolidated financial statements for the Group for the year ended 30 June 2015 were authorised for issue in accordance with a resolution of the Directors on 24 August 2015.

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").

(a) Basis of preparation

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

The Group has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) (XRB A1). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Group is a Tier 1 entity. There was no impact on the current or prior year financial statements.

Entities reporting

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

The Group is designated as a profit-oriented entity for financial reporting purposes.

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.

Historical cost convention

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

Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The areas involving a higher degree of judgement or complexity are in the determination of: 1. Research related costs from which Grant income is determined; 2. Share option expense whereby a level of judgement is required to determine the parameters of the Black-Scholes pricing model; 3. The provision for doubtful debts in determining the level of receivables to provide.

(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 2015 and the results of the subsidiaries for the year then ended. SLI Systems Limited and its subsidiaries together are referred to in these financial statements as the Group 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.

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

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Foreign operations

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

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

(d) Goods and Services Tax (GST)

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

(e) Provisions

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

(f) Segment reporting

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

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

(g) Changes in accounting policy and disclosures

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2017 and 2018, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and

measurement of financial instruments. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group will apply this standard from 1 July 2018 and has yet to assess its full impact.

NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group will apply this standard from 1 July 2017 and is currently assessing its full impact.

(h) Accounting Policies disclosed in the Notes

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

	Note
Revenue recognition	3
Income tax	7
Property, plant and equipment	8
Intangible assets	9
Cash and cash equivalents	10
Trade receivables	12
Contributed capital	13
Trade and other payables	14
Employee benefits	15
Leases	16
Equity settled share option plan	21
Financial assets	22

3. Revenue and other income

Revenue for the Group is analysed below.

	2015	2014
	\$'000	\$'000
Revenue from sale of services	28,126	22,117
Government grants received and receivable	466	267
Insurance proceeds	-	12
Total revenue and other income	28,592	22,396

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

	2015	2014
	\$'000	\$'000
United States	16,686	12,974
United Kingdom	5,519	4,189
Australia	2,737	2,486
Brazil	2,069	1,510
New Zealand	782	669
Rest of the world	333	289
	28,126	22,117

Accounting Policy: Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services, excluding Goods and Services Tax, Value Added Tax, 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 is 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.

4. Operating expenses

	2015	2014
	\$'000	\$'000
Operating expenses include:		
Amortisation of intangible assets	56	57
Bad debts written off	318	290
Movement in provision for doubtful debts	127	(28)
Depreciation on property, plant and equipment	458	391
Directors' fees	260	241
Remuneration paid to auditors (Note 25)	141	106
Operating leases expenses	1,245	920
Loss / (gain) on foreign exchange transactions	(804)	444

5. Employee entitlements

	2015	2014
	\$'000	\$'000
Wages and salaries		
Wages and salaries	21,199	15,724
Share option expense	526	525
Employer contribution to defined contribution plans	282	236
Total employee entitlements	22,007	16,485

Employee benefit costs incurred on research activities are included within employee entitlements disclosed above. The cost of employee entitlements associated with research costs is \$843,000 (30 June 2014 \$1,049,000). Total amounts attributable to research costs during the year is \$1,131,000 (30 June 2014 \$1,336,000). During the year there were no activities which met the definition of development expenditure.

6. Taxation

	2015	2014
	\$'000	\$'000
(a) Income tax (credit) / expense can be reconciled to accounting (loss) / profit as follows:		
Accounting (loss) / profit before tax	(7,231)	(5,913)
Tax at the Group's effective income tax rate of 28%	(2,025)	(1,656)
Adjustments in respect of current income tax of previous years	(4)	(26)
Tax effect of non-deductible expenditure	182	170
Tax effect of deduction for share options exercised in UK	-	(79)
Unrecognised current year tax losses	1,728	1,477
Tax effect of foreign jurisdictions	21	15
Tax losses brought forward utilised	(43)	-
Other	40	(92)
Aggregate income tax (credit) / expense	(101)	(191)
Comprising		
Current tax		
- Current year tax	50	23
- Prior year adjustment	(4)	(38)
Deferred tax	(147)	(176)
Income tax (credit) / expense	(101)	(191)
(b) Recognised tax asset / (liability)		
Opening balance	30	(76)
Charged to income	(50)	(23)
Tax (refund) / paid	(8)	91
Prior year adjustment	4	38
Closing balance	(24)	30
(c) Imputation credit balance		
There is no imputation credit balance at 30 June 2015 (30 June 2014 nil).		

7. Deferred taxation

	2015	2014
	\$'000	\$'000
Deferred tax asset / (liability):		
Opening balance	343	167
Credited to income	186	85
Prior year adjustment	(39)	91
Closing balance	490	343
Deferred income tax at 30 June relates to the following:		
Deferred tax assets:		
Employee entitlements and other temporary differences	324	233
Provisions	81	74
Doubtful Debts	92	49
Other	5	2
Gross recognised deferred tax assets	502	358
Deferred tax liabilities:		
Property, plant and equipment	(12)	(15)
Gross recognised deferred tax liabilities	(12)	(15)
Net recognised deferred tax asset	490	343

It is not anticipated that deferred tax balances will be recovered within 12 months. Deferred tax assets and liabilities have been offset where the balances are due to / received from the same tax authority. The Company has unrecognised New Zealand tax losses available to carry forward at 30 June 2015 of \$11,545,000 (30 June 2014 \$5,173,000) subject to shareholder continuity being maintained as required by New Zealand tax legislation and subject to confirmation from the relevant tax authorities.

Accounting Policy:

Income tax

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

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

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

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

8. Property, plant and equipment

Year ended 30 June 2015	Computer Equipment	Furniture, Equipment & Other	Total
	\$'000	\$'000	\$'000
Cost			
Balance at 1 July 2014	1,064	1,543	2,607
Currency translation movement	23	35	58
Additions	286	147	433
Disposals	(21)	(1)	(22)
Balance at 30 June 2015	1,352	1,724	3,076
Depreciation			
Balance at 1 July 2014	(695)	(323)	(1,018)
Currency translation movement	(19)	(20)	(39)
Depreciation expense	(267)	(191)	(458)
Disposals	20	1	21
Balance at 30 June 2015	(961)	(533)	(1,494)
Net carrying amount	391	1,191	1,582

Year ended 30 June 2014	Computer Equipment	Furniture, Equipment & Other	Total
	\$'000	\$'000	\$'000
Cost			
Balance at 1 July 2013	802	1,116	1,918
Currency translation movement	-	-	-
Additions	262	427	689
Disposals	-	-	-
Balance at 30 June 2014	1,064	1,543	2,607
Depreciation			
Balance at 1 July 2013	(494)	(134)	(628)
Currency translation movement	1	-	1
Depreciation expense	(202)	(189)	(391)
Balance at 30 June 2014	(695)	(323)	(1,018)
Net carrying amount	369	1,220	1,589

The net carrying value at 30 June 2015 of property, plant and equipment held in New Zealand is \$1,049,000 (30 June 2014 \$996,000), within the United States \$366,000 (30 June 2014 \$407,000), within United Kingdom \$140,000 (30 June 2014 \$161,000), within Australia \$25,000 (30 June 2014 \$23,000) and within Japan \$2,000 (30 June 2014 \$2,000).

Accounting Policy:
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 statement of comprehensive income during the financial period in which they are incurred.

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

- Computer Equipment 30% - 60%
- Furniture, Equipment and Other 4% - 80%

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

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

9. Intangible assets

Year ended 30 June 2015	Patents & Trademarks	Software	Total
	\$'000	\$'000	\$'000
Cost			
Balance at 1 July 2014	486	117	603
Additions	17	23	40
Balance at 30 June 2015	503	140	643
Amortisation			
Balance at 1 July 2014	(402)	(86)	(488)
Amortisation	(36)	(20)	(56)
Balance at 30 June 2015	(438)	(106)	(544)
Net carrying value	65	34	99

Year ended 30 June 2014	Patents & Trademarks	Software	Total
	\$'000	\$'000	\$'000
Cost			
Balance at 1 July 2013	486	107	593
Additions	-	10	10
Balance at 30 June 2014	486	117	603
Amortisation			
Balance at 1 July 2013	(367)	(64)	(431)
Amortisation	(35)	(22)	(57)
Balance at 30 June 2014	(402)	(86)	(488)
Net carrying value	84	31	115

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

All intangible assets have been purchased from third parties.

Accounting Policy: Intangible assets

- (i) Research costs are expensed as incurred.

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

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

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

- (ii) Other intangible assets acquired are initially measured at cost. Internally generated assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the statement of comprehensive income in the year in which the expenditure is incurred.
- (iii) The useful lives of the Group's intangible assets are assessed to be finite. Assets with finite lives are amortised over their useful lives and tested for impairment whenever there are indications that the assets may be impaired. Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful life of the intangible asset, from the date it is available for use.

The estimated useful lives are:

Trademarks / patents	10 - 19 years
Software	3 - 5 years

10. Cash and cash equivalents

	2015	2014
	\$'000	\$'000
Cash at bank and on hand	3,790	3,602
Short-term bank deposits	1,792	7,787
	5,582	11,389

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

	2015	2014
	\$'000	\$'000
US dollars	1,281	1,253
Great British pounds	583	769
Australian dollars	528	724
Japanese yen	50	21

Accounting Policy: Cash and cash equivalents

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

11. Trade and other receivables

	2015	2014
	\$'000	\$'000
Gross trade receivables	5,020	3,522
Provision for impairment of receivables	(367)	(240)
Net trade receivables	4,653	3,282
Un-invoiced revenue	1,368	1,109
Prepayments and other receivables	610	581
Total trade and other receivables	6,631	4,972

12. Trade receivables provisioning

(a) Impaired receivables

As at 30 June 2015 trade receivables with a nominal value of \$367,000 (30 June 2014 \$240,000) were impaired in respect of the Group. The ageing analysis of these trade receivables is as follows:

	2015	2014
	\$'000	\$'000
1-60 days overdue	88	18
61-90 days overdue	39	52
91+ days overdue	240	170
Impaired receivables	367	240

(b) Past due but not impaired

As at 30 June 2015 trade receivables of the Group of \$241,000 (30 June 2014 \$328,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2015	2014
	\$'000	\$'000
1-30 days overdue	23	57
Greater than 31 days overdue	218	271
	241	328

(c) Provision for impairment of receivables

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

	2015	2014
	\$'000	\$'000
Opening balance	240	268
Additional amounts provided	127	-
Unused amounts written back	-	(28)
Closing balance	367	240

(d) As at balance date the amounts receivable in foreign currency were as follows, all values shown in NZD:

	2015	2014
	\$'000	\$'000
US dollars	4,186	2,984
Great British pounds	1,428	1,028
Australian dollars	553	436
Japanese yen	29	17

**Accounting Policy:
Trade receivables**

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

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

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

13. Contributed equity

(a) Ordinary share capital

	Number of Ordinary Shares		Number of Ordinary Shares	
	2015	2015 \$'000	2014	2014 \$'000
Opening balance	60,498,018	17,674	58,137,106	16,531
Share options exercised	664,098	451	2,360,912	1,143
Closing balance	61,162,116	18,125	60,498,018	17,674

The total number of ordinary shares on issue as at 30 June 2015 is 61,162,116 (30 June 2014: 60,498,018) shares. All shares are issued and fully paid (no par value).

Accounting Policy: Contributed capital

Ordinary shares are classified as equity.

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

(b) Redeemable shares

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. The loans provided are interest free, have recourse only against the redeemable shares and are repayable in full on the third anniversary of the issue date, 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 21 using the Black-Scholes pricing model. As at 30 June 2015, 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 30 June 2015 are as follows:

	Issue date	Unlisted redeemable shares	Loan \$
Greg Cross	31 May 2013	133,333	200,000
Sarah Smith	31 May 2013	133,333	200,000
Sam Knowles	31 May 2013	133,333	200,000
Andrew Lark	20 Dec 2013	107,527	200,000
		507,526	800,000

14. Trade and other payables

	2015	2014
	\$'000	\$'000
Trade payables	427	797
Revenue in advance	4,883	3,441
Other payables and accrued expenses	869	729
	6,179	4,967

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

	2015	2014
	\$'000	\$'000
US dollars	5,122	3,936
Great British pounds	1,805	1,203
Australian dollars	953	571
Japanese yen	30	1

Accounting Policy: Trade and other payables

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

15. Employee benefits

Current employee benefits

	2015	2014
	\$'000	\$'000
Liability for annual and long service leave	1,099	807
Other employee payables	1,675	1,159
	2,774	1,966

Non-current employee benefits

	2015	2014
	\$'000	\$'000
Liability for long service leave	17	57
	17	57

Accounting Policy: Employee benefits

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

16. Operating lease commitment

Non-cancellable operating lease rentals are payable as follows:

	2015	2014
	\$'000	\$'000
Less than one year	1,432	1,129
Between one and five years	1,866	2,758
More than five years	-	-
	3,298	3,887

Accounting Policy: Leases

Operating leases

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

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.

17. Capital commitments

There are no material contractual obligations to purchase plant and equipment at 30 June 2015 (30 June 2014 nil).

18. Contingencies

There are no contingencies at 30 June 2015 (30 June 2014 nil).

19. Subsidiaries

Name	Country of Incorporation	Ownership	
		2015	2014
S.L.I. Systems, Inc.	United States	100%	100%
SLI Systems (UK) Limited (owned 100% by S.L.I. Systems, Inc.)	United Kingdom	100%	100%
SLI Systems (Japan) K.K.	Japan	100%	100%

20. Related parties

Parent and ultimate controlling party

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

Related party transactions and balances

Directors' holdings of options, preference shares and associated loans are disclosed in Notes 13 and 21.

Marder Media Group, Inc. (of which Steven Marder is a director) is a shareholder of Delivery Agent, which is a customer of S.L.I. Systems, Inc. Revenue recognised in the year \$239,000 (2014 \$162,000).

Group Lark Pty Ltd (of which Andrew Lark is a director) did not provide consulting services to S.L.I. Systems, Inc. in 2015 (2014: \$29,000).

Key management personnel remuneration

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

The following table summarises remuneration paid to key management personnel.

	2015	2014
	\$'000	\$'000
Directors' fees	260	239
Directors' redeemable preference shares expense	-	58
Employee entitlements	2,728	2,042
Share options (under Employee Share Options Scheme)	133	54

21. Share options

Options to subscribe for shares have been issued to certain directors, employees and some advisors of the Company.

Unless otherwise determined by the Board of Directors options shall be exercisable to the extent of 1/4 of the options as of the one year anniversary after the grant date, then an additional 1/36th of the remaining balance 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 (NZD). However, a significant majority of the options have an exercise price denominated in US dollars (USD) so the tables below are presented in USD where appropriate.

Current Year

Reconciliation of outstanding options	No. of options	Weighted average exercise price USD
	2015	2015
Balance at 1 July 2014	6,786,960	0.71
Expired during the year	(519,837)	1.00
Exercised during the year	(664,096)	0.37
Issued during the year	1,588,900	0.91
Balance at 30 June 2015	7,191,927	0.65
Exercisable at 30 June 2015	4,788,959	0.53

Prior Year

Reconciliation of outstanding options	No. of options	Weighted average exercise price USD
	2014	2014
Balance at 1 July 2013	8,663,574	0.46
Expired during the year	(772,985)	0.81
Exercised during the year	(2,360,912)	0.31
Issued during the year	1,257,282	1.66
Balance at 30 June 2014	6,786,960	0.71
Exercisable at 30 June 2014	4,487,595	0.50

The weighted average of the total options at the end of the year is USD 53 cents which equates to NZD 78 cents at year end exchange rates.

The tables above include the unlisted redeemable shares as detailed in note 13(b).

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

Number of options	Exercise price per share	Weighted average contractual life at balance date 2015 (years)
521,800	US \$0.29 - \$0.33	1.6
2,761,497	US \$0.3333	5.0
270,375	US \$0.68	6.9
465,938	US \$0.75	7.2
245,700	US \$0.78	7.7
300,000	NZ \$0.91 - \$1.00	8.4
1,031,200	NZ \$1.01 - \$1.20	9.5
205,900	NZ \$1.21 - \$1.40	9.2
525,396	NZ \$1.41 - \$1.60	8.0
260,080	NZ \$1.61 - \$1.80	8.9
388,702	NZ \$1.81 - \$2.00	8.3
96,600	NZ \$2.01 - \$2.20	8.4
45,425	NZ \$2.21 - \$2.40	8.8
73,314	NZ \$2.41 - \$2.60	8.7

Measurement of fair value

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

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

USD options	2015	2014
Share price at grant date (weighted average USD)	0.41	0.42
Exercise price (weighted average USD)	0.42	0.42
Expected volatility (weighted average)	20% to 30%	20% to 30%
Expected life (weighted average)	4	4
Risk-free interest rate (weighted average)	3.0%	3.0%
Fair value at grant date (weighted average USD)	0.08	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	2015	2014
Share price at grant date (weighted average NZD)	1.44	1.86
Exercise price (weighted average NZD)	1.43	1.86
Expected volatility (weighted average)	30%	30%
Expected life (weighted average)	4	4
Risk-free interest rate (weighted average)	3.6%	3.4%
Fair value at grant date (weighted average NZD)	0.43	0.54

Directors

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

	Exercise price
Shaun Ryan	USD 0.33
Greg Cross	USD 0.33

Accounting Policy: Equity settled share option plan

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

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

When any vested options lapse, upon employee termination or unexercised options reaching maturity, the amount in the share option reserve relating to those options is transferred to retained earnings.

22. Financial risk management

i) Financial instrument classification

The Group's loans and receivables comprise of 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet. 'Trade and other payables' and 'employee benefits' are recognised at amortised cost.

Accounting Policy: 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.

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.

(ii) Financial risk factors

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

Interest rate risk

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

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

Liquidity risk

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

Generally trade payables are settled with 30 days and the employee benefits (accrued wages and salaries, holiday pay and long service leave) will be settled within 12 months with the exception of \$17,000 at 30 June 2015 for long service leave that will be settled after more than 12 months (30 June 2014: \$57,000).

Credit risk

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

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

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

Foreign currency risk

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

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

The Group holds financial assets and liabilities denominated in foreign currency and the Group has subsidiaries whose reporting currency is not New Zealand dollars. The potential impact on the Group's results for the period ended 30 June 2015 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;

	2015	2014
	\$'000	\$'000
Appreciation of NZD against foreign currency (10%)		
(Decrease) in profit before tax	(73)	(152)
(Decrease) in equity after tax	(161)	(208)
Depreciation of NZD against foreign currency (10%)		
Increase in profit before tax	73	152
Increase in equity after tax	161	208

Capital risk management

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

Fair value

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

23. Earnings per share

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

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares are in the form of share options / performance rights. As the Group has made a loss during the current year, there are no dilutive potential ordinary shares and therefore basic and diluted earnings per share are the same.

	2015	2014
Net (loss) after tax	(\$7,130,000)	(\$5,722,000)
Ordinary shares on issue	61,162,116	60,498,018
Weighted average number of shares on issue	60,894,496	59,770,724
Basic (loss) / earnings per share	(0.117)	(0.096)
Diluted (loss) / earnings per share	(0.117)	(0.096)

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

	2015	2014
	\$'000	\$'000
Net (loss) after tax	(7,130)	(5,722)
Adjustments		
Depreciation	458	391
Amortisation	56	57
Gain / (loss) on currency translation movement	224	(13)
Share option expense	526	525
Changes in working capital items		
(Increase) in trade receivables and prepayments	(217)	(29)
Increase in trade payables and accruals	504	831
Decrease in GST	34	46
(Increase) in tax	(93)	(282)
Net cash outflow from operating activities	(5,638)	(4,196)

25. Remuneration of auditors

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

	2015	2014
	\$'000	\$'000
Audit of financial statements		
Audit and review of financial statements ⁽¹⁾	71	79
Other services		
Tax services ⁽²⁾	21	15
Other services ⁽³⁾	49	12
Total remuneration paid to auditors	141	106

1. The audit fee includes the fees for both annual audit of the Group and SLI Systems (UK) Limited financial statements and the review of the Group interim financial statements.
2. Tax services relate to review of the current group structure.
3. Other services include IT security testing as well as guidance on how to develop a security incident management and response process.

26. Subsequent events

There have been no material subsequent events after 30 June 2015.

Directory

Registered Office of the Company

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

Office Directory

USA

333 West San Carlos, 12th Floor
San Jose, CA 95110-2738
USA
Toll Free: (866) 240-2812

Europe

150 Aldersgate Street
London EC1A 4AB
United Kingdom
Phone: +44 (0) 203 217 0321

Australia

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

Japan

Cerulean Tower 15F, 26-1
Sakuragaoka-Cho, Shibuya-ku,
Tokyo 150-8512
Japan
Phone: +81 03-5456-5891

New Zealand

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

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
Website: www.linkmarketservices.co.nz

Financial Calendar

Annual Meeting

16 October 2015

Financial Year End

30 June

