

SLI Systems Limited
and its Subsidiaries

Interim Report

For the Six Months Ended 31 December 2013

SLI Systems Limited and its Subsidiaries
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SLI Systems Limited and its Subsidiaries
Consolidated Income Statement
For the Six Months Ended 31 December 2013

	Unaudited 6 months ended 31 December 2013 \$'000
Operating revenue	10,596
Other income	144
Total revenue & other income	10,740
Delivery costs	(1,088)
Administration and other costs	(4,441)
Employee entitlements	(7,750)
Total operating expenses	(13,279)
Operating profit / (loss) before finance costs	(2,539)
Finance income	260
Finance costs	-
Net financing income / (costs)	260
Profit / (loss) before tax	(2,279)
Income tax (expense) / credit	(10)
Profit / (loss) for the period	(2,289)
Profit / (loss) attributable to the shareholders of the company	(2,289)
Earnings / (loss) per share	
Basic earnings / (loss) per share	(0.039)
Diluted earnings / (loss) per share	(0.039)

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 Comprehensive Income
For the Six Months Ended 31 December 2013

	Unaudited 6 months ended 31 December 2013 \$'000
Profit / (loss) for the period	<u>(2,289)</u>
Other comprehensive income	
Currency translation movement	<u>29</u>
Total comprehensive income / (loss) for the period attributable to the shareholders of the company	<u>(2,260)</u>

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

SLI Systems Limited and its Subsidiaries
Consolidated Statement of Changes in Equity
For the Six Months Ended 31 December 2013

	Unaudited Share Capital \$'000	Unaudited Share Option Reserve \$'000	Unaudited Translation Reserve \$'000	Unaudited Accumulated Losses \$'000	Unaudited Total Equity \$'000
Balance at 1 July 2013	16,531	995	46	(1,817)	15,755
Profit / (loss) for the period	-	-	-	(2,289)	(2,289)
Currency translation movement	-	-	29	-	29
Total comprehensive income for the period	16,531	995	75	(4,106)	13,495
Transactions with owners					
Share options					
- Share options exercised during period	916	(207)	-	-	709
- Share option expense for the period	-	266	-	-	266
- Share options expired for the period	-	(13)	-	13	-
Balance at 31 December 2013	17,447	1,041	75	(4,093)	14,470

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 31 December 2013

	Note	Unaudited 31 December 2013 \$'000	Audited 30 June 2013 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		13,621	15,382
Trade and other receivables		<u>4,468</u>	<u>4,185</u>
Total current assets		<u>18,089</u>	<u>19,567</u>
Non-current assets			
Deferred tax assets		179	167
Property, plant and equipment	3	1,537	1,290
Intangible assets		<u>134</u>	<u>162</u>
Total non-current assets		<u>1,850</u>	<u>1,619</u>
Total assets		<u>19,939</u>	<u>21,186</u>
LIABILITIES			
Current liabilities			
Taxation payable		78	76
Trade and other payables		3,986	3,739
Employee benefits		<u>1,352</u>	<u>1,573</u>
Total current liabilities		<u>5,416</u>	<u>5,388</u>
Non-current liabilities			
Employee benefits		<u>53</u>	<u>43</u>
Total non-current liabilities		<u>53</u>	<u>43</u>
Total liabilities		<u>5,469</u>	<u>5,431</u>
Net assets		<u>14,470</u>	<u>15,755</u>
EQUITY			
Share capital	5	17,447	16,531
Reserves		1,116	1,041
Accumulated losses		<u>(4,093)</u>	<u>(1,817)</u>
Total equity		<u>14,470</u>	<u>15,755</u>
		31 December 2013	30 June 2013
Net tangible asset backing per ordinary security		\$0.24	\$0.27

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

**SLI Systems Limited and its Subsidiaries
Consolidated Statement of Cash Flows
For the Six Months Ended 31 December 2013**

	Note	Unaudited 6 months ended 31 December 2013 \$'000
Cash flows from operating activities		
Cash was provided from:		
Receipts from customers		10,765
Interest received		182
Net GST received		73
Government grants		273
Cash was applied to:		
Payments made to suppliers and employees		(13,334)
Income tax paid		(20)
Net cash inflow/(outflow) from operating activities	4	(2,061)
Cash flows from investing activities		
Cash was provided from/(applied to):		
Purchase of property, plant & equipment		(409)
Net cash inflow/(outflow) from investing activities		(409)
Cash flows from financing activities		
Cash was provided from/(applied to):		
Cash received from share options exercised		709
Net cash inflow/(outflow) from financing activities		709
Net increase/(decrease) in cash and cash equivalents		(1,761)
Cash and cash equivalents at the beginning of the period		15,382
Cash and cash equivalents at the end of the period		13,621

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

1 General information

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

The consolidated financial statements for the Group for the period ended 31 December 2013 were authorised for issue in accordance with a resolution of the Directors on 26 February 2014.

2 Basis of preparation

These general purpose financial statements for the six months ended 31 December 2013 have been prepared in accordance with NZ IAS 34, Interim Financial Reporting. In complying with NZ IAS 34, these consolidated interim financial statements also comply with IAS 34.

These consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited financial statements of SLI Systems Limited and its Subsidiaries for the year ended 30 June 2013 which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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

All significant accounting policies have been applied on a basis consistent with those used in the audited financial statements of SLI Systems Limited and its Subsidiaries for the year ended 30 June 2013.

The following accounting standards were adopted in the period ended 31 December 2013:

NZ IFRS 13 Fair Value Measurement (effective 1 January 2013). NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Group does not use fair value for measuring any assets or liabilities other than establishing the fair value of share options granted. Share based payments under NZ IFRS 2 are specifically scoped out of NZ IFRS 13. Therefore applying the new standard has no impact on any of the amounts recognised in the financial statements and does not impact the type of or extent of information disclosed in the notes to the financial statements.

NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 11 Joint Arrangements, NZ IFRS 12 Disclosure of Interests in Other Entities, and NZ IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2013)

NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 *Consolidated and Separate Financial Statements*, and NZ SIC12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. There is also new guidance on participating and protective rights and on agent/principal relationships. Applying this standard has no impact on the composition of the Group.

NZ IFRS 11 introduces a principles based approach to accounting for joint arrangements. As the Group is not party to any joint arrangements, applying this standard has no impact on the financial statements.

NZ IFRS 12 sets out the required disclosures for entities reporting under the two new standards, NZ IFRS 10 and NZ IFRS 11, and replaces the disclosure requirements currently found in NZ IAS 28. As applying NZ IFRS 10 and NZ IFRS 11 have no impact on the Group, there is no impact on the type of information disclosed in relation to the Group's investments.

Amendments to NZ IAS 28 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The Group does not apply equity accounting to any of its investments and is not party to any joint arrangements therefore applying this standard has no impact on the financial statements.

3 Property, plant and equipment

In the six months to 31 December 2013, \$409,000 of additional property, plant and equipment has been purchased, the majority in relation to office fit outs.

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

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

	Unaudited 6 months ended 31 December 2013 \$'000
Net (loss)/profit after tax	(2,289)
Adjustments	
Depreciation	164
Amortisation	28
Loss/(gain) on foreign exchange transactions	28
Share option expense	266
Changes in working capital items	
(Increase)/decrease in trade receivables & prepayments	15
(Decrease)/increase in trade & other payables	(332)
(Increase)/decrease in GST	69
(Increase)/decrease in tax	(10)
Net cash outflow from operating activities	<u>(2,061)</u>

5 Contributed equity

	Shares	\$'000
(a) Ordinary share capital		
Ordinary shares 31 December 2013 (unaudited)	<u>60,046,686</u>	<u>17,447</u>
Ordinary shares 30 June 2013 (audited)	<u>58,137,106</u>	<u>16,531</u>
Authorised and issued (no par value)		

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

	Number of Ordinary shares	\$'000
Balance at 1 July 2013 (audited)	58,137,106	16,531
Share options exercised	1,909,580	916
Balance at 31 December 2013 (unaudited)	<u>60,046,686</u>	<u>17,447</u>
		Audited 30 June 2013 \$'000
Issued on incorporation	1	-
Shares issued from share exchange	48,068,531	2,292
Shares issued at IPO	10,000,000	15,000
Share options exercised	68,574	30
IPO share costs	-	(791)
Balance at 30 June 2013	<u>58,137,106</u>	<u>16,531</u>

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

(b) Redeemable shares

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

On 20 December 2013, the Company issued 107,527 unlisted redeemable shares, with an issue price of \$1.86, to Andrew Lark, an independent director, as approved by Board resolution on the 19 December 2013. The issue of these unlisted redeemable shares is dependent on the approval of shareholders at the next annual general meeting.

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

In satisfaction of the issue price of the redeemable shares, the Company provided loans to the redeemable shareholders of \$800,000 in aggregate. The loans provided are interest free, have recourse only against the redeemable shares and are repayable in full on 31 May 2016 (\$600,000) and 20 December 2016 (\$200,000), or some other date under certain conditions. The substance of these transactions is similar in nature to the issuing of share options and as such are valued in accordance with note 6 using the Blacks-Scholes pricing model. As at 31 December 2013, no cash has been exchanged in relation to these transactions and the loans are not recognised in the financial statements.

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

The unlisted redeemable shares as at 31 December 2013 are as follows:

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

6 Share options

Options to subscribe for shares have been issued to certain directors, employees and some advisors of the Company. The purpose of the plan is to provide an incentive to attract, retain and reward individuals performing services for the Company and to motivate such individuals to contribute to the growth and profitability of the Company.

The options shall be exercisable to the extent of 1/4 of the options as of the one year anniversary after the grant date, then an additional 1/36th of the remaining balance on a monthly basis, so that the options are fully exercisable on the fourth anniversary of the grant date. The options are no longer exercisable on the first to occur of i) the 10th anniversary of the grant date, ii) the last date for exercising the option following termination of the Optionee's Service or (iii) its termination in connection with a change in control in the Company.

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

<i>Reconciliation of outstanding options</i>	No of options 2013	Weighted average exercise price US\$ 2013
Balance at 1 July 2013	8,663,574	0.46
Expired during the period	(472,897)	0.68
Exercised during the period	(1,909,580)	0.30
Issued	753,927	1.57
Balance at 31 December 2013	7,035,024	0.60
Exercisable at 31 December 2013	4,064,276	0.39

The weighted average of the total options at the end of the period is USD 60 cents which equates to NZD 73 cents at 31 December 2013 exchange rates.

The table above includes the unlisted redeemable shares as detailed in note 5 (b).

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

The following options are outstanding at 31 December 2013:

Number of options	Range of exercise price per share	Weighted average contractual life at 31 December 2013 (years)
676,800	US \$0.29 - \$0.33	3.3
3,832,401	US \$0.33	6.6
297,000	US \$0.68	8.4
648,300	US \$0.75	8.7
324,000	US \$0.78	9.2
507,396	NZ \$1.50	9.4
680,127	NZ \$1.94	9.8
69,000	NZ \$1.95 - \$2.06	9.7

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 and industry peer volatility.

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

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

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

NZD\$ options	2013
Fair value at grant date (weighted average NZD\$)	0.50
Share price at grant date (weighted average NZD\$)	1.76
Exercise price (weighted average NZD\$)	1.76
Expected volatility (weighted average)	30%
Expected life (weighted average)	4
Risk-free interest rate (weighted average)	3.1%

Directors

The following directors hold the following number of options as at 31 December 2013:

	Exercise price	
Shaun Ryan	US\$0.33	49,260
Greg Cross	US\$0.33	120,000

7 Related parties

Parent and ultimate controlling party

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

On 18 October 2013, SLI Systems (Japan) K.K was incorporated. SLI Systems (Japan) K.K is a 100% owned subsidiary of SLI Systems Limited.

Related party transactions and balances

Director's holdings of options are disclosed in notes 5 and 6.

Marder Media Group, Inc. (of which Steven Marder is a director) is a shareholder of Delivery Agent which is a customer of S.L.I Systems, Inc.

Group Lark Pty Ltd (of which Andrew Lark is a director) provided consulting services to S.L.I Systems, Inc.

8 Interest bearing liabilities

There are no interest bearing liabilities in the six months to 31 December 2013.

9 Contingencies

There are no contingencies at 31 December 2013.

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

10 Commitments

(a) Operating lease commitments

Unaudited
2013
\$'000

Non-cancellable operating lease rentals are payable as follows:

Less than one year	1,076
Between one and five years	2,745
More than five years	-
	<u>3,821</u>

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

(b) Capital commitments

There are no material contractual obligations to purchase plant and equipment at 31 December 2013.

11 Segmental information

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

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

12 Events occurring after 31 December 2013

There are no events occurring after 31 December 2013 that materially affect the information within the financial statements.