

# **SLI SYSTEMS LIMITED INITIAL PUBLIC OFFERING**

## **Prospectus**

**Dated 6 May 2013**

**Joint Lead Managers and Joint Organising Participants:  
Craigs Investment Partners Limited and Forsyth Barr Limited**

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### Important Notice

This Offer Document is for an initial public offer ("Offer") of Shares in SLI Systems Limited (the "Company").

It is a prospectus for the purposes of the Securities Act 1978 and the Securities Regulations 2009, and has been prepared as at, and is dated, 6 May 2013.

You should read all of this Offer Document and the accompanying documentation before deciding whether or not to invest under this Offer.

No person is authorised to give any information or make any representation in connection with this Offer, which is not contained in this Prospectus or in other communications from the Directors. Any information or representation not so contained may not be relied upon as having been authorised by the Company.

### Registration of the Prospectus

A copy of this Prospectus duly signed by the directors of the Company and having copies of the documents required by section 41 of the Securities Act attached, has been delivered to the Registrar of Financial Service Providers for registration in accordance with section 42 of the Securities Act 1978.

The documents required by section 41 of the Securities Act to be attached to the copy of this Prospectus delivered to the Registrar of Financial Service Providers for registration are:

- (a) the Auditors' report in respect of certain financial information included in this Prospectus (set out under the heading "**Auditors' Report**" in section 11);
- (b) the signed consent of the Auditor to the Auditors' Report appearing in this Prospectus; and
- (c) copies of the material contracts referred to under the heading "**Material Contracts**" in section 12.17.

### Consideration period

Pursuant to section 43D of the Securities Act 1978, the Company is unable to allot any Shares or accept any applications or subscriptions in respect of the Offer during the Financial Markets Authority "Consideration Period".

The Consideration Period commences on the date of registration of the Prospectus and ends at the close of the day which is five working days after the date of registration.

The Financial Markets Authority may shorten this Consideration Period, or extend it by no more than five additional working days.

### No Guarantee

No person guarantees the Shares offered under this Offer Document.

### Forward Looking Statements

This Offer Document contains certain statements which relate to the future. Such statements are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company and its subsidiaries as at allotment (together "SLI Group") and which may cause actual results, performance or achievements of SLI Group to differ materially from those expressed or implied by such statements.

### Risk and Suitability of an Investment in the Company

This Offer Document does not take into account each investor's investment objectives, financial situation and particular needs. You should read this Offer Document in full before deciding whether to invest. In particular, you should consider the risk factors that could affect SLI Group's performance (including those set out under the heading "**What are my risks?**" further below) particularly with regard to your personal circumstances. If you are in any doubt as to the action you should take, consult your stockbroker, solicitor, accountant or other financial adviser before deciding to invest.

### Sources

Information in this Offer Document on the ecommerce market is from independent market research, but none of the sources referred to have been involved in the preparation of this Offer Document.

### Definitions

Capitalised terms used in this Offer Document have the specific meaning given to them in section 13 "Glossary".

Unless otherwise indicated, \$ or NZ\$ refers to New Zealand Dollars and all references to time are to time in New Zealand.

## ANSWERS TO IMPORTANT QUESTIONS

### ***What sort of investment is this?***

The Company is offering 18 million Shares at an Offer Price of \$1.50 per Share to New Zealand resident clients of brokers and to Institutional Investors. There is no public pool under the Offer. In addition, this Offer Document also applies if employees of SLI elect to exercise options. Further details of the Offer are set out in section 6 “Details of the Offer”.

Each Share confers on the holder the right to:

- attend and vote at meetings of Shareholders, including the right to cast one vote on a poll on any ordinary or special resolution of Shareholders;
- an equal share in dividends and other distributions made by the Company. However, the Directors do not anticipate the Company will make distributions for the foreseeable future. Further details of the current dividend policy are set out under the heading “***What returns will I get?***” further below in this section;
- an equal share in the distribution of the surplus assets in a liquidation of the Company;
- be sent certain information, including notices of meetings and company reports, sent to Shareholders generally; and
- exercise all other rights that are conferred on Shareholders by the Companies Act 1993 and the Company's Constitution.

The Company is also assuming SLI's obligations under stock options as described in sections 6.4 “Acquisition of SLI” and 8.4 “Share option schemes”.

### ***Who is involved in providing it for me?***

The Company is the issuer of the Shares. Its registered office is currently at 1st Floor, Epic Centre, 78 - 106 Manchester Street, Christchurch, 8011. The names of the Directors are set out in section 7 “Board and Management” and in section 14 “Directory”.

S.L.I. Systems, Inc. (“SLI”) is a “promoter” of the Offer for the purposes of the Securities Act 1978. Its address for service in New Zealand is currently at 1st Floor, Epic Centre, 78 - 106 Manchester Street, Christchurch, 8011. The address of the Company, the promoter, and the names of the Company's Directors, could change after the date of this Offer Document. The current addresses and names at any time can be obtained from the Registrar of Companies website at <http://www.business.govt.nz/companies>.

The Company was incorporated on 17 April 2013 and at the date of this Offer Document has not acquired any asset or commenced business. On completion of this Offer, the Company intends to acquire SLI. The principal activities of SLI include the provision of advanced search technology for ecommerce. SLI has carried on those activities since 2001. Further information about the business activities of SLI is set out in section 5 “Business Description”.

### ***How much do I pay?***

The Offer Price per Share is \$1.50, which is payable by you to the Company in full on application.

The minimum application is for 2,000 Shares (\$3,000) and must be in multiples of 200 Shares (\$300) thereafter.

Employees of SLI may also exercise options for cash at the relevant exercise price described in section 8.4 “Share option schemes”.

### ***What are the charges?***

You are not required to pay any charges to the Company, or any associated person of the Company, other than the Offer Price for each Share allotted to you.

Shares purchased and sold by you on the NZX Main Board are likely to attract usual stock market brokerage charges.

The Company will pay all costs associated with the Offer, including the brokerage described in section 6 “Details of the Offer”.

***What returns will I get?***

The information below should be read in conjunction with the information set out below under the heading “***What are my risks?***”.

Any returns from Shares may consist of dividends or other distributions and increases in the price of the Shares between acquisition and sale (after deducting brokerage and any other expenses). The market price of the Shares may also decline.

Key factors that determine returns are:

- market prices for Shares and demand for them;
- decisions of the Directors on distributions and reserves/retentions of profits (described in further detail below); and
- applicable taxes or duties. A general summary of applicable taxes is set out in section 10 “Taxation Summary”.

Nothing contained in this Offer Document should be interpreted as any promise of profitability or any level of return. The Company can give no assurance about the future level of dividends, if any. The market price for Shares is dependent on a number of complex and interrelated factors including the likely future performance of the Company and other market factors.

The Directors have adopted a policy that there will not be any dividend payments or other distributions made for the foreseeable future as any surplus funds will be retained in order to capitalise on immediate and future growth opportunities. Until that policy changes, returns on Shares will be limited to the proceeds of sale or other disposition of Shares.

The Company is the only person legally liable to pay any dividends or other distribution declared or made on the Shares. If a Shareholder sells any Shares, the purchaser of those Shares will be the person legally liable to pay the purchase price of those Shares to the Shareholder.

Neither the Company nor any other person guarantees the Shares or any returns.

As detailed in section 10 “Taxation Summary”, investors should assume the Company will be treated as a foreign company for the purposes of New Zealand’s foreign investment fund rules. This means that certain shareholders would be subject to tax on their investment under the fair dividend rate, which would impose tax on 5% of the market value of their Shares. The Company does not believe the treatment as a foreign company is appropriate, and is taking steps to confirm its position. In addition, if the Directors were to change the current no dividend policy, both United States and New Zealand withholding taxes would apply to any dividend paid by the Company.

***What are my risks?***

**Although SLI has been trading for 11 years, SLI Group intends to make losses in the short to medium term as it increases sales and marketing costs to invest in growth and expansion initiatives. You should read all the information in this Offer Document and talk to an authorised financial adviser that you trust before deciding whether or not to subscribe for Shares.**

**One of the main principles of investing money is to have a diversified portfolio of investments. You should carefully consider the size of your application relative to your other investments.**

*Risks relating to Shares*

No investment is risk-free and the Shares are no exception. The principal risk is that you may not be able to recoup your original investment or you may not receive the returns you expect. This could happen for a number of reasons, including:

- the sale price of Shares is less than the price paid for them;

- you are unable to sell your Shares at all – for instance, because the market for them does not develop, becomes illiquid or ceases to exist;
- the operational and financial performance of SLI Group is not as strong as expected; or
- the Company or SLI becomes insolvent and is placed in receivership or liquidation.

The Shares issued under the Offer will be fully paid ordinary shares and Shareholders will have no liability to make any further payment in respect of their Shares.

If SLI Group's operational and/or financial performance is not as strong as expected, the future market price of the Shares may be less than the price paid for them and returns on the Shares may be less than anticipated. Section 9 "Prospective Financial Statements" sets out the prospective financial performance for SLI Group, including the assumptions adopted by the Directors in preparing that information.

Investors should be aware that there is no guarantee that they will receive the returns described in "***What returns will I get?***" above.

If the Company is placed in liquidation, the residual value of its assets may not be sufficient for Shareholders to receive the full value of their original investment (or there may be no residual value at all).

Some of the principal risk factors which may affect the ability of investors to recoup their initial investment and the Company's share price performance are detailed in this section. These risk factors are not the only ones faced by SLI Group. There may be additional risk factors that SLI Group is currently unaware of, or that are currently immaterial but which may subsequently become key risk factors for SLI Group. You should consider these risk factors in conjunction with other information in this Offer Document (including the assumptions under the heading "Notes to prospective financial statements" in section 9, "Prospective Financial Information").

The risk factors described below necessarily include forward-looking statements. Actual events may be materially different to those described below and may therefore affect SLI Group in a different way or to a different extent and the impact could be material.

#### *Risks specific to SLI Group*

##### *Competition*

SLI faces intense competition in the market for software to ecommerce businesses, including from other dedicated site search providers, ecommerce platforms (which generally include default site search options), in-house software development and open-source (i.e. freely available) search software (see further in section 4.3 "The Site Search and Navigation Market").

A number of competitive factors could cause SLI to lose potential sales or to sell its products at lower prices or at reduced margins, including:

- SLI's products often replace the default site search functionality of ecommerce platforms. There is a risk that default ecommerce site search could improve to such an extent that customers are no longer willing to purchase SLI's products
- some of SLI's current and potential competitors have greater financial, marketing and technical resources than SLI, allowing them to leverage a larger installed customer base and distribution network, adopt more aggressive pricing policies, offer more attractive sales terms, adapt more quickly to new technologies and changes in customer requirements, and devote greater resources to the promotion and sale of their products and services
- current and potential competitors may offer software that addresses the relevant ecommerce functions at a lower price or with greater depth than SLI's solutions. This may include open-source site search and navigation software improving to such an extent that SLI Group's products become less competitive.

##### *Growth company*

Although SLI has been trading for 11 years, it is focusing on growth and has experienced a significant increase in revenues over the last five years. SLI is now planning a continued investment in growth and expansion initiatives. During this growth stage, SLI Group expects to make losses in the short to medium term. There can be no

certainty that SLI Group will be able to generate a profit in the long term or that revenue growth will continue to increase at the same rate in the future as in the last five years.

#### *Customer retention*

SLI's customer contracts are generally for a one year initial term, at the end of which the contract automatically continues unless the customer terminates. Most of SLI's contracts provide for termination on at least 90 days' notice, which takes effect at the end of the current term. SLI Group's ability to grow depends in part on continuing high customer retention rates. While SLI has had high historical customer retention rates, there is no certainty that this will continue. A decline in retention rates would adversely affect SLI Group's performance (see further in section 9 "Prospective Financial Statements" under the heading "Sensitivity Analysis").

#### *Management of growth opportunities*

SLI is pursuing growth initiatives and intends to further expand its customer base, headcount and scale of operations. If that occurs, the operating complexities SLI faces will increase. If SLI's operating systems, training processes, personnel and other resources are unable to keep pace with such growth, SLI Group's business, operating results and financial condition may be adversely affected.

#### *Recruitment and retention*

SLI needs to expand its sales, customer service, marketing, software engineering and other technical personnel to achieve its growth plans. A failure to hire, train and retain qualified and effective personnel may adversely affect SLI Group's performance. There is also a risk that, if SLI does not adjust its training systems satisfactorily to handle the increased headcount, new sales personnel will be unable to achieve expected productivity levels in a reasonable timeframe.

#### *New customer lead time*

SLI expects a lead time of around eight months between bringing a new salesperson on stream and achieving increased revenues through that salesperson. If the lead times are longer than expected or if the anticipated extra sales are not achieved, this will adversely affect SLI Group.

#### *Intellectual property infringement risk*

Providers of ecommerce-related products and services are increasingly bringing and becoming subject to intellectual property infringement claims, particularly infringement of patent rights. Often these claims are pursued by third parties (sometimes referred to as "non-practicing entities") whose primary business is to assert such claims.

There is a possibility that SLI Group could become involved in such an infringement claim. If that occurs, there is a risk that SLI Group could incur substantial costs in connection with the claim and that the claim could divert its management resources. If SLI Group was ultimately found to have infringed third party intellectual property, it may be required to do one or more of the following:

- redesign those products or services to avoid infringement;
- withdraw the products or services that incorporate the challenged intellectual property;
- make potentially substantial payments for legal fees, settlement payments or other costs or damages;
- obtain a licence, which may not be available on reasonable terms, to sell or use the relevant technology.

Undertaking any or all of these actions could be costly, time-consuming and distracting to management, and have a material adverse effect on SLI Group.

#### *Intellectual property protection*

SLI seeks to protect certain intellectual property in its products under a combination of patent, copyright and trade secrets law. However, there is no assurance that these precautions will be adequate to prevent unauthorised use of SLI's intellectual property or that SLI's competitors will not independently develop similar technology without infringing SLI's intellectual property rights.

Any enforcement of SLI's intellectual property rights could be costly, time-consuming and distracting to management, and have a material adverse effect on SLI Group's business, operating results and financial condition.

*Open-source software*

As is the case for many software businesses, the source code for SLI's products contains a small proportion of code from 'open-source' software (i.e. software for which the source code has been made available to the public for use or modification at no cost).

Certain open-source software licences contain reciprocal provisions that can, in certain specified circumstances, require the open-source licence to be 'carried through' to solutions incorporating the open-source code so that those solutions and associated source code are made available free of charge.

There is a risk that a third party could claim that SLI has materially infringed such a licence and that such a claim could negatively impact SLI Group.

*New markets risk*

SLI Group intends to expand into new markets (primarily Japan) and to strengthen its presence in Brazil in the Prospective Period. Development of these new markets may involve significant entry costs and may require SLI to deal with new risks and competitors. There is no certainty that SLI will succeed in these markets.

Operating in new international markets also requires significant management attention and financial resources. Any negative impact from SLI's international business efforts could negatively impact its business as a whole.

*Evolution of Technology*

The ecommerce market features constant technological change, including frequent new product and service introductions and evolving industry standards. There is a risk that new solutions by competitors, the emergence of new industry standards or the development of entirely new technologies to replace existing offerings could render SLI's existing or future products obsolete or less competitive.

*Key personnel*

SLI relies upon the service and performance of its senior management team and key technical and sales personnel. If these employees were to leave SLI, replacing them could involve significant time and cost, and may inhibit SLI from achieving its business objectives. The employment agreements for senior management have relatively short notice periods of four to six weeks.

*Risk of change of algorithms of search engines*

Revenue generated through Site Champion is performance-based, in that SLI typically charges its customers a fee based on the number of referrals provided to the customers' websites by Site Champion pages (see further in section 5.4 "SLI's business model").

There is a risk that a significant change to the algorithms of one or more major search engines (e.g. Google) could reduce (in part or whole) the number of referrals generated by Site Champion pages and negatively impact SLI Group's performance. Site Champion accounted for approximately 20% of SLI's sales revenue in FY12.

*Marketing*

The long term success of SLI Group will depend, to some extent, on its ability to identify and react to trends in the market for software to ecommerce businesses, including its ability to develop and pursue appropriate marketing strategies and to demonstrate the value of its products. There is a risk that these strategies prove ineffective or require greater levels of expenditure than anticipated.

*Ecommerce and SaaS markets*

SLI relies on strong and growing consumer confidence in ecommerce and, more generally, in the internet remaining an efficient, simple and trusted channel. If this confidence was eroded and online activity became less popular or preferences shifted away from ecommerce, this could adversely affect SLI Group's financial performance.

Increasing adoption of SLI's products also depends on confidence in services delivered via a SaaS business model. Many companies continue to rely primarily or exclusively on traditional means of commerce that are not internet-based and may be reluctant to change their patterns of commerce. Even if such companies do adopt



ecommerce solutions, it is unclear whether they will desire SaaS based products. As a result, there is no certainty that SLI's SaaS products will achieve and sustain the level of market acceptance SLI anticipates.

#### *Partner arrangements*

SLI derives a proportion of its revenue through partner arrangements (see further at section 5.9 "SLI's Competitive Advantage"). If any of these arrangements was to cease, this would adversely affect SLI Group's business. However, in FY12 SLI's partners only accounted for a small proportion of SLI's total sales revenue.

#### *Software errors*

SLI's software applications are complex and there is a risk that defects or errors could arise, particularly where new versions or enhancements are released. This could result in adverse consequences for SLI Group, such as lost revenue, a delay in market acceptance or a customer claim.

#### *Security and privacy breaches*

There is a risk that SLI Group could suffer a material security breach, virus or similar disruption causing loss of confidential information, loss of service to customers, reputational damage, early termination of customer contracts, litigation, regulatory investigations or other liabilities.

In addition, if a high profile security breach occurs in respect of another SaaS provider, or internet data transmission generally, SLI's current and potential customers may lose trust in the security of the SaaS business model, which could adversely impact SLI Group.

#### *Hosting network infrastructure capacity*

SLI has experienced significant growth in the number of customers and in the volume of transactions and data that its infrastructure supports. While SLI seeks to maintain sufficient excess capacity in its network infrastructure to meet the needs of its customers and to enable expansion to new customers, the provision of new infrastructure can require significant lead time.

If SLI does not accurately predict its capacity requirements, it might experience significant increases in load, and its customers could experience service outages that may adversely impact SLI Group.

#### *Server or data centre*

SLI depends on the information technology systems, servers, networks, hardware and software that it has in place. Its systems may be vulnerable to unauthorised access, viruses, human error, natural disasters, flood, fire, power loss, communications failure, sabotage or terrorism. A significant disruption, repeated or on-going failure, loss of data, security breach, or incidence of fraud could dent confidence in SLI's products, and adversely affect SLI Group's financial performance.

While SLI has made provision for sufficient alternative arrangements to be available, there is no certainty that this will continue to be the case. There is also potential for disruption if SLI is unable to renew these agreements on commercially reasonable terms.

#### *Additional funding*

SLI Group intends to fund its planned growth and expansion through funds raised under this Offer, from revenues generated and from other sources considered prudent at the time. There is a risk that SLI Group's growth plans may be unsuccessful or require higher levels of expenditure than expected. If SLI Group cannot secure additional funding when required, it may need to slow its growth investment and to try to move its activities towards generating profits earlier than anticipated.

#### *Law and regulation*

Changes to laws and regulations which restrict use of the internet for commerce, or impose increased compliance requirements on SLI Group, could have an adverse effect on SLI Group's financial performance. SLI has a particular exposure to changes in the laws relating to privacy, competition, intellectual property, sales or pricing.

Legislation and regulations which do not apply to SLI's business directly may still expose companies involved in ecommerce to liability and reduce the growth in web usage or the web's acceptability as a medium of commerce.

Taxation or new charges over services provided over the internet or to access the internet could also result in a decline in the use of the internet and the viability of internet-based services, which could harm SLI Group's business and operating results.

#### *Reliance on third party software*

SLI uses a number of third party applications for aspects of its products. There is a risk that SLI Group could be affected if the licences for these applications cease to be available on commercially reasonable terms.

#### *Exchange rate*

SLI's reporting currency is New Zealand dollars, but the majority of its sales are denominated in other currencies (primarily US dollars). SLI incurs most of its operating expenses in New Zealand and US dollars, with the balance from other currencies. See further details at section 9 "Prospective Financial Statements" under assumption A6.9 "Exchange Rates". Any fluctuation in the exchange rate of these currencies (and in particular the NZD:USD exchange rate) may negatively impact SLI Group's business, financial condition and operating results.

#### Other risks

In addition to these more specific risks, SLI faces the usual risks that arise in the normal course of operating any business, such as:

- adverse changes in economic conditions, including interest rates, inflation, disposable income levels, consumer sentiment and demographics;
- fraud, business continuity planning and data integrity risk;
- the emergence of a widespread health emergency, epidemic or pandemic which could create economic or financial disruption;
- the possibility of future litigation.

#### Consequences of insolvency

Shareholders will not be liable to pay any money to any person as a result of the insolvency of the Company. But all creditors (secured and unsecured) of the Company will rank ahead of Shareholder claims if the Company is liquidated. After all such creditors have been paid, any remaining assets will be available for distribution between all Shareholders who will rank equally among themselves. There may not be sufficient surplus assets to enable Shareholders to recover all or any of their investment.

#### ***Can the investment be altered?***

The full terms of the Offer are set out in this Offer Document. The Company may alter those terms by amending the Prospectus and filing details of the amendment with the Registrar of Financial Service Providers. However, the terms of the Offer cannot be altered in a manner adverse to investors without investor consent once an Application has been accepted.

The rights attaching to the Shares are governed by the Company's Constitution, the Companies Act 1993 and the Listing Rules. The Constitution may only be altered by a special resolution of the Company's Shareholders (subject to the rights of an 'interest group' under the Companies Act 1993), or in certain circumstances by court order. Section 117 of the Companies Act 1993 restricts the Company from taking any action which affects the rights attached to the Shares unless that action has been approved by a special resolution of the Shareholders whose rights are affected by the action. Under certain circumstances, a Shareholder whose rights are affected by a special resolution may require the Company to purchase their Shares.

#### ***How do I cash in my investment?***

Shares are tradable (that is, they may be sold or transferred), subject to the existence of an active trading market and compliance with the Company's Constitution, and all applicable laws.

No charges are payable to the Company or any associated person of the Company for any sale of Shares, although a Shareholder may be liable to pay charges to other persons, such as brokerage fees.

As at the date of this Offer Document, there is no established market for the Shares. However, in the Company's opinion, a market for the Shares is likely to develop. Application has been made to NZX for permission to quote the Shares on the NZX Main Board and all the requirements of NZX that can be complied with on or before the

date of this Offer Document have been complied with. However, NZX accepts no responsibility for any statement in this Offer Document. Initial quotation of the Shares on the NZX Main Board is expected to occur on 31 May 2013 (unless this date is changed by the Company). The NZX Main Board is a registered market operated by NZX, which is a registered exchange under the Securities Markets Act 1988.

Under the Companies Act 1993, Shares could be cancelled by the Company under a reduction of capital, share buy-back or other form of capital reconstruction. Subject to this, neither the Company nor any other person has any right to terminate, cancel, surrender or otherwise make or obtain payment of the returns from the Shares, other than as referred to under the heading '**What returns will I get?**' above.

***Who do I contact with inquiries about my investment?***

Inquiries about the Shares may be made to the Company or the Share Registrar.

***Company***

The Chief Financial Officer  
SLI Systems Limited  
1st Floor, Epic Centre  
78 - 106 Manchester Street  
Christchurch, 8011

Telephone: 0800 754 797  
Facsimile: +64 (3) 961 3262  
Website: [www.sli-systems.com](http://www.sli-systems.com)

***Share Registrar***

**Link Market Services Limited**  
Level 16, Brookfields House  
19 Victoria Street West, Auckland 1010  
PO Box 91976, Victoria Street West,  
Auckland 1142

Telephone: +64 (9) 375 5998  
Facsimile: +64 (9) 375 5990  
Email: [enquiries@linkmarketservices.co.nz](mailto:enquiries@linkmarketservices.co.nz)  
Website: [www.linkmarketservices.co.nz](http://www.linkmarketservices.co.nz)

***Is there anyone to whom I can complain if I have problems with the investment?***

A complaint about your investment may be made to the Company at the address shown under the heading "**Who do I contact with inquiries about my investment?**" above. There is no ombudsman or approved dispute resolution scheme to whom complaints can be made about this investment.

***What other information can I obtain about this investment?***

Copies of the Prospectus and other documents (including the Constitution) are filed on a public register at the Companies Office. They may be inspected without a fee during normal business hours at the registered office of the Company at 1st Floor, Epic Centre, 78 - 106 Manchester Street, Christchurch, 8011 and are also available for inspection on SLI's website at [www.sli-systems.com](http://www.sli-systems.com) and from the Registrar of Companies website at <http://www.business.govt.nz/companies>.

Shareholders are entitled to receive periodic reports, including an annual report containing annual audited financial statements for the Company for each financial year ending 30 June, and a half yearly report containing unaudited financial statements for each six month period ending 31 December.

The Company is also required to make half-yearly and annual preliminary announcements of its financial results to NZX, and such other announcements as are required by the Listing Rules from time to time. The Company's announcements will be available from the website <http://www.nzx.com> under the stock code "SLI".

Shareholders may request from the Company (free of charge) the following documents (together with any other information required to be made available by statute, regulation or the Listing Rules):

- the most recent annual report of the Company (when prepared);
- the Company's most recent financial statements required to be registered under the Financial Reporting Act 1993 (together with all documents that are required to be registered with those financial statements);
- the Prospectus for the Offer; and
- a comparison (when prepared) of actual results of the Company against the Prospective Financial Information in this Offer Document,

by requesting the information in writing from the Company, at its registered office, at 1st Floor, Epic Centre, 78 - 106 Manchester Street, Christchurch, 8011.

## 1. IMPORTANT DATES AND OFFER STATISTICS

Important Dates*	Date
Offer Document registered	6 May, 2013
Opening Date	14 May, 2013
Closing Date	28 May, 2013
Allotment Date	31 May, 2013
Quotation and trading of Shares expected to commence on NZX Main Board	31 May, 2013
Mailing of Security Transaction Statements	by 6 June, 2013

\* This timetable is indicative only. Applicants are encouraged to submit their Applications as early as possible. The Company, in consultation with the Joint Lead Managers, reserves the right to vary or extend the dates of the Offer, withdraw the Offer at any time before the Allotment Date and accept late Applications (either generally or in individual cases).

Key Offer Statistics	
Issuer	SLI Systems Limited
Promoter	S.L.I. Systems, Inc.
Offer Price per Share	\$1.50
Number of Shares to be issued to investors under the Offer <sup>1</sup>	18,000,000, 31%
Shares received by SLI's shareholders for SLI acquisition <sup>2</sup>	40,068,532, 69%
Total number of quoted Shares on issue following the Offer <sup>3</sup>	58,068,532
Implied market capitalisation following the Offer <sup>3,4</sup>	\$87,102,798
Total gross proceeds to the Company (excluding proceeds to be paid to SLI's stockholders) <sup>5</sup>	\$15 million
Total proceeds to be paid to SLI's stockholders	\$12 million
Total Offer proceeds	\$27 million

<sup>1</sup> See further details in section 6 "Details of the Offer".

<sup>2</sup> Further details of the acquisition are set out in section 6.4 "Acquisition of SLI". SLI shareholders may apply for additional Shares in the Offer.

<sup>3</sup> These figures assume no exercise of employee options to subscribe for Shares under the SLI option schemes, described in section 8.4 "Share option schemes" and that the unlisted redeemable shares held by the Independent Directors described in section 8.3 "Directors Interests" have not been reclassified as quoted Shares.

<sup>4</sup> Calculated as the total number of Shares on issue following the Offer multiplied by the Offer Price.

<sup>5</sup> The use of the gross proceeds is described in section 5.12 "Use of Offer Proceeds".

Key Performance Indicators							
	Actual FY08	Actual FY09	Actual FY10	Actual FY11	Actual FY12	Pro Forma PFI FY13	PFI FY14
Operating Revenue (NZ\$'000)	6,985	10,385	10,965	12,826	15,524	18,285	22,200
Annualised Recurring Revenue ("ARR") (NZ\$'000) (see detailed description below)	5,991	7,169	9,848	12,082	15,468	19,163	25,884
EBITDA (NZ\$'000)	(150)	369	379	256	424	(1,856)	(6,874)
Customer Numbers (year end)	188	219	282	300	338	417	581

Annualised Recurring Revenue ("ARR") is a metric used by SLI which is a point in time estimation of core subscription revenue already secured for the next 12 months. ARR is calculated based on the subscription revenue generated from the existing customer base in the reference month and then annualised. For example, ARR as at 30 June 2012 is calculated with reference to the subscription revenue generated from the existing customer base for the month of June 2012 and multiplying it by 12.

ARR is calculated based on the exchange rates at that time. When ARR is presented for a historical time series all points are calculated on a constant currency basis using the current exchange rates.

This is a non-GAAP financial performance measure used internally by SLI as a basis for its expected forward revenue. ARR does not account for changes in behaviour of customers to that experienced historically (e.g. retention rates, increase/decrease in activity or bad debts).

This implied forward looking nature of ARR means it is typically higher than historical reported revenue at the same point in time where revenue is growing. That is because the ARR at the end of a financial year is the subscription revenue for the month of June multiplied by 12, whereas the reported revenue will comprise all recognised revenue from 1 July of the previous calendar year to 30 June. The constant exchange rate used also smoothes out any foreign exchange fluctuations, providing SLI with a better understanding of the business' underlying performance over time.

ARR only includes revenue from SLI's customers for its Learning Search and related products and its Site Champion product; it does not include revenue from SLI's Related Search product, which it does not actively promote. For the Site Champion component of ARR it is necessary to apply judgement to mitigate the effects of one-off events that impact the base month revenue of the calculation. For example, SLI makes adjustments to revenue at a customer level to account for seasonality, Site Champion revenue growth and customer size.

## 2. CHAIRMAN'S LETTER

Dear Investor,

The Board is pleased to provide you with the opportunity to become a shareholder in SLI.

SLI is a Software as a Service (SaaS) based business, providing dedicated site search and navigation products to ecommerce businesses that “**Searches, Learns and Improves**” from online shopping behaviour. In doing so, SLI improves the experience for visitors to websites that use our products by delivering more relevant search results. Essentially, we help ecommerce websites with two of their most fundamental challenges:

- to **convert** as many website visitors into customers and sales as possible. SLI's core Learning Search product is used in SLI supported websites to provide more relevant search results, typically leading to better conversion rates and higher sales for the retailer; and
- to direct **more visitors to their sites**. SLI's Site Champion is a Search Engine Optimisation product designed to drive traffic to our customers' websites from search engines such as Google and Yahoo!.

With the proliferation of the internet and improvements in technology, consumers are increasingly extending from 'bricks and mortar' shops to embrace online shopping. Retailers around the world have recognised this trend, and are investing heavily in their online presence to satisfy consumer expectations of an online shopping experience which is rich, intuitive and, above all, satisfying. SLI products help deliver this to end users by providing customers with a leading solution in site search and navigation.

SLI has already established itself internationally, with a strong presence in the United States, the UK, Australia and New Zealand. Companies we count among our customers include Next and Harrods in the UK, Jelly Belly, Hardrock Café and Teleflora in the US and, more locally, Mitre 10, The Warehouse and Qantas.

Our executive team has decades of experience in site search and software technologies and is led by Dr. Shaun Ryan, an original developer of SLI's Learning Search technology. The Board also has significant technological and financial expertise, recently strengthened with the appointment of two new Independent Directors, Sarah Smith and Sam Knowles.

SLI's progress to date has been achieved with minimal external capital but we have substantial future growth aspirations and think that the time is right to pursue them. We also wish to give our existing long-term investors the opportunity to realise their investment.

Accordingly, the Offer will raise gross proceeds of \$27 million, consisting of \$15 million of new capital to the Company and \$12 million to be paid to existing investors in SLI who are realising some of their investment in SLI before the Offer. All key management will continue to hold a substantial majority of their existing investment following the Offer, and all existing shareholders will be subject to escrow restrictions which (subject to certain limited exceptions) prevent them from selling their shares until SLI reports its preliminary results for FY14.

The \$15 million in new capital will be used for initiatives intended to accelerate growth in existing markets, expand into promising new markets, enhance SLI's product development programme and sustain SLI's existing operations while we build revenue streams and meet the costs associated with the Offer. We believe that there are significant growth opportunities in our existing markets, particularly the US which is the largest ecommerce market, and remain committed to on-going product innovation to drive more revenues from our customers.

With respect to new markets, Japan is the first we intend to target in the Prospective Period, and we also intend to strengthen our position in Brazil. We consider both of these markets are under-represented by dedicated site search providers. SLI already has large ecommerce customers in Brazil and is aware that Japan has a large ecommerce market.

We had ARR from our existing customer base of NZ\$15.5 million at the end of FY12 and expect that to rise to NZ\$19.2 million at the end of FY13, and to NZ\$25.9 million at the end of FY14, representing growth of 24% and 35% respectively. However, while we fund this accelerated growth phase we anticipate that the business will make losses in the near-term as we build the platform for future growth – strengthening our sales and marketing teams, establishing new regional offices and engaging in continued product research and development.

The Board believes further investment into initiatives to generate value enhancing recurring revenue is currently the best path to future growth in value. On behalf of the Board, I commend this investment opportunity to you, and look forward to welcoming you as a shareholder of SLI Systems Limited.

Greg Cross  
*Chairman*



### 3. INVESTMENT HIGHLIGHTS

- **Significant international market opportunity backed by growth in ecommerce**

- Retailers are increasingly extending their offering to include online shopping, with global online retail sales exceeding US\$500 billion for the first time in 2011 and forecast to grow four times faster than the wider retail market from 2011 to 2016 at a compound annual growth rate ("CAGR") of 16%<sup>1</sup>
- The international software market servicing ecommerce businesses is also growing through the increasing online activity of customers and their end-users, with an anticipated CAGR of 11% from 2011 to 2016 from an estimated US\$11.3 billion in 2011 while the SaaS segment of this market is anticipated to grow more rapidly at a CAGR of 19% over the same period<sup>2</sup>
- The market for site search software servicing ecommerce businesses in which SLI operates is broadly expected to grow in line with the ecommerce software market. However, the market is highly fragmented with many using internal or default search products. SLI expects further penetration from specialised providers such as itself as the market continues to grow and evolve and as SaaS is increasingly adopted, providing further growth opportunities

- **Attractive SaaS based business model that generates strong recurring revenues**

- Adoption of the SaaS delivery model is growing rapidly within the software market relative to more expensive and less flexible on-premise software. SLI's SaaS based delivery model positions it well to benefit from this trend
- A key feature of successful SaaS businesses is the high margins achievable after the initial costs of acquiring new customers have been repaid. This has the potential to deliver significant long-term value
- SLI's subscription-based business model is characterised by high levels of annualised recurring revenue ("ARR")<sup>3</sup> (\$17.7 million at February 2013), high customer retention rates (averaging over 92% for core products in the last financial year to 30 June 2012<sup>4</sup>), strong gross margins of approximately 75% and high forward revenue visibility

- **Market leading technology with track record of innovation**

- In 2012, SLI was ranked #1 SaaS site search provider, and #2 overall site search provider, by number of clients held out of the 'Top 1000 Internet Retailers' (having among its customers 60 out of the 1000 largest online retailers in the US, the world's largest market for online retail)<sup>5</sup>
- SLI has a track record of innovation and new product development, which helps ensure that SLI is at the forefront of any technological advance. Recent new applications include Mobile Site Search and Rich Auto Complete
- SLI will continue to develop a number of new products and features, some of which are expected to be brought to market over the next 12 months

- **Multinational presence with a leading customer base**

- SLI is one of the leading site search providers to ecommerce businesses in the US, UK, Brazil, Australia and New Zealand with over 375 worldwide customers, powering the search on over 600 websites and serving in excess of half a billion page views per month (as at 28 February 2013). SLI generates in excess of 85% of its revenue outside of Australia and New Zealand

<sup>1</sup> Source: Global Online Retail, Marketline Industry Profile, February 2013 ([www.marketresearch.com/MarketLine-v3883/Global-Online-Retail-7077580/](http://www.marketresearch.com/MarketLine-v3883/Global-Online-Retail-7077580/))

<sup>2</sup> Source: Forrester Consulting, Inc. April 2013 ([www.forrester.com](http://www.forrester.com))

<sup>3</sup> ARR is further defined in the Glossary

<sup>4</sup> Calculated excluding Related Search (a very specialised product that SLI does not actively market). See further details on Related Search in section 5.3 "Product Range"

<sup>5</sup> Source: Internet Retailer Top 500 Guide + Second 500 Guide, 2012 editions ([www.internetretailer.com](http://www.internetretailer.com))

- Well known clients include Hardrock Café and Jelly Belly (United States), Harrods and Next (UK), and The Warehouse and Mitre 10 (New Zealand)

- **Established business well positioned for future growth**

- SLI has experienced strong and consistent ARR growth with a CAGR of 31% over the last five financial years – from \$4.0 million at June 2007 to \$15.5 million at June 2012
- The Board expects significant further growth capacity to be created through the on-going structural shift to ecommerce, increasing adoption of SaaS, SLI's high customer retention rates, upselling opportunities to existing customers, new product development and expansion into new and existing markets
- SLI plans to use the net proceeds of this Offer to implement a step change in its growth. The Company expects the financial benefits of the capital being raised are anticipated to start to become increasingly evident towards the second half of the FY14 forecast period (and beyond) where ARR is forecast to increase from \$19.2 million as at FY13 to \$25.9 million as at FY14 (an increase of 35%)

- **Highly experienced management team and board**

- SLI has a strong management team led by CEO, Dr. Shaun Ryan with an entrepreneurial culture and significant experience within the ecommerce, software development and SaaS markets. SLI's management team is part of a wider team of over 100 staff as at February 2013 consisting of software engineering, sales and marketing and support staff located in New Zealand, the United States, UK and Australia enabling SLI to provide 24/7 service to its customers
- SLI is regarded as a thought leader in the site search space with senior members of the SLI team regularly presenting at industry trade shows, hosting webinars and ecommerce podcasts and publishing white papers and regular newsletters
- The management team is supported by an experienced board, including US based co-founder Steven Marder and Independent Directors Greg Cross, Sarah Smith and Sam Knowles

## 4. MARKET OVERVIEW

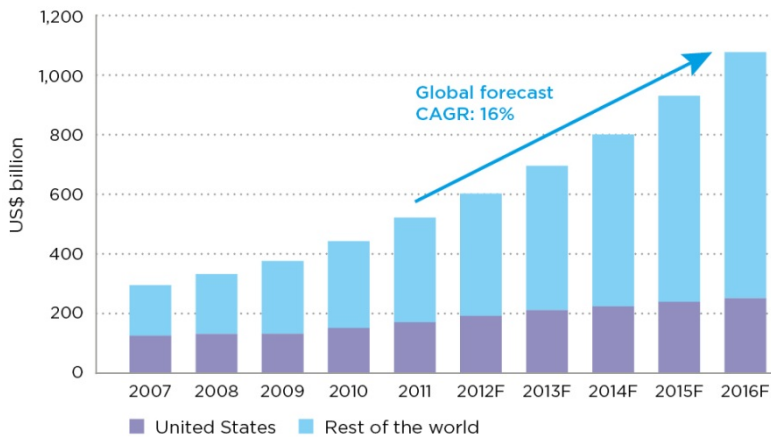
SLI is at the centre of two large and growing markets: online retail and ecommerce software delivered via SaaS. Each of these markets is described below. The site search market, which SLI is part of, operates across these markets providing dedicated site search, navigation and related products.

### 4.1. Online retail

Online retail is becoming an increasingly important component for retail businesses. The online retail industry comprises the sale of retail goods and services over the internet and includes both pure-play online retail companies (those that only sell products and services online) and multi-channel vendors (those that sell through both online and other sales channels, such as stores and kiosks).

The global online retail market has grown at a 15% CAGR from 2007 to 2011, while growing at an 8% CAGR over the same period in the United States – the largest online market. The global online retail industry was estimated to be worth US\$530 billion in 2011 and is expected to grow by 107% to US\$1.1 trillion by 2016 (a CAGR of 16%).<sup>6</sup>

Global online retail sector value



The online retail industry has benefited from: increasing internet penetration, increasing time spent online by internet users, increased consumer comfort with transacting online, increased online presence of offerings, the ability to comparison shop and, more recently, the penetration of powerful internet enabled mobile devices. An estimated 1.3 billion people used the internet in 2007. By 2011, this had risen to 2.4 billion. It is expected to reach 3.1 billion by 2016.<sup>7</sup> The continuation of these growth trends is expected to lead to further increases in the potential number of online transactions and, by extension, the market opportunity for businesses servicing the online retail sector.

#### Online retail geographic markets

The US is the largest online market by a considerable margin. In 2011 it had an estimated market size of US\$173 billion – a figure that is expected to increase by a CAGR of 8% to US\$255 billion by 2016. In emerging markets where internet penetration levels and connection speeds are relatively high, such as Brazil, ecommerce and online retailing is expected to grow at even faster rates than in the more mature markets such as the US, UK and Japan.

<sup>6</sup> Source: Global Online Retail, MarketLine Industry Profile, February 2013 and Online Retail in the United States, MarketLine Industry Profile, June 2012 ([www.marketresearch.com/MarketLine-v3883/Global-Online-Retail-7077580/](http://www.marketresearch.com/MarketLine-v3883/Global-Online-Retail-7077580/) and [www.marketresearch.com/MarketLine-v3883/Online-Retail-United-States-7077973/](http://www.marketresearch.com/MarketLine-v3883/Online-Retail-United-States-7077973/))

<sup>7</sup> Source: Business Monitor International ([www.businessmonitor.com](http://www.businessmonitor.com))

The Company estimates that the UK and Australia/New Zealand online retail markets are approximately 34% and 10% of the size of the US market respectively.

### ***Trends in online retailing***

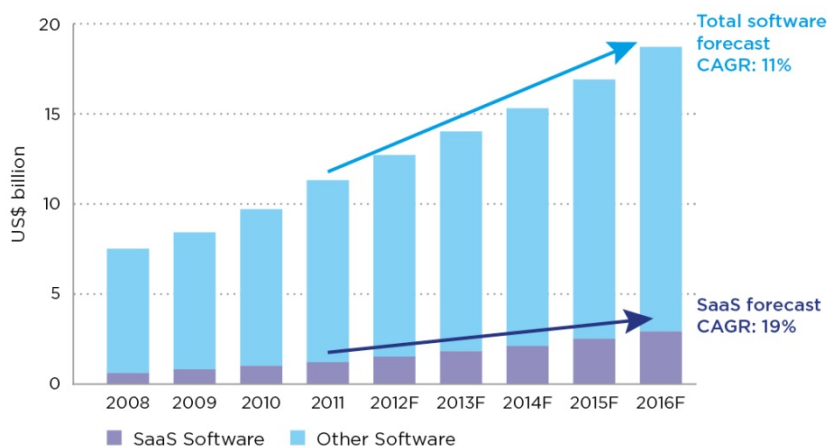
Online retail technology is becoming more complex, particularly for global multi-channel retailers and brands trying to reach consumers with consistent storefronts across multiple channels, geographies and platforms. Several trends are driving this increased complexity.

- **Globalisation.** The internet has reduced geographic boundaries with regard to trade and commerce, making it easier to do business beyond home markets. More businesses are selling more products and services online, in more markets and in more languages.
- **Consumer demand for a great user experience.** Consumers increasingly expect a rich, interactive and personalised ecommerce experience, such as fast and relevant site search, social commerce, product suggestions, dynamic product imaging, videos, ratings and reviews.
- **Proliferation of mobile devices.** Ecommerce is expanding beyond traditional web storefronts viewed on a personal computer to include in-store kiosks, smart phones, tablets, and other devices, allowing consumers to shop almost anywhere at any time.
- **Rapid pace of innovation.** Ecommerce innovations are driving competitive advantage for online retailers by reducing operational costs, increasing conversion rates, and increasing the rate of returning customers. The pressure is high for companies to keep up with the pace of ecommerce innovation both as an offensive and defensive strategy.
- **Integration of systems and business processes.** Companies have dramatically recast their online presence from static ecommerce sites focused mainly on basic product information or simple purchasing to dynamic, interactive hubs for consumer marketing, transactions, communications and services. The online presence also increasingly serves as a place to gather valuable data on shopping behaviour, consumer preferences and test new products.
- **Social media and visual marketing.** Integrated communication strategies across social networks such as Facebook and Twitter and new visual content networks such as Instagram and Pinterest are becoming increasingly important in driving online sales of products and services.

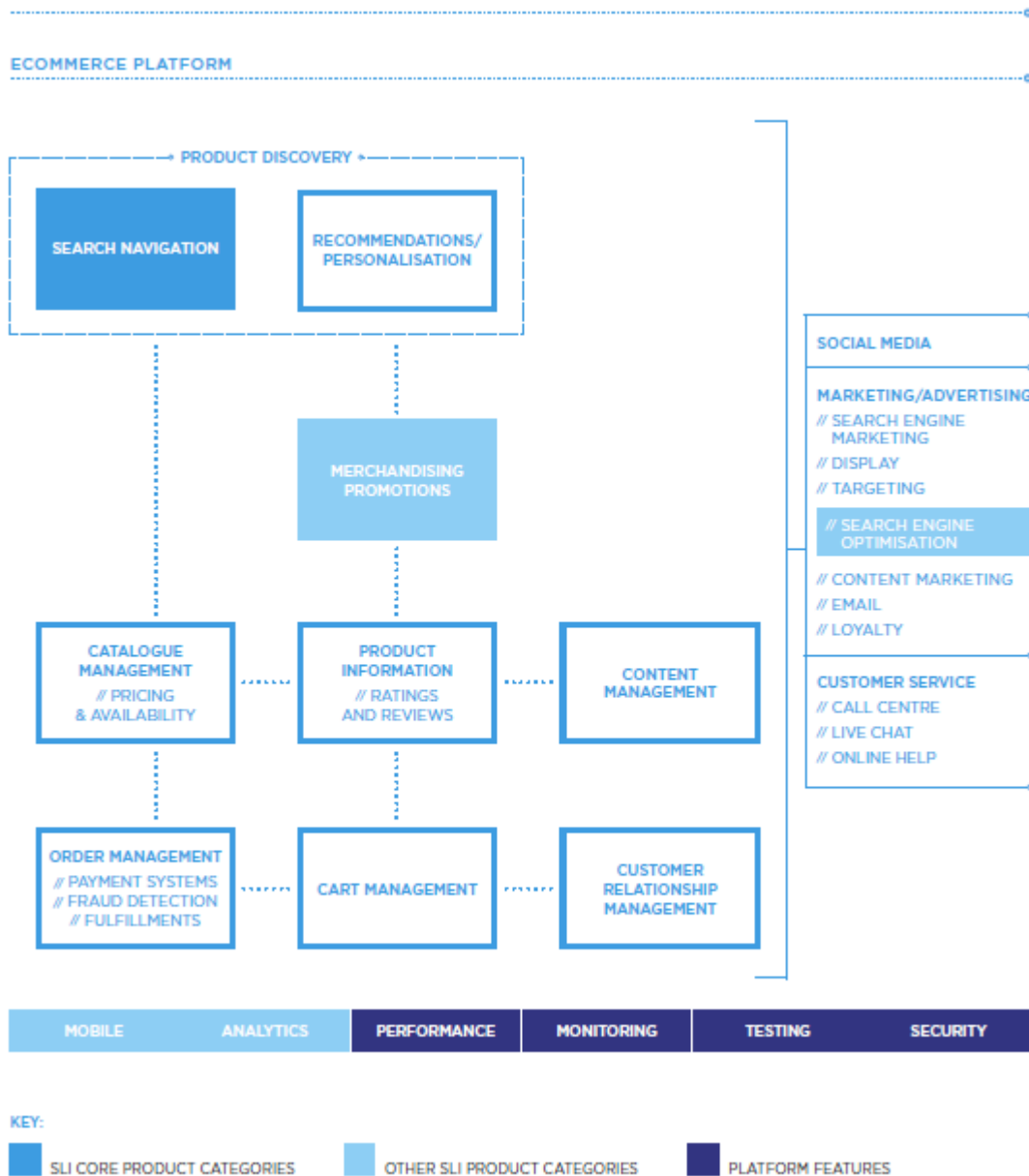
## **4.2. Ecommerce Software Market**

The ecommerce software market comprises a large number and variety of software providers which help ecommerce businesses run their operations and online presence. The needs of ecommerce businesses are changing rapidly, as technology advances and online behaviour changes. Best practices are continuously evolving and customer expectations are rising. These changing needs have given rise to an increasing degree of specialisation and sophistication by those that provide services to ecommerce websites.

Global spending on software by ecommerce providers



The trend towards online retailing is expected to benefit providers of ecommerce software as businesses look to improve the user experience through an enhanced and richer online offering. Ecommerce businesses spent an estimated US\$11.3 billion on ecommerce software in 2011. This is expected to increase to US\$18.7 billion in 2016 (a CAGR of 11%). Over the same period, SaaS delivered ecommerce software is expected to grow from an estimated US\$1.2 billion to US\$2.9 billion (a CAGR of 19%).<sup>8</sup>



At the core of an ecommerce business is the ecommerce platform: the software that runs the ecommerce website and allows website visitors to browse through the retailer's online store and make purchases. Ecommerce platforms may offer many, or all, ecommerce services in an integrated platform – for example, web hosting, analytics, email campaign management, merchandising, ratings and reviews, product recommendations, and a “default” site search.

<sup>8</sup> Source: Forrester Consulting, Inc. April 2013 ([www.forrester.com](http://www.forrester.com)). Includes revenues by business to business and business to customer software vendors including software licenses, maintenance services and subscription services, but excluding professional services (e.g. consulting, implementation) and marketing services (e.g. direct marketing, access to contact databases)

The advantages of the platform approach include better integration with existing architecture and a common look and feel to the end user. However, integrated platforms do not necessarily provide the leading product in each individual category that makes up the full suite of services.

Businesses such as SLI focus on developing best of breed ecommerce software solutions in their key area of focus. Customers can incorporate these more focussed best of breed elements to enhance their broader platform, while maintaining the key advantages of the integrated suite solution.

Product discovery is at the heart of a business's online strategy. Consumers being able to find the products and information they are seeking quickly, through intuitive and rich search and navigation features, is fundamental to converting web browsing into sales. Therefore, effective search and navigation are essential elements of ecommerce platforms. SLI's core products fall within this segment of the ecommerce software market.

There is also a consumer driven trend towards "discovery" where learning and socialising about products and services is an increasingly important aspect for business in selling their products and services. This is evident in social media. SLI has relationships with many of the businesses supplying software for recommendations and personalisation.

Other notable areas within the ecommerce platform where there are significant providers of best of breed software products include:

- **Enterprise Resource Planning (ERP):** software products that integrate internal and external management information systems across an organisation (e.g. finance/accounting, manufacturing and sales) to facilitate information flow between business functions.
- **Customer Relationship Management (CRM):** systems that manage an ecommerce business's interactions with current and future customers. These are often closely linked with loyalty programme functions and email marketing.
- **Marketing:** software which facilitates a business's marketing strategies including specialist email software providers, search engine marketing technology providers, loyalty programme and display advertising.
- **Search Engine Optimisation (SEO):** the process of affecting visibility of a website or webpage in a search engine's 'natural' or unpaid search results.
- **Customer service:** dedicated call centre systems, live chat and online help products which provide systems to businesses to maintain their customer support functions.
- **Cart management and payment systems:** software which manages shoppers' online purchases and facilitates the acceptance of electronic payment for online transactions.
- **Multi channel:** applications which support ecommerce over smart phones and other mobile devices, software and hardware for in-store kiosks and catalogue management software which manages a business's product catalogue.
- **Analytics and monitoring:** analytical software for monitoring visitor behaviour and buying habits and which provides testing tools to optimise online store performance.

In SLI's experience, online businesses often use around 12 vendors in powering their overall ecommerce operation. For example, a business may incorporate dedicated site search, recommendation, email marketing, CRM, rating and review and payment system applications into their overall ecommerce platform. Examples of best of breed companies they may use for these applications include SLI (site search), Mybuys (recommendations), ExactTarget (email marketing), Salesforce.com (CRM), Bazaarvoice (reviews) and Paypal (payment). The breadth and depth of the ecommerce software market is also evident at international ecommerce tradeshows such as Internet Retailer where approximately 600 ecommerce software vendors exhibit.

### 4.3. The Site Search and Navigation Market

The difference between “site search” and a “web search engine” service provided by companies such as Google:

- Site search (such as SLI) is an internal search function for products and content **within an individual online site**. The best site search solutions deliver the most relevant results to the user for the keywords entered. Most site search providers charge a monthly subscription or upfront licence to use their product.
- Web search engines use keywords entered by the user to search for information **across the entire internet**. The sites returned are ranked using the search engine's own set of complex algorithms. Most web search engines are commercial businesses supported by advertising revenue.

The site search and navigation market represents a sub-segment of the ecommerce software market relating to businesses which provide site search software either through on-premise software or SaaS delivery.

Site search may be provided through a number of approaches, including:

*Default search:*

Almost every ecommerce platform comes with a default search and navigation function. The quality of the default search varies from platform to platform and between implementations on the same platform. Default search solutions are normally focused on the core search features rather than trying to be a best of breed solution and often have limited features. Examples of ecommerce platforms with default search functions include: Demandware, IBM's Websphere, and Ebay's Magento.

*Dedicated search:*

Dedicated search providers, such as SLI, provide specialised search and navigation software which can be integrated into the existing ecommerce platform of a business or supplement its other ecommerce software. Examples of site search businesses and key competitors to SLI include: Endeca (owned by Oracle), Search and Promote (owned by Adobe), Nextopia, Celebros, Thanxmedia, Factfinder and Fredhopper.

*Internally developed search:*

There are a range of open-source (free) software solutions providing site search capability, which anyone can use and which developers can access to modify. Open-source can be integrated with a business's existing ecommerce software or used stand alone. One of the most popular open-source search software is SOLR.

Although the US is the largest and most developed site search market, penetration of dedicated site search is low among online retailers. In 2012, around 350 of the Top 1000 online retailers in the US used a dedicated site search provider, and 60 of these were customers of SLI<sup>9</sup>.

SLI estimates that the global addressable market segment (based on customer size) for its current products is worth over US\$500 million per annum based on SLI's estimated market share in the US and an estimate of the US's market share of the global online retail market. There is considerable scope for this addressable market to expand, including by delivering new products or by selling the existing products into markets other than ecommerce. SLI is currently developing new products and testing them with a selection of existing customers.

<sup>9</sup> Internet Retailer Top 500 Guide + Second 500 Guide, 2012 editions ([www.internetretailer.com](http://www.internetretailer.com)).

SLI believes the use of site search solutions by ecommerce websites will grow broadly in line with the online retail and ecommerce software markets but with faster growth evident in site search delivered through SaaS. However, considerable opportunity also exists to target additional growth through increased penetration of dedicated site search providers to ecommerce websites who use their own internally developed software or use default search within their existing ecommerce platform.

#### 4.4. Software as a Service

There are two common solutions for the creation, provision and management of software:

##### ***On-premise software***

On-premise software typically has large upfront costs, including a licence fee, costs associated with the hardware on which the software will run and for the people to install, customise and integrate it. During the installation period there can be a large amount of customisation to meet the needs of the customer. There are also typically on-going costs for bandwidth, power, hardware and software updates and time for people to install these updates and make any changes required by the customers.

##### **SaaS**

With SaaS, the software and associated data is hosted outside the customer's premises and accessed through the internet. SLI considers that the SaaS delivery model offers users several fundamental advantages over on-premise software.

- **Ease of implementation:** the SaaS solution provider manages the underlying infrastructure (e.g. servers, storage, bandwidth and networking). This allows the SaaS solution to be deployed more quickly and with significantly less effort required by the customer.
- **Scalability:** the SaaS solution provider will generally have the flexibility to enable the customer to scale its business well beyond the customer's requirements because they have to provide capacity for all of their customers. This means that customers have infrastructure they could not otherwise afford and that the SaaS provider should be able to provide any additional capacity the customer might require.
- **Reliability:** the service provided by the SaaS company is core to its business so a significant amount of time and expense (across many customers) is invested to ensure as close to 100% availability as is commercially practicable. This means that a SaaS solution is likely to be more reliable than a comparable on-premise solution.
- **Speed and ease of upgrades:** it is important for businesses to keep up with improvements in technology. SaaS providers manage updates to the service, software, and infrastructure, often with no additional cost to, or effort from, the customer. This means that updates are more frequent and easier to deploy than on-premise software.
- **Lower total cost of ownership:** SaaS products are typically subscription based, sometimes with no initial setup cost, often meaning the solution is less expensive overall than the on-premise solutions.

The benefits of the SaaS delivery model have helped its adoption grow rapidly for many business applications. Total global SaaS software revenue (for ecommerce and other markets) was estimated at US\$21.1 billion in 2011 and is forecast to grow to US\$92.7 billion in 2016 - representing a CAGR of 34%.<sup>10</sup>

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<sup>10</sup> Source: Sizing the Cloud, Forrester Research Inc, April 2011 ([www.forrester.com/Sizing+The+Cloud/fulltext/-/E-RES58161?objectid=RES58161](http://www.forrester.com/Sizing+The+Cloud/fulltext/-/E-RES58161?objectid=RES58161))



## 5. BUSINESS DESCRIPTION

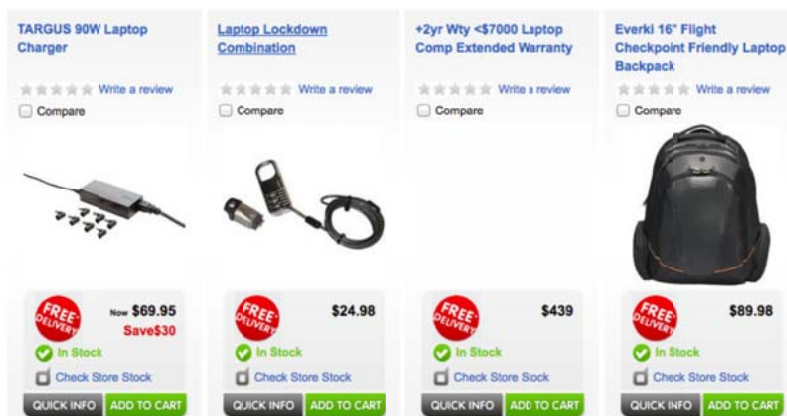
### 5.1. Overview of SLI

SLI is a leading supplier of site search and other solutions to ecommerce providers, with customers in the US, UK, Brazil, Australia and New Zealand.

#### *What is site search?*

Site search is the means through which online users search for products and services within a website. Often this function does not work well because online retailers typically do not have the skills required to construct or implement a well-functioning internal search engine, meaning that when a visitor searches using a keyword they do not see the results they expected.

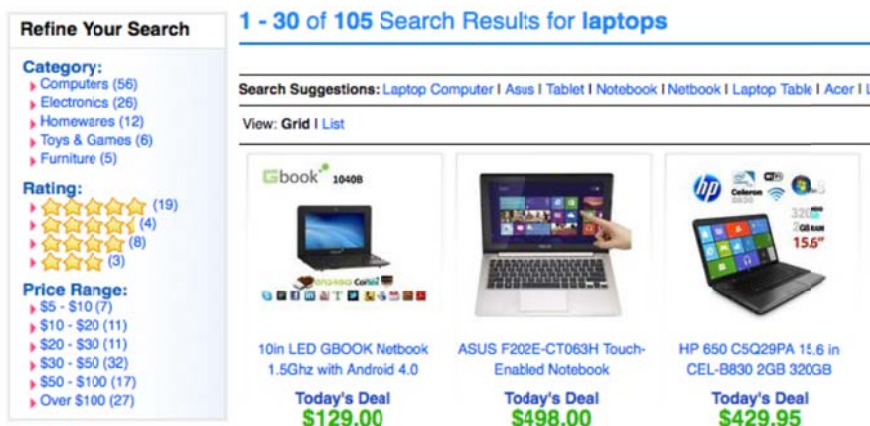
47 products found: Showing products laptops



The image above shows an example of this. The user types in the word “laptops” and is shown a range of laptop accessories but no laptop. **This is an example of ‘Bad Search’**. When this happens visitors can get frustrated and may leave the website. **SLI’s research has shown that 73% of visitors will leave a website in two minutes if they can’t find what they are looking for.**

#### *What does SLI do?*

SLI’s search is designed to improve the search experience by delivering more relevant search results. The image below shows an example of an SLI driven website where the search for “laptops” delivers laptops. **This is ‘Good Search’ and generally translates directly into greater online sales for SLI’s customers, offering a compelling proposition for ecommerce businesses.**



SLI aims to enhance the relevance of search results by associating a search term with the product the site visitor clicks on. SLI then uses its algorithms to learn relevance from the collective activities of site visitors.

In addition, SLI offers a range of complementary solutions outlined in section 5.3 “Product Range”.

SLI delivers its products via a SaaS model described more fully in section 4 “Market Overview”. Importantly, SaaS allows SLI to derive recurring revenue (charging customers on-going subscription fees, rather than the traditional model of deriving a large amount of one-off revenue from non-recurring fees for installing the software).

SLI's primary focus is on the online retail market but it also has customers in a range of other sectors. SLI is well known in the industry for providing superior high-touch customer service, offering the highest level of responsiveness, flexibility, support and attention to its customers.

SLI powers the site search for over 375 customers in over 600 websites globally (as of 28 February 2013). Each month it serves over half a billion web pages on behalf of its customers.

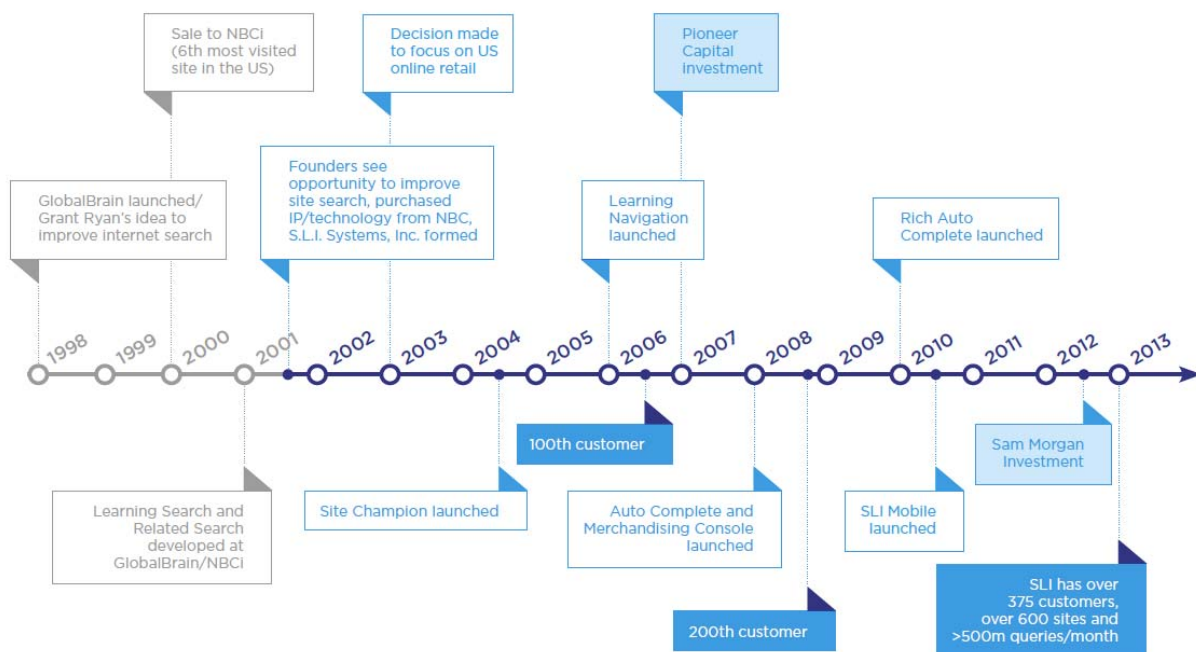
## 5.2. Historical Overview

SLI started as a concept to improve the relevance of search results by learning from prior user experience. The kernel of the idea was to track which search results were clicked on by users and use this information combined with the search term to elevate those results to the top of the search results. In 1998, GlobalBrain was established in Christchurch to develop software that would commercialise this idea. GlobalBrain was subsequently sold in 2000 to NBCi, a subsidiary of the US based National Broadcasting Company (NBC). In 2001, following the dotcom crisis, NBCi was shut down. SLI was formed when a group of ex-NBCi management and employees, and others, bought the intellectual property from NBC and decided to focus the technology on the site search market.

SLI adapted the software that was developed by GlobalBrain and NBCi to provide dedicated site search products through a SaaS delivery model. SLI saw an opportunity to capitalise on the proliferation of internet usage and provide a site search product for those businesses that had yet to implement such features or had site search products which were providing poor results or an inferior customer experience.

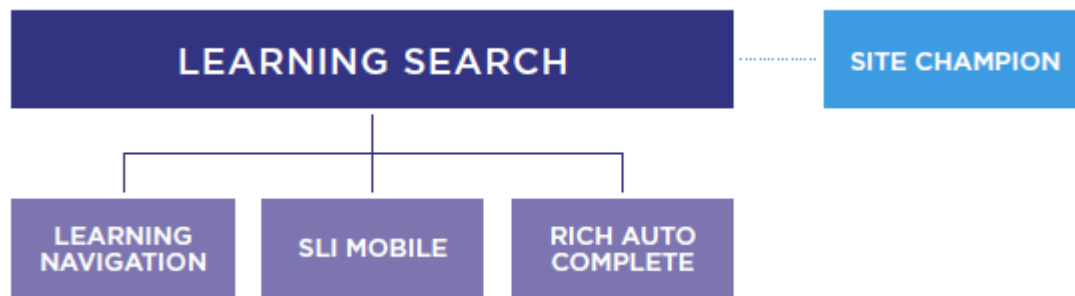
The timeline below sets out the key events and milestones in SLI's history.

### SLI TIMELINE //



## 5.3. Product Range

SLI's products are designed to help its customers by increasing relevant visitor traffic to their site and, once there, making it easier for them to find what they're looking for. SLI's product range currently encompasses the products depicted below.



Learning Search, the site search product, is the core product, from which the other four have been derived through SLI's on-going research and product development. Site Champion is a separate product, but requires the customer to subscribe to Learning Search. Learning Navigation, Mobile and Rich Auto-complete are related optional add-on products to Learning Search. There is a further and very specialised product, Related Search, that SLI does not actively market. SLI has two patents related to these products.

SLI's business is based on a recurring revenue model where customers pay a periodic fee for the service provided by SLI. SLI sells mainly to online retailers and generates approximately 80% of its revenue for the Learning Search suite of products and 20% from Site Champion. Further details of the revenue contribution for each product are available in section 9 "Prospective Financial Statements" under assumption A.6.3 "Revenue".

### **Learning Search**

SLI's core product is Learning Search, an advanced SaaS based site search offering which is designed to learn from visitors' site search activity and click-throughs to deliver the most relevant results.

When a visitor performs a search on a SLI customer's website, the results displayed are powered by SLI and come from a SLI server. To achieve this SLI receives a "feed" from the customer. A feed is a file that contains all the information SLI needs to build the search, typically a list of the products and all the information associated with those products, such as name, price, description, and images. An updated feed is received regularly to ensure SLI has the latest information.

Learning Search is customised to match the design of a customer's existing website. Clicking on results links from the SLI-powered search results page takes the visitor back to the relevant content on the customer's own website. Each customer has a SLI representative (called a Customer Success Manager) to ensure their search follows best practices and matches their business needs.

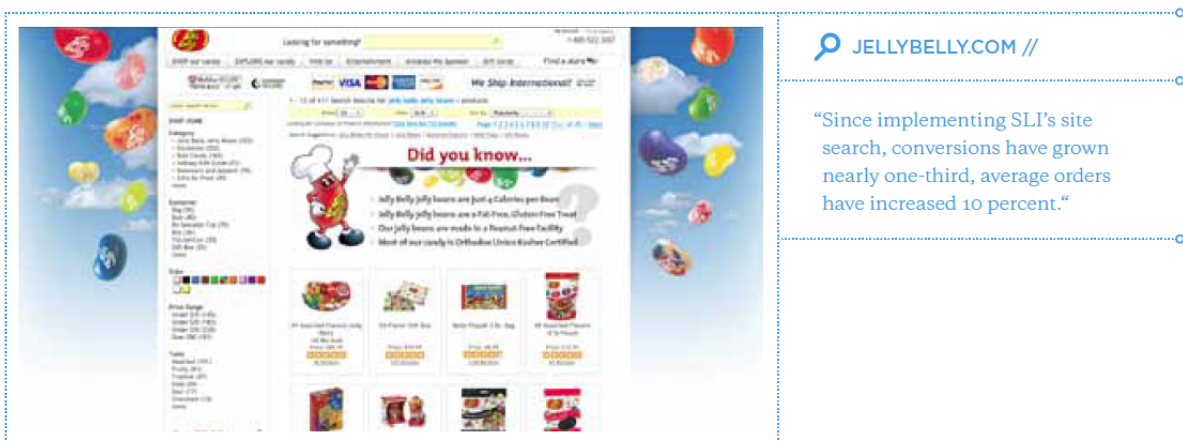
A key differentiator of SLI's search is that it learns from the people who use it and keeps improving. Learning Search analyses the keywords visitors search with and the items they click on, using this information to continuously learn and improve the relevancy of searches. This includes the various refinements and navigation paths visitors use to find the items they eventually purchase. Learning Search then uses this learning to re-order the future search results and make them more relevant to searchers.

SLI's customers pay a monthly fee for Learning Search. The size of the fee is based on the number of search pages that SLI serves for the customer.



### Additional Features of Learning Search

- **Search Suggestions.** SLI's patented search suggestions are normally shown at the top and bottom of the results page and below each search result to help visitors refine or expand their search. Learning Search also presents spelling suggestions when people enter misspelled words.
- **Analytics and Merchandising Console.** Learning Search provides customers with access to SLI's analytics and merchandising console, detailing information about what site visitors are searching for and providing insight into the behaviour of their site visitors.
  - The customer can use the **analytics** within the console to further improve the search, their website and their business. For example, customers can identify products visitors are searching for but which they don't stock, using this information to decide whether to add additional products to their catalogue.
  - The **merchandising** functionality of the console allows the customer to control various aspects of the search experience to help them achieve their business goals, particularly around promoting products. Customers can override the natural search results arising under Learning Search and specify rules to adjust the order of items on the search results pages, pushing products to the top or removing them from a particular search. They can also add rules to show promotional banners or to bypass the search results altogether (e.g. taking a search for 'Levis' directly to the Levis brand page).



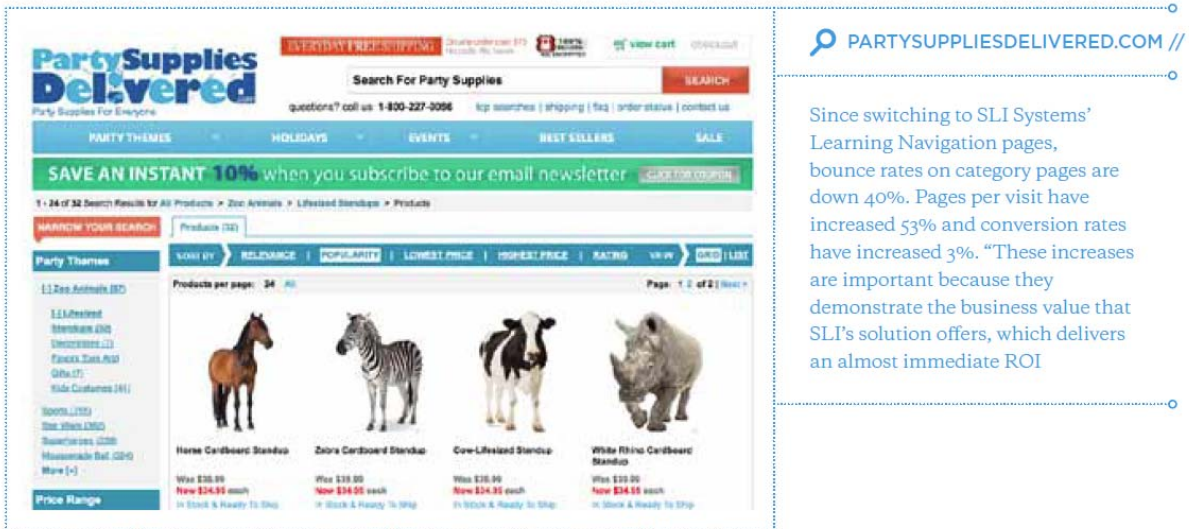
- **Faceted Search and Refinements.** Learning Search can present search results with the same navigational refinements as the rest of a website, providing a consistent user experience across search and navigation. For instance, a search for “shoes” would show the search results and also present a navigable list of options that would allow the visitor to refine their search by characteristics such as category, size and colour.
- **Comprehensive search.** Unlike most ecommerce platforms, SLI's search can return not only products but also results from other sources. This is a valuable feature for customers as it allows their website visitors to connect with other content in their website, such as videos, manuals, blog posts and store locations together with information the retailer may be publishing on other sites such as Facebook, Twitter, and YouTube.

### Learning Navigation

Learning Navigation is similar to Learning Search in many ways, except that it powers the navigation elements on a site. Websites generally have a hierarchical navigation structure providing key navigation links or buttons at the top or side of their web pages (e.g. products, news, and contact us). Ecommerce sites will typically have a number of product category options, but may also have navigation options for genders (men's clothing), age groups (children's clothing) and style (street wear).

Learning Navigation generates these navigation links dynamically, based on the site's product structure. These links are used by website visitors to navigate the site instead of using the search box.





PARTYSUPPLIESDELIVERED.COM //

Since switching to SLI Systems' Learning Navigation pages, bounce rates on category pages are down 40%. Pages per visit have increased 53% and conversion rates have increased 3%. "These increases are important because they demonstrate the business value that SLI's solution offers, which delivers an almost immediate ROI"

The above image shows a navigation page hosted by SLI.

Learning Navigation continually analyses visitors' behaviour as they navigate and reorders the links to help minimise the number of clicks visitors take to find what they're looking for. Like Learning Search, Learning Navigation is delivered by SLI via SaaS. Learning Navigation pages are optimised to rank well in search engines such as Google – helping customers achieve enhanced visibility and more traffic.

### SLI Mobile

Not all websites are easily viewed on small mobile screens, or function well with a touch interface. Accordingly, many retailers seek to develop mobile-optimised versions of their websites.

SLI Mobile is a mobile-optimised search and navigation product that can be customised to fit a customer's website branding and design. SLI Mobile aims to improve the mobile user experience and make it intuitive to discover products and other information from a Smart phone.

As of 28 February 2013, approximately 15% of SLI customers use SLI Mobile.

### Rich Auto Complete

Rich Auto Complete shows visitors product images and descriptions in a drop down box as they type (as distinct from 'auto-complete', which just shows words and not necessarily any other context). As the visitor types into the search box, Rich Auto Complete will constantly refresh the list of likely products before the visitor even presses the "search" button. SLI's learning technology generates these suggestions automatically based on visitor activity on the site. Rich Auto Complete is available as an optional add-on service for Learning Search customers for an additional charge. As of 28 February 2013, approximately 40% of SLI customers use Rich Auto Complete.

*A SLI customer tested the benefit of Rich Auto Complete over normal auto complete. Google Analytics showed a 23% increase in revenue from using Rich Auto Complete, largely driven by a 22% increase in conversion rate.*

### Site Champion

Site Champion is a SEO solution designed to drive more traffic to a customer's site. In general, the higher ranked and more frequently a site appears in an internet search engine's results, the more visitors it will receive from the search engine's users.

Site Champion is based on the premise that the search terms used on the internal site search to find products (i.e. under SLI's Learning Search) are very similar to the terms used when searching the whole internet for those products. Site Champion automatically creates pages based on commonly used site search terms to increase the chances that these pages will be picked up and ranked higher by search engines. Site Champion cannot guarantee that any individual page will rank in a search engine, as search engines use a number of complex

variables to drive their rankings. But Site Champion has proven effective in assisting SLI's customers by providing more traffic to their sites (and, ultimately, more sales).

Site Champion is available as an optional add-on service for Learning Search customers. As of February 2013, approximately 47% of SLI customers use Site Champion.

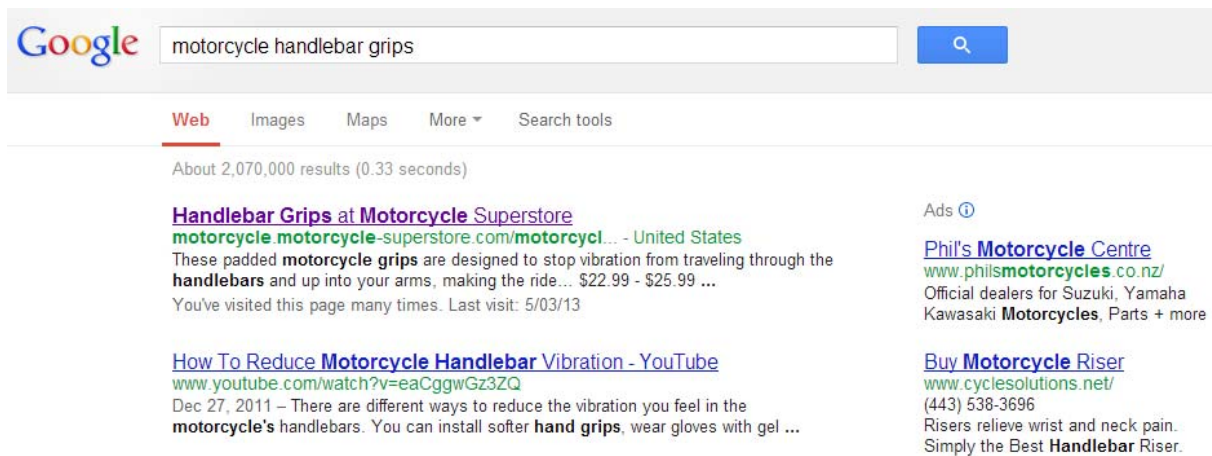


Figure 1: A search for motorcycle handlebar grips on Google shows a page that was automatically created by Site Champion because handlebar grips was a common search term on Motorcycle Superstore's SLI-powered site search. Google and the Google logo are registered trademarks of Google Inc., used with permission.

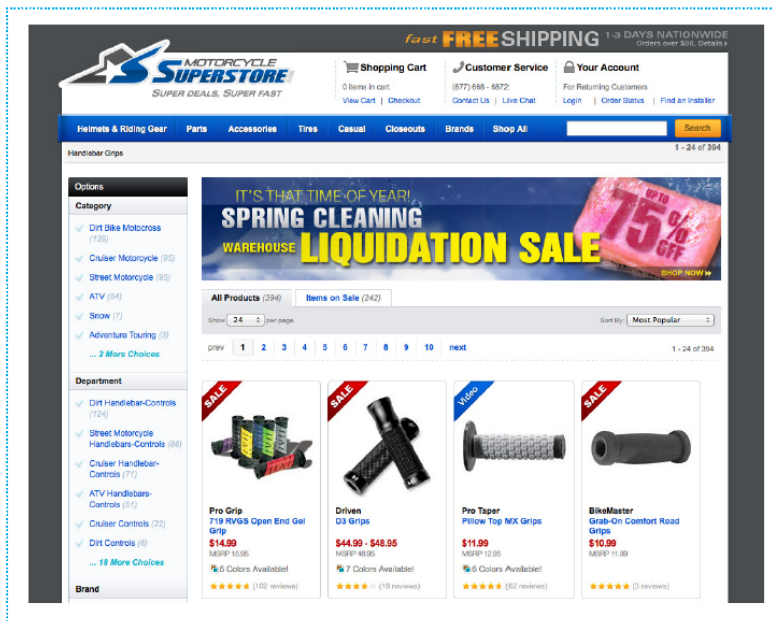


Figure 2: When the person clicks on the Google result they are taken to a page that shows the most popular handle bar grips on Motorcycle Superstore. Many of these people then go on to make a purchase.



### **Related Search**

The Related Search product was sold to web search engines which would share the search terms their visitors were using and SLI would return a set of related search terms that the search engine would show on the search results page.

There has been very little emphasis on this product because there are very few potential customers and the biggest potential customers have their own solutions. Related Search is a product that is outside of SLI's core product focus, although it will continue to sell it on request.

### **5.4. SLI's business model**

SLI operates on a recurring subscription based model where most customers subscribe for a contract term of 12 months with automatic renewal unless the contract is terminated at the expiry of that term. As of February 2013, approximately 80% of SLI's revenue came from Learning Search and its related products with most of the balance coming from Site Champion. While there are variations for certain customers, each product generally employs a different revenue model as detailed below:

- **Learning Search and associated products:** the customer is charged a monthly subscription fee according to a tiered structure based primarily on a range of the anticipated number of queries performed. As the customer generates more searches through its site, the monthly subscription rate increases and they progress through the tiers. The cost for a small customer starts at approximately US\$1,000 a month and includes SLI's standard Learning Search, and Search Suggestions. Customers pay for additional products such as Learning Navigation, Mobile and Rich Auto Complete
- **Site Champion:** revenue is performance-based with the customer typically charged a fee per referral from a search engine to the Site Champion pages.

SLI recruits customers primarily through a direct sales model – see further details below.

Although customer recruitment requires significant investment, on-going customer servicing costs are relatively low compared to the on-going revenue received. Revenue from a customer generally increases with the growth of the customer's business and as the customer purchases more of SLI's products.

### **Long term value of customers acquired**

Due to the recurring nature of SLI's revenue stream, high customer retention rates (approximately 90% per annum by value over the last five years to 28 February 2013) and strong gross margins (approximately 75%), generally once customers have been acquired and SLI has recovered the cost of acquiring those customers, there is significant long term value potential created. SLI forecasts that the time taken to recover the cost of acquiring customers over FY13 and FY14 in growing ARR (i.e. the payback period) will be 2.2 and 2.0 years

respectively.<sup>11</sup> Accordingly, while the long term value of each customer continues to materially exceed the cost of acquiring that customer, SLI's sees a strong rationale in growing its customer base and ARR.

### **Financial metrics<sup>12</sup>**

<b>Financial statement reporting measures</b>							
NZ\$'000	<b>Actual FY08</b>	<b>Actual FY09</b>	<b>Actual FY10</b>	<b>Actual FY11</b>	<b>Actual FY12</b>	<b>Pro Forma PFI FY13</b>	<b>PFI FY14</b>
Operating Revenue	6,985	10,385	10,965	12,826	15,524	18,285	22,200
Operating Expenses and Employee Entitlements	7,133	10,796	10,889	13,730	15,454	20,971	29,782
Comprehensive profit/(loss)	(325)	143	71	(158)	92	(2,147)	(7,182)

<b>Non-GAAP performance and valuation measures</b>							
NZ\$'000	<b>Actual FY08</b>	<b>Actual FY09</b>	<b>Actual FY10</b>	<b>Actual FY11</b>	<b>Actual FY12</b>	<b>Pro Forma PFI FY13</b>	<b>PFI FY14</b>
EBITDA	(150)	369	379	256	424	(1,856)	(6,874)
ARR	5,991	7,169	9,848	12,082	15,468	19,163	25,884

<sup>11</sup> Calculated as the forecast costs of achieving the increase in ARR during the relevant period (\$8.5 million for FY13, being an average of the forecast growth costs over FY12 and FY13 and \$12.7 million for FY14, being an average of the forecast growth costs in FY13 and FY14 as set out in section 9 "Prospective Financial Statements") divided by the incremental gross margin on the gross value of ARR (i.e. excluding lost customers) obtained in the relevant period (\$3.9 million between June 2012 to June 2013 and \$6.5 million between June 2013 to June 2014). The gross margin on incremental ARR is assumed at 75% (consistent with gross margins achieved in FY12 and forecast for the FY13 and FY14 periods).

<sup>12</sup> Further detail is available in section 9 "Prospective Financial Statements" concerning the information in this section which has been extracted from the prospective financial statements (including the principal assumptions on which those financial statements are based).



**Reconciliation from profit / (loss) before tax to EBITDA**

NZ\$'000	Actual FY08	Actual FY09	Actual FY10	Actual FY11	Actual FY12	Pro forma PFI FY13	PFI FY14
<b>Profit / (loss) before tax</b>	<b>(316)</b>	<b>168</b>	<b>159</b>	<b>23</b>	<b>215</b>	<b>(2,106)</b>	<b>(7,082)</b>
Less: Interest income	(3)	(8)	(3)	(2)	(7)	(46)	(230)
Add: Interest expense	35	4	5	5	0	-	-
Add: Depreciation and amortisation expense	135	204	218	230	216	296	438
<b>EBITDA</b>	<b>(150)</b>	<b>369</b>	<b>379</b>	<b>256</b>	<b>424</b>	<b>(1,856)</b>	<b>(6,874)</b>

**ARR**

Internally, SLI looks to ARR as a point in time estimation of core subscription revenue already secured for the next 12 months. SLI considers that this is an important performance measure for the Company, given its growth phase and the fact that its subscription based revenue model and high customer retention rates (see below) enables high forward revenue visibility for existing customers. The Company intends to report on ARR periodically after completion of the Offer.

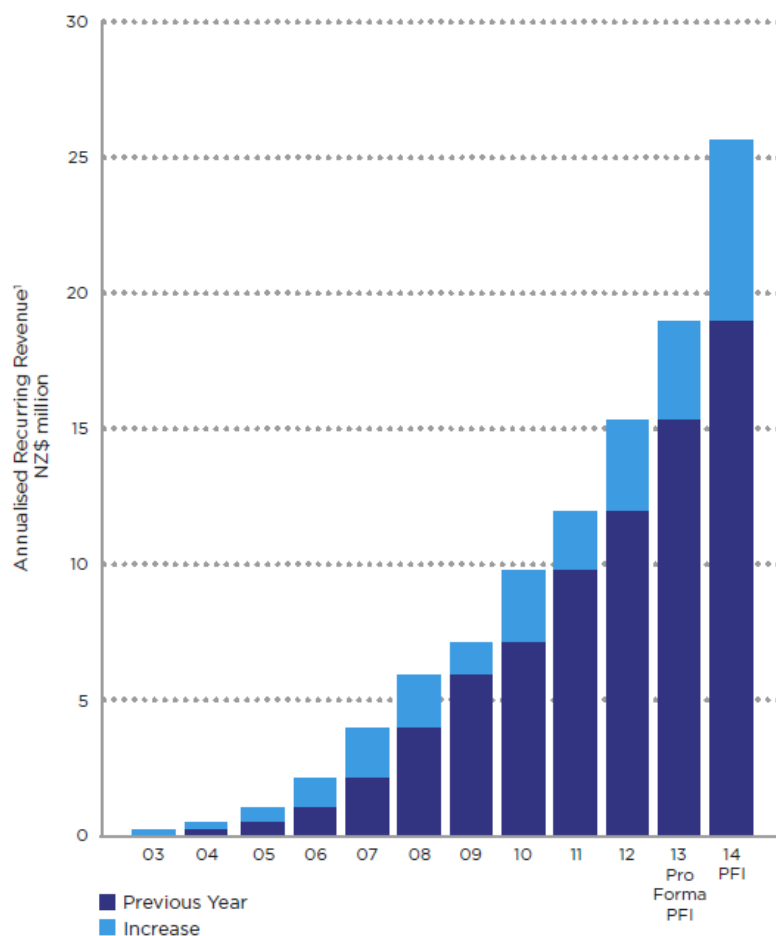
ARR is a non-GAAP financial performance metric which is calculated based on the subscription revenue generated from the existing customer base in the reference month and then annualised. It is based on the exchange rates at that time. When ARR is presented for a historical time series, all points are calculated on a constant currency basis using the current exchange rates. ARR does not account for changes in behaviour of customers to that experienced historically (e.g. retention rates, increase/decrease in activity or bad debts).

The implied forward looking nature of ARR means it is typically higher than historical reported revenue at the same point in time where revenue is growing. That is because the ARR at the end of a financial year is the subscription revenue for the month of June multiplied by 12, whereas the reported revenue will comprise all recognised revenue from 1 July of the previous calendar year to 30 June. The constant exchange rate used also smoothes out any foreign exchange fluctuations, providing SLI with a better understanding of the business' underlying performance over time.

ARR only includes revenue from SLI's customers for its Learning Search and related products and its Site Champion product; it does not include revenue from SLI's Related Search product, which it does not actively promote. For the Site Champion component of ARR it is necessary to apply judgement to mitigate the effects of one-off events that impact the base month revenue of the calculation. For example, SLI makes adjustments to revenue at a customer level to account for seasonality, Site Champion revenue growth and customer size.

SLI has grown its ARR to approximately \$17.7 million as at 28 February 2013 since the inception of its business in 2001, with only US\$2.5 million of new capital invested. SLI plans to use the net proceeds of this Offer to implement a step change in its growth. The financial benefits of the capital being raised are anticipated to become increasingly evident towards the second half of the FY14 forecast period (and beyond) where ARR is forecast to increase to \$25.9 million from the forecast \$19.2 million as at FY13 (an increase of 35%).

### ARR at June Each Year in Historical and Prospective Periods



### Customer retention

SLI attributes its high rates of customer retention to the effectiveness of its product range in helping its customers make more money and high rates of customer satisfaction. SLI expects to maintain its high retention rates by providing customers with high levels of service and support as well as new capabilities and functionality.

Retention rates on core products have averaged approximately 90% per annum by value over the five years to 28 February 2013 (and approximately 85% per annum by number of customers over the last two years to 28 February 2013), and has been 92% over the last financial year and 90% per annum (annualised) in the eight months to 28 February 2013. Customer retention rates on core products have fluctuated between 93% and 83% by value over the last five financial years – with the low point of 83% occurring in FY09, when customers were heavily impacted by the global financial crisis. Customer retention was also slightly lower in FY11 in part because service levels were lower due to the Christchurch earthquakes.

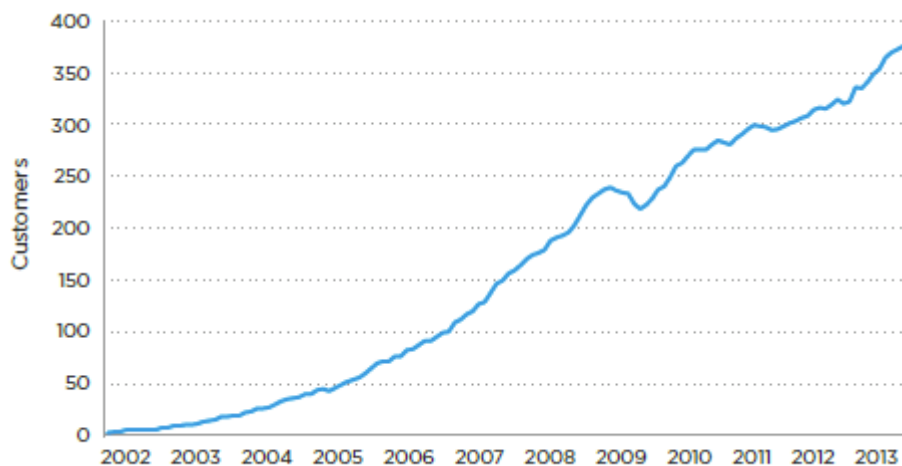
Most SLI customers who terminate their agreement do so when they change ownership, change ecommerce platforms, are forced to cost-cut and discontinue site search, use other alternatives (e.g. open-source or a competitor), or they close operations due to financial hardship.

### 5.5. Customers

As of 28 February 2013 SLI had more than 375 customers and had its products on over 600 websites globally. No single customer represents more than 5% of revenue and the top 20 customers represent less than 30% of revenue. According to Internet Retailer<sup>13</sup>, SLI serviced 60 of the top 1000 US online retail businesses.

<sup>13</sup> Internet Retailer Top 500 Guide + Second 500 Guide, 2012 editions ([www.internetretailer.com/shop/2013-leading-vendors-guide.html](http://www.internetretailer.com/shop/2013-leading-vendors-guide.html))

Number of customers serviced by SLI (as at February 2013)



SLI's customer base has grown consistently since it was founded, with the exception of 2009 where its customers were impacted by the Global Financial Crisis.

SLI's customers represent a broad cross section of retailers in the US, Europe, Australia/New Zealand and Brazil. They include Hardrock Café and Jelly Belly in the United States, Harrods and Next in the UK, and The Warehouse and Mitre 10 in New Zealand.

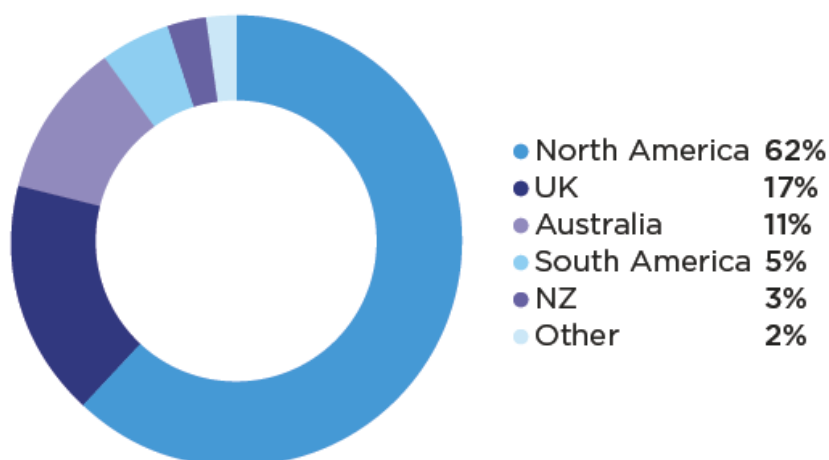
#### Selected SLI customers

##### SELECTED SLI CUSTOMERS //

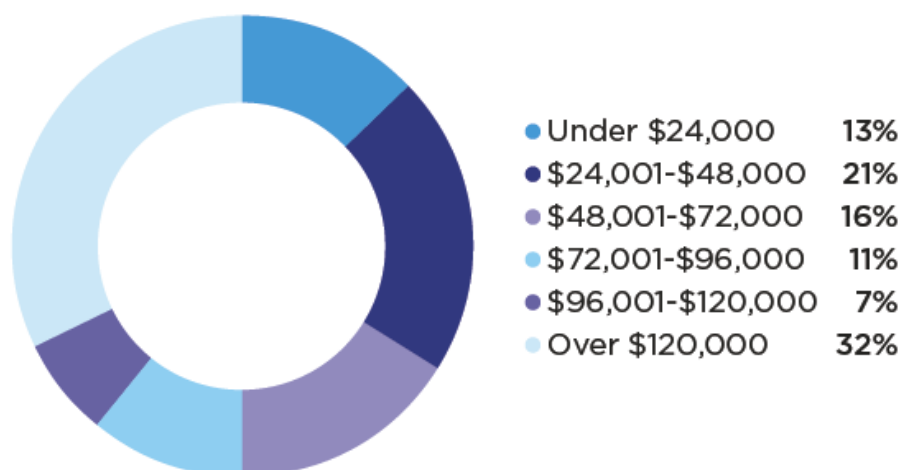


SLI also services other sectors with web-based search functions, including customers in the publishing industry such as Dilbert and the New England Journal of Medicine and corporate sites such as Qantas and Trimble Navigation. Although SLI's marketing is focused on securing ecommerce companies as customers, there are many other businesses with websites that need better search. These verticals represent a possible future opportunity. The focus to date on ecommerce has been driven by the clear ability for the customers to see that it gains financially from the SLI products.

### ARR split by geography at 28 February 2013 (NZD)



### ARR split by customer size at 28 February 2013 (NZD)

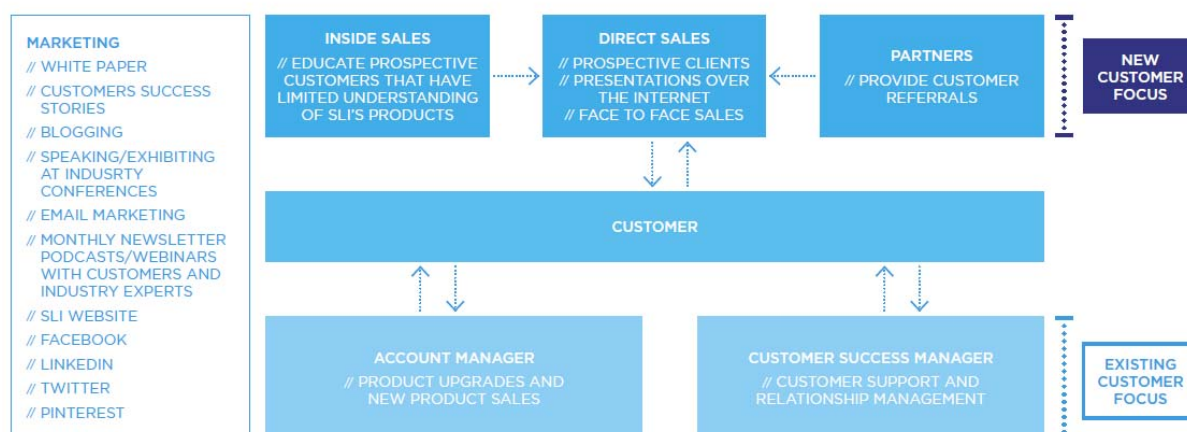


#### 5.6. Sales and Marketing

SLI has an international team working to acquire and retain customers, primarily via a direct sales model. SLI has sales staff that specialise in roles ranging from direct sales representatives who target key prospective customers to inside sales staff focussed on selling new or enhanced products to existing customers.

This strategy has been successful, with SLI establishing a strong track record of attaining new customers (having grown from 132 customers in 2007 to over 375 as at February 2013) and up-selling new products and services to those customers.

SLI's sales strategy is based around a repeatable process that develops demand for SLI products then engages with prospects to move them through the various stages of the sales cycle. Customers typically sign up to a 12 month initial term which is automatically renewed upon expiry unless terminated.



SLI's primary marketing strategy is the creation of leads through communicating and engaging with its customers and prospects.

The inside sales team is responsible for generating leads for SLI's direct sales representatives.

SLI has direct sales teams in each of its primary markets (US, UK, and Australia/New Zealand) to target key prospective customers. When SLI secures a new customer, the customer is assigned to a certain account manager for direct sales efforts. The account manager is responsible for helping clients with product additions and complementary products. As SLI's customers grow their businesses, they will often deploy additional sites and add additional products, like SLI's mobile search offering.

SLI also has partner arrangements with businesses supplying products and services to ecommerce businesses. These arrangements include referral, reseller and 'original equipment manufacturer' agreements. SLI will often engage in joint marketing with these partners. In FY12, these partner arrangements accounted for a small amount of SLI's total sales revenue, and although SLI has not assumed a material increase in the prospective financial statements, it expects that there is an opportunity to expand revenue through this channel.

SLI aims to build reputation and market share by producing thought leading content (white papers, customer success stories, blogging, and video content), and seeking opportunities to engage and promote these ideas (speaking and exhibiting at industry conferences, webinars and email marketing). SLI is well known within the ecommerce industry as a leading provider of site search solutions.

- Trade shows have been a very successful marketing channel for SLI, with the company regularly attending and speaking at a range of key industry events.
- SLI's monthly email newsletter is an informative publication on site search, sharing experience from its customers and promoting SLI as a thought leader.
- SLI's website contains information about its products. This includes videos, an active blog with several contributors, and easy access to news, press releases and newsletters.
- SLI produces white papers, available as a free download on its website, which contain useful information for retailers. These downloads generate leads for the sales team through down-loaders entering their contact information.
- SLI also uses partners for promotion, such as dinners, seminars and webinars.

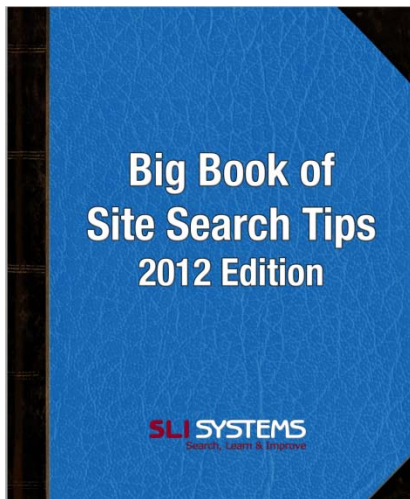
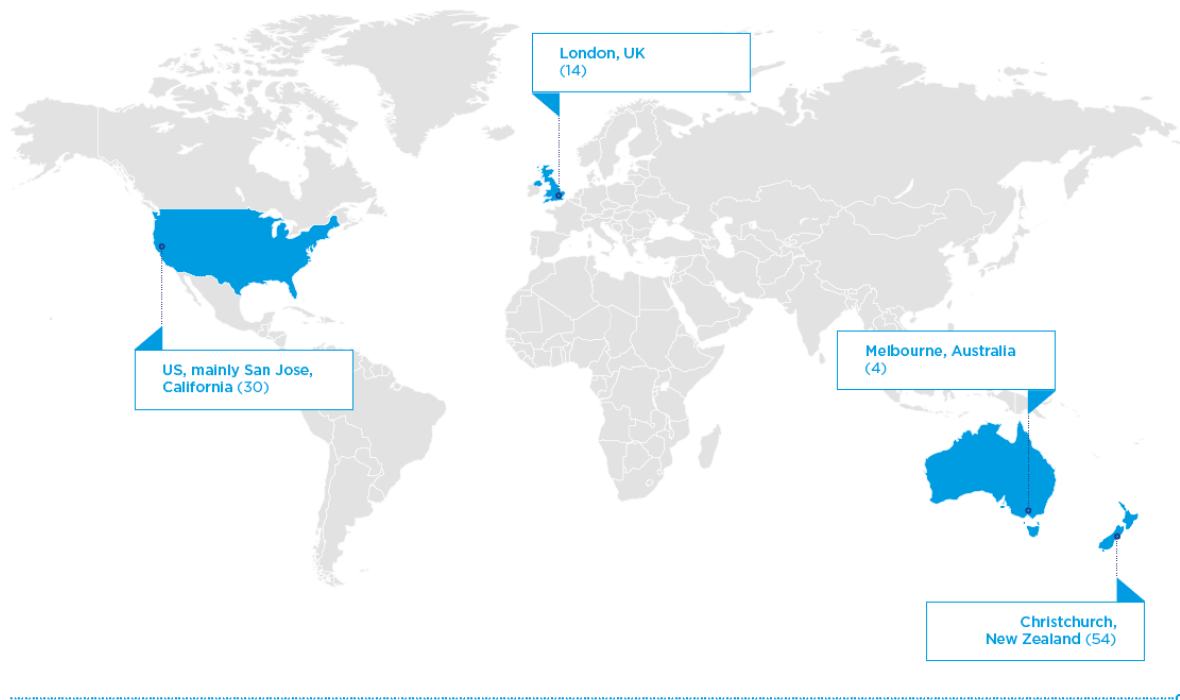


Figure: The big book of site search tips contains 100 tips on building a good site search. This white paper was published by SLI and summarises the best practices learnt across its customers

### 5.7. People

SLI has over 100 staff, located in Christchurch (New Zealand), San Jose (United States), London (UK) and Melbourne (Australia) (as at 28 February 2013). Because SLI has people located across multiple time zones, SLI can readily provide 24/7 service to customers.

#### GEOGRAPHICAL PRESENCE //



SLI's senior management team has an average of a decade experience each in site search and SaaS, and some members of the management team have a significant personal shareholding in the business. The executive team is led by Dr. Shaun Ryan, a co-founder of SLI and an original developer of SLI's unique "Learning Search" site search technology.

In addition to the senior management team, there are seven major teams within SLI comprising:

- Product Management/Development Engineers: responsible for developing new products. The majority of this team is located in Christchurch
- Customer-Facing Engineers: responsible for implementing and maintaining services to SLI's customers. Located mainly in Christchurch and London
- Customer Success: responsible for implementing and maintaining existing accounts, including working closely with the customer facing engineering team. Located across the territories
- Direct Sales: responsible for securing new business. This team has a presence in all three of SLI's offshore offices, and also often travels to visit potential customers
- Inside Sales: responsible for educating prospective customers who have limited understanding of SLI's products. Located across the territories
- Marketing: responsible for running all of SLI's marketing activities. Located in San Jose and London
- Finance and HR: responsible for all standard finance and HR functions. Located in Christchurch.

## 5.8. Operational Support & Security

SLI's products are built on a high availability architecture, where each customer's solution is hosted on multiple servers in several different data centres to increase reliability. The geographic redundancy that SLI employs for its live search servers means that there is no single physical point of hardware failure. Multiple physical locations serve each customer, with technical staff in the US, UK, and New Zealand. SLI has disaster recovery plans in place in the event of a loss of service. SLI is constantly looking for ways to further improve its architecture to prevent any loss of service.

## 5.9. SLI's Competitive Advantage

### ***Leading product offering***

Many site searches produce results with low relevance. This can be harmful for the site owner, because a poor search experience can cause visitors to abandon their search and not transact. Many websites are employing home-grown search technology solutions, legacy solutions with limited functionality and poor intelligence or on-premise solutions which require significant IT support.

SLI's core strength is the enhancement of the search function. Learning Search is designed to improve the customer experience by learning from previous online buyer behaviour and ensuring high relevance for search results on a customer's ecommerce website. Site Champion uses previous search experiences to create web pages hosted by SLI, many of which rank in web search engines (such as Google and Yahoo!). SLI's SaaS delivery model makes it easier for SLI's customers because SLI manages the core infrastructure and search functions on their behalf, but the customers are still able to overlay their own strategies for ranking, promotions, etc.

### ***On-going process of innovation***

SLI has an 11 year track record of innovation and new product development in an environment of rapid change and evolution. Recent developments include SLI Mobile and Rich Auto Complete. SLI is also continually developing its core Learning Search technology and currently has a number of potential new products in the pipeline that may contribute to further earnings growth. SLI also has an intellectual property strategy designed to protect SLI's technology.

SLI has a high quality management and development team with considerable knowledge, experience and expertise in software development.

### ***SaaS delivery***

SLI provides its solutions via a SaaS delivery model which can create significant competitive advantage over many of its on-premise, single tenant hosted competitors (see further details on the benefits of a SaaS delivery model in section 4.4 "Software as a Service"). SLI's adoption of the SaaS model provides a cost effective and scalable means to deliver its products in a fast evolving environment where the platform can be rapidly adapted to changing customer requirements.

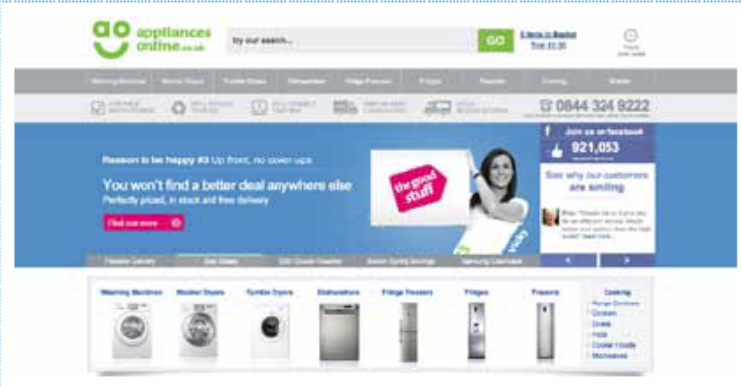
### ***Best of breed***

SLI's site search features can be added to nearly any major ecommerce platform, ensuring customers can receive the additional benefits of a dedicated site search product with their existing ecommerce suite of products. By focussing on being a best of breed solution SLI intends to stay at the forefront of technological advances.

In 2012, SLI was ranked #1 SaaS site search provider, #2 overall site search provider by number of customers on the 'Top 1000 Internet Retailer' list.

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People who use site search spend twice as much time on our site as visitors who don't use site search. We've also seen a 30% revenue increase for people who use site search compared to the previous search technology.



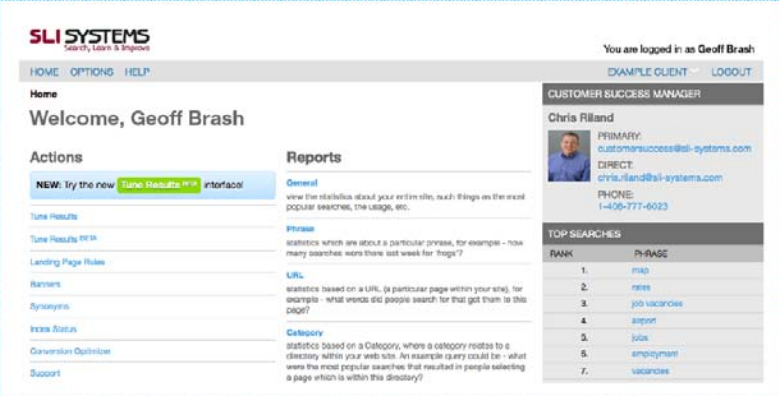
### Partners

SLI leverages its expertise in site search by partnering with complementary product and service providers (such as other SaaS providers and other platforms) to offer its customers broader ecommerce solutions. Working with partners helps ensure smooth compatibility between SLI's products and other ecommerce products, which is often critical from the customers' point of view. SLI works hard to achieve this with as many other ecommerce providers as commercially practical.

### Customer responsiveness

SLI considers that a key driver of its success has been its customer care model. Unlike many of SLI's competitors, customer service and other professional services are almost always delivered with no additional charge. SLI customers receive on-going support from a dedicated customer representative who assists with product implementation, support and suggestions for further product improvements. This allows SLI to react rapidly to customer requests without the overhead of scoping, quoting and charging for the service and it makes it more likely that the customer is using as many of SLI's features as is appropriate. Having happy customers also helps SLI's marketing efforts.

Another advantage of the close relationship that SLI has with its customers is that it makes it easy for SLI to test new products and features. Often the ideas for these will come from the customers. Some have resulted in new products, others have simply made the product more compelling.



**CUSTOMER PORTAL //**



## 5.10. Competitors

SLI has a range of competitors in the site search market, including on premise applications and other SaaS providers. Some of the key competitors include:<sup>14</sup>

- On premise: Endeca (an Oracle business) had 111 out of the 1000 largest online retailers in the US among its clients;
- SaaS: Omniture (an Adobe business) and Nextopia had 44 and 42 out of the 1000 largest online retailers in the US among their clients respectively.

Other competitors include the default search that comes with ecommerce platforms, the open-source software SOLR and other dedicated search providers, including Celebros, Thanx Media, Fred Hopper and FACT-Finder.

## 5.11. Growth Strategies

SLI has identified four key areas from which it will seek to derive growth in the future.

### ***Growth in existing markets***

Dedicated sales staff, incentivised by commission payments, are employed to grow SLI's customer base in the US, UK, Australia and New Zealand. SLI plans to use a portion of the Offer proceeds to strengthen the direct sales effort in these established markets. In addition, SLI intends to employ additional inside sales resource. See section 5.7 "People".

### ***Opportunities in new markets***

SLI has licensed technology to enable its products to work in 38 languages. It already supports eight languages, and has a delivery model that is transferable to other geographies. Some integration work will be required to use the other 30 languages. This will be done as required and as commercial imperatives dictate.

SLI has identified a range of markets in which it intends to seek to build its presence. These markets include:

- Brazil, where SLI already has a foothold. Brazil has been identified as a market with strong demographic trends – a growing middle class with good internet use – but which is currently underserved by SLI's competitors
- Japan, which is a substantial market.

### ***Growth from existing customers***

SLI has historically experienced significant growth in existing customer sales, and expects this to continue. As customers' ecommerce traffic increases, delivering them increased revenues, they tend to buy additional services.

### ***Growth from new products***

SLI has historically experienced significant growth from new products, including Site Champion, Rich Auto Complete and Learning Navigation, and expects this to continue. SLI expects growth from additional products.

The statements in this section should be read in conjunction with the risks set out under the heading "***What are my risks?***" in the "**Answers to Important Questions**" section at the front of this Offer Document.

## 5.12. Use of Offer Proceeds

Of the \$27 million of gross issue proceeds, \$12 million will be applied as part consideration for acquisition of the stock in SLI and \$2.1 million will be spent on costs directly attributable to the Offer. The Company intends to apply the remaining proceeds to accelerate SLI's growth as follows:

- recruiting sales and marketing staff to accelerate growth in existing markets
- expanding into new markets (Japan initially) and strengthening its presence in Brazil, including opening new sales offices and recruiting sales heads

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<sup>14</sup> Source: Internet Retailer Top 500 Guide + Second 500 Guide, 2012 editions ([www.internetretailer.com](http://www.internetretailer.com))

- funding development for enhancing existing products and new products and continued research for the product pipeline, and
- providing working capital to sustain the operations of the business while SLI continues to build ARR streams.

In the Prospective Period, of the net movement in cash, 17% is planned to be applied towards expansion into new markets, 6% for increased product development costs, and the balance on existing business and markets. \$7.32 million of cash (being remaining Offer proceeds and cash from trading activities) is planned to be carried forward for working capital and to be applied in later financial periods.

The Directors believe that the amount raised under the Offer will enable the Company to pursue its current business strategy. However, events such as a change in strategy, financial performance not meeting expectations, or a desire to accelerate expansion plans may require the Company to raise further capital in the future.

## 6. DETAILS OF THE OFFER

The following is a summary of the details of the Offer. Investors should also refer to other sections of this Offer Document for additional details (in particular “**Answers to Important Questions**” at the beginning of this Offer Document).

### 6.1. Purpose of the Offer

The purpose of the Offer is to:

- raise capital to accelerate SLI’s growth plans (see further details in sections 6.4 “Acquisition of SLI”, 5.12 “Use of Offer Proceeds” and 5 “Business Description”);
- enable the Company to list on the NZX Main Board, which will provide an enhanced profile for the Company, provide additional financial flexibility to pursue further growth opportunities and improve access to capital markets (if required); and
- provide a market for the Shares and an opportunity for employees, stakeholders and other persons to invest in the Company.

In addition, \$12 million of the Offer proceeds (of the \$27 million being sought) will be applied in part consideration of the acquisition of stock in SLI from those existing stockholders who are realising part of their investment in SLI (see further details below under “Acquisition of SLI”).

### 6.2. The Offer

The Offer is an offer of 18 million new ordinary shares in the Company. All Shares issued under the Offer will be fully paid ordinary shares which rank equally with each other and all existing Shares. The Shares will be offered to investors at the Offer Price of \$1.50 per Share. The Offer comprises a Broker Firm Offer and an Institutional Firm Offer. There is no public pool.

The Offer will remain open until either the Closing Date or such other time and date as is determined by the Company. The Offer is made on the terms, and is subject to the conditions, set out in this Offer Document.

### 6.3. Proceeds of the Offer

The Company intends to apply the proceeds from Shares issued under the Offer as part consideration for the acquisition of 100% of the stock in SLI and to accelerate growth of SLI’s business, including by recruiting additional sales and marketing staff, expanding into new markets, funding enhancement of existing products and development of new ones, for working capital and to satisfy costs associated with the Offer. Refer to section 5.12 “Use of Offer Proceeds” for further details.

### 6.4. Acquisition of SLI

As at the date of this Offer Document, SLI is owned by a broad range of stockholders. The Company has entered into exchange agreements with all SLI stockholders.

Immediately before allotment under the Offer, the Company will acquire all of the stock in SLI in exchange for Shares in the Company and some cash (as described below), meaning that stockholders in SLI are effectively ‘shifted up’ so that they are shareholders in the Company.

Under the exchange agreements, some existing investors in SLI have elected to realise some of their investment by receiving some cash consideration at the Offer Price for some of their stock in SLI. The Company will pay a total of \$12 million in cash consideration for this stock on the Allotment Date. The shareholders that continue with their holding will swap their shares in S.L.I. Systems, Inc. for shares in SLI Systems Limited on a one for one basis.

Under the terms of SLI’s stock option plans, when it acquires the stock in SLI the Company will also assume SLI’s obligations under all of the stock options in SLI. The options will remain on the same terms, except that the Company will be the issuer and the options will be exercisable for ordinary shares in the Company (rather than stock in SLI).

Following the exchange, the Company will undertake a share split to ensure that an appropriate number of Shares are on issue following the Offer (resulting in 58,068,532 Shares after allotment under the Offer). The

Company will also split the options, and reduce the option exercise price, in proportion to the share split (so that the share split does not dilute option holders).

Further detail on shareholding in SLI Group before and after the sell down is available in section 6.8 “Quoted shareholdings post the Offer”. Further detail on the options is available in section 8.4 “Share option schemes”.

#### **6.5. Share Transfer Restrictions**

Each of SLI's current shareholders has agreed with the Company that until the date of the announcement of the Company's financial results for the period ending 30 June 2014, they will not:

- dispose of, or agree to dispose of the shares; or
- do or omit to do anything which could have the effect of transferring effective ownership or control of any of the existing Shares they own in the Company (i.e. shares held prior to settlement of the Offer), other than:
  - with the prior written consent of the non-interested directors (as that term is defined in the Companies Act 1993), the Company and NZX;
  - to an affiliate which would be similarly bound; or
  - in connection with a takeover offer under the Takeovers Code for Shares in the Company.

#### **6.6. Application**

Applicants under the Offer can only apply for Shares on the Application Form. Applications must be accompanied by payment in full for the total number of Shares applied for at the Offer Price. The minimum application is for 2,000 Shares (\$3,000) and must be in multiples of 200 Shares (\$300) thereafter.

Applications pursuant to the Broker Firm Offer must be sent with payment to the NZX Primary Market Participant or Joint Lead Manager, who granted the Applicant an allocation, in such time as to enable the NZX Primary Market Participant or Joint Lead Manager to forward the application and payment to the Share Registrar by no later than 5:00pm on the Closing Date.

#### **6.7. Allotment**

Shares allocated under the Offer are expected to be allotted on 31 May 2013. Notifications to successful Applicants of the allocations under the Offer are expected to be issued on or before 6 June 2013. Shareholders will be sent a holding statement and advised of their Shareholder Number and FIN (if they do not already have these).

Applicants may call the Share Registrar or their sharebroker from the Allotment Date (31 May 2013) to ascertain their allocation before trading in the Shares. To assist this process, if an Applicant has an existing Shareholder Number, the Applicant should quote it when they call. If Applicants provide their mobile number on the application form the Share Registrar will advise them via text message of their allotment when it is completed.

No Applicant should attempt to sell or otherwise deal with any Shares until they have received written confirmation from the Share Registrar as to whether any, and if so how many, Shares have been allotted to them. Neither the Company nor the Joint Lead Managers nor any of their respective directors, officers, employees or advisers accept any liability or responsibility should any person attempt to sell or otherwise deal with the Shares before the holding statements confirming allotments are received by the Applicants for the Shares.

Transactions in the Shares after allotment can be made by a successful Applicant by contacting a NZX Primary Market Participant and supplying the Applicant's FIN and Shareholder Number provided by the Share Registrar, subject to the NZX Primary Market Participant's terms and conditions.

In the event that admission to list the Company and quote the Shares on the NZX Main Board is denied, or for any other reason the issue of Shares under the Offer does not proceed, all application monies will be refunded in full without interest within five business days of the Directors making that decision.

#### **6.8. Quoted shareholdings post the Offer**

The ten largest current SLI shareholders holding quoted Shares in the Company upon completion of the Offer are set out in the table below together with details of the sell down under the share exchange.

Shareholder interests	% in SLI before share exchange	% stock in SLI sold under exchange	% in the Company following exchange	Quoted Shares in Company after Offer*	% after Offer** ***
TEA Custodians (Pioneer Capital) Ltd	16.3%	4.0%	12.3%	5,913,798	10.2%
Lynnwood Holdings Ltd	9.8%	2.4%	7.4%	3,561,816	6.1%
Marder Media Group, Inc.	8.9%	2.2%	6.7%	3,211,290	5.5%
Grant James Ryan Family Trust	6.8%	0.7%	6.1%	2,953,116	5.1%
Munro, Wayne Alistair	6.8%	0.7%	6.1%	2,940,120	5.1%
Brash, Geoffrey Michael	6.1%	1.2%	4.9%	2,352,000	4.1%
Shaun William Ryan Family Trust	5.6%	0.6%	5.1%	2,430,000	4.2%
Grantham, Michael Arthur	5.1%	0.8%	4.3%	2,065,500	3.6%
Kevin Taylor Family Trust	4.8%	1.2%	3.6%	1,742,928	3.0%
Rob van Noblen Family Trust	4.2%	0.0%	4.2%	2,007,612	3.5%
Other SLI stockholders share exchange	25.6%	2.9%	22.7%	10,890,352	18.8%
New capital invested in the Offer****	-	-	16.6%	18,000,000	31.0%
Total	100%	16.6%	100.0%	58,068,532	100.0%

\* Calculated following a share split of 6 shares for every share immediately after the exchange.

\*\* In addition there will be 8,441,949 options on issue in the Company. If all options were exercised for cash immediately on allotment under the Offer, the options would confer 15% of the Shares in the Company following that exercise and the Company would receive total cash proceeds of \$4.2 million. This is illustrative only, because many of the options will not have vested at that time and there is no certainty that option holders will exercise and the Company has flexibility to permit a cashless exercise. See further details in section 8.4 "Share Option Schemes".

\*\*\* In addition, the Company will issue a total of 400,000 unlisted redeemable shares to the Independent Directors (as described in section 8.3 "Directors Interests"), which would amount to 400,000 Shares (being 0.7% of the Shares in the Company if they reclassified into Shares (based on the number of Shares on issue after the Offer)).

\*\*\*\* Interests associated with existing SLI shareholder Mr Sam Morgan have agreed to subscribe for \$1 million of the new capital under the Offer. Other SLI shareholders may apply for additional Shares in the Offer.

None of the persons set out above guarantees or undertakes any liability in respect of the Shares being offered.

## 6.9. Substantial Security Holders

As required by Listing Rule 7.1.15, on 30 April 2013, the Company required shareholders with relevant interests in 5% or more of the Shares of the Company to disclose the nature of their relevant interest and the consideration and other terms and conditions or any transaction under which they acquired their Shares as follows:

Relevant Interest Holder	No. of Shares	Nature of Relevant Interest	Consideration and other Terms
Shaun William Ryan	one	Registered holder and beneficial owner	Nil

The person named above does not guarantee, or undertake any liability in respect of, the Shares.

## 6.10. Brokerage

No brokerage or commission is payable by Applicants for Shares under the Offer. The Joint Lead Managers will be paid a fee in connection with the Offer, from which they will pay firm allocation commissions of 0.5% and retail brokerage of 1.0% on retail applications bearing brokers' stamps pursuant to a firm allocation under the Broker Firm Offer.

**6.11. Listing on the NZX Main Board**

Application has been made to NZX for permission to list the Company and quote the Shares on the NZX Main Board and all the requirements of NZX relating to the application that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX accepts no responsibility for any statement made in this Offer Document. The NZX Main Board is a registered market operated by NZX, a registered exchange under the Securities Markets Act 1988.

Craigs Investment Partners Limited and Forsyth Barr Limited are the Joint Lead Managers and Joint Organising Participants to the Offer. NZX has authorised Craigs Investment Partners Limited and Forsyth Barr Limited to act on this Offer.

## 7. BOARD AND MANAGEMENT

### 7.1. Board of Directors

The Company believes it has secured a strong Board of Directors with the balance of skills and experience necessary to best position the Company to exploit its growth opportunities. The Board comprises three independent directors (Greg Cross, Sarah Smith and Sam Knowles), two non-executive directors (Steven Marder and Matthew Houtman), and one executive director (Shaun Ryan).

#### **Greg Cross, Independent Chairman**

Greg is an experienced entrepreneur, CEO and Company Director with over 25 years of experience in the technology sector working in growth companies in international markets. Greg is Executive Chairman of PowerbyProxi, a wireless power company he co-founded in 2007, which is growing rapidly with major corporate clients in the Industrial Component and Consumer Electronics markets and offices in the United States. Greg has been on the board of SLI as an Independent Director since July 2003 and has been Chair since 2005. He is Vice Chair of the Meteorological Service of New Zealand and a director of Fronde a Cloud Systems Integration Company based in Wellington.

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, Chief Executive Officer and Co-Founder, PhD, B Eng**

Shaun has over 10 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 is a frequent speaker at conferences in the US, UK and Australia, and regularly posts insights on site search trends to the Company's blog. His retail search by-lines have been published in Chief Marketer, Multichannel Merchant and other online magazines. Shaun has a PhD in Artificial Intelligence from the University of Canterbury.

#### **Steven E Marder, Non-Executive Director, JD, BA**

Silicon Valley-based Steven Marder has over 23 years' executive, advisory, and investment experience in the global technology, media and communications sectors. Steven was an operating partner for private equity firm Avista Capital Partners and sat on the board of Avista portfolio companies WideOpenWest (WOW!) and InvestorPlace Media in addition to serving as Director/co-founder of internet social search technology company Eureka, Inc. Previously, he held corporate development and business development executive roles at major media companies EMI Music and Tribune Company (Compton's NewMedia). He also co-founded and served as Managing Director, North America for multinational merchant bank Gramercy Venture Advisors, co-founded and served as Chairman/CEO of eMemberDirect, Inc. (formerly PetPlanet.com) and served as a Director for New Zealand based technology company GlobalBrain. 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. As an SLI Director, Steven currently serves on the SLI Remuneration Committee.

#### **Matthew Houtman, Non-Executive Director, MMS**

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 Systems, Inc., he has portfolio responsibilities with Orion Health, Pukeko Pictures, Konnect 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 (both bank and capital markets; and investment and sub-investment grade). In the Auckland office, general sector coverage included energy distribution, telecommunications services and general industrial. In the London office, Matthew was a member of the European TMT group and covered primarily telecommunications services companies. He had clients across Europe, in the Middle-East, in Japan and in Canada. Matthew has a Master of Management Studies with distinction from the University of Waikato. As an SLI Director, he serves on the Audit and Risk Committee.

**Sarah Smith, Independent Director, BCom, CA, AFInstD**

Sarah, a chartered accountant, 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 18 years' experience and currently holds positions as Chairman of Meteorological Services of New Zealand (MetService), Director of Christchurch City Holdings, Director of EcoCentral and is a Trustee for several charitable organisations. She is a member of the Institute of Chartered Accountants and is an Accredited Fellow of the Institute of Directors. Sarah is Chairperson of the Company's Audit and Risk Committee.

**Sam Knowles, Independent Director, MSc**

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 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 Chairman of Xero and a Director of Trustpower, both NZX listed companies, and Chairman of Partners Life, ON-Brand partners and Fingertapps and a Director of Magritek, and Rangatira.

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

See above.

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

Wayne oversees 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. Before joining the Company, he held senior technical positions with NBCi and GlobalBrain, specializing 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.

**Geoff Brash, Vice President of Business Intelligence and Co-Founder, MBA**

Geoff focuses on driving growth and managing customer perception for SLI. A co-founder of the Company, he has considerable expertise in search and nearly two decades' strategic and operations experience in the technology market. Under his direction, the Company won the New Zealand Hi-Tech Awards Marketer of the Year in 2005, placed 100 in the 2005 "Deloitte Technology Fast 500" ranking in Asia Pacific, and placed 12th in the 2005 "Deloitte/Unlimited Fast 50" in New Zealand. Before joining SLI, Mr. Brash was an engineering manager at NBCi, and has also served in various technical and managerial positions in the public and banking sectors. He is an active member of several New Zealand software associations, and holds an MBA from Massey University.

**Ed Hoffman, Vice President of Global Sales and Business Development**

Ed has over 20 years of experience in the software industry with deep experience in search technology, user experience and ecommerce. Ed was senior director for Infoseek's software unit Ultraseek, which eventually was acquired by Inktomi, then Verity, then Autonomy, then HP. In that role, he helped grow revenues of Infoseek Software / Ultraseek Corporation from the initial deal in 1997 to US\$25 million annual sales into 2,500+ accounts in over 40 countries. Ed has been contributing to SLI's growth and customer satisfaction since 2003. He is currently responsible for sales, channel/business development, and alliances globally.

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

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.

**Rod Garrett, Chief Financial Officer, BCom (Hons)**

Rod has 20 years' experience in finance and related roles. He worked for Pricewaterhouse in New Zealand and London working 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.

**Terry Costa, Vice President of Marketing, MBA, BS**

Terry is responsible for SLI's global marketing efforts. He is an experienced marketing veteran with strong marketing, product marketing and product management experience, and has served in senior marketing positions for several leading technology companies, including InQuira, a provider of natural language search and knowledge management software, and ecommerce platform provider BroadVision. Before joining SLI, Terry was VP of marketing for Exaprotect, a security software company, and VP of marketing for Reportive. He started his career at Hewlett-Packard, where he was responsible for bringing to market HP's security products and Data Warehousing solutions. Terry holds an M.B.A. and B.S. degrees from Carnegie Mellon University.

**Chris Riland, Vice President of Customer Success, BA**

As Vice President of customer success, Chris manages the growth and direction of SLI's customer success group and works closely with the team to ensure the continual delivery of SLI's unique high-quality service and customer care. His responsibilities include building a team to handle tactical customer support, rolling out new customer implementations, and increasing customer retention. Before joining SLI's executive team, Chris was director of customer success at SLI, where he transformed the customer success team into a worldwide support organisation. Before SLI, he was director of technical support at Actiance (formerly FaceTime Communications). As one of the original employees of FaceTime, Chris built the service/support group from scratch and played a key role in building the successful start-up. Chris has been building, leading, and driving customer satisfaction in the software and technology industry for the past 15 years.

**Michael Grantham, Operations Manager and Co-Founder, BSc**

Michael is responsible for SLI's global technology systems. As a co-founder of SLI, he has helped design and implement many of SLI's products and infrastructure. 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.

## 8. CORPORATE GOVERNANCE

### 8.1. Role of the Board

The Board has ultimate responsibility for the strategic direction of SLI Group and for supervising the Company's management for the benefit of shareholders. Specific responsibilities include:

- working with management to set the strategic direction of SLI Group;
- monitoring and working with management to direct the business and the financial performance of SLI Group;
- monitoring compliance and risk management;
- establishing and monitoring SLI Group's health and safety policies;
- establishing and overseeing succession plans for senior management; and
- ensuring effective disclosure policies and procedures are adopted.

The Board currently plans to meet not less than nine times during the financial year, including sessions to consider SLI Group's strategic direction and business plans. Video and/or phone conferences will be used as required.

### 8.2. Board Committees

The Board has two formally constituted committees of Directors. These committees review and analyse policies and strategies, usually developed by management, which are within their terms of reference. The committees examine proposals and, where appropriate, make recommendations to the full Board. Committees do not take action or make decisions on behalf of the Board unless specifically authorised to do so by the Board.

#### ***Audit and Risk Management Committee***

The Audit and Risk Management Committee will be responsible for overseeing the risk management (including treasury and financing policies), treasury, insurance, accounting and audit activities of the Company, and reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of external auditors, reviewing the consolidated financial statements, and making recommendations on financial and accounting policies.

The members of the Audit and Risk Management Committee are Sarah Smith (Chairperson), Sam Knowles, and Matthew Houtman.

#### ***Nominations and Remuneration Committee***

The Nominations and Remuneration Committee is responsible for considering new appointments to the Board, overseeing management succession planning, establishing employee incentive schemes, reviewing and approving the compensation arrangements for the executive Directors and senior management, and recommending to the full Board the remuneration of Directors.

The members of the Nominations and Remuneration Committee are Greg Cross (Chairman), Sam Knowles, and Steven Marder.

### 8.3. Directors Interests

#### ***Directors' remuneration***

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

To provide for flexibility, shareholder approval has been provided for an aggregate cap on non-executive directors' fees of \$250,000 for the purposes of Listing Rule 3.5.

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 shareholder meetings, or otherwise in connection with SLI Group's business.

As CEO, Shaun Ryan receives a salary of \$257,000 per annum from SLI and is entitled to an annual bonus of \$75,000 subject to achieving performance targets.

#### **Independent Director limited recourse loans**

To align the Independent Directors' interests with the Company's, the Company plans to provide limited recourse loans of \$200,000 to each of the Independent Directors to enable them to subscribe for 133,333 unlisted redeemable shares each in the Company at the Offer Price for allotment at the same time as allotments under the Offer. There are no unlisted redeemable shares on issue at the date of this Offer Document.

The loans will not bear interest, and will be repayable on 30 June 2016, or a later date specified by the Board (excluding any director advanced a limited recourse loan). The loan may be prepaid earlier, in whole or in part, at the discretion of the relevant Independent Director. The loans are limited recourse, and are secured against shares acquired with the benefit of the loan and held by or on behalf of the Independent Directors, but the Company has no recourse against any personal assets of the Independent Directors. If the loan is not repaid, the Company may arrange for those shares to be sold.

The redeemable shares will have the same rights as ordinary shares, and rank equally as to distributions and voting at shareholder meetings, but will be redeemable by the Company for the Offer Price (which will be applied in repayment of the loan) if the loan is not repaid. Once the loan is repaid the redeemable shares will be reclassified into ordinary Shares on the basis of one ordinary share for each unlisted redeemable share.

#### **Directors' shareholdings**

Shareholdings of the Directors immediately following the Offer are set out in the table below:

<i>Director</i>	<i>Held as beneficial owner</i>	<i>Held as trustee of family trust / associated company</i>	<i>Held as trustee of trust not established for benefit of director's immediate family</i>	<i>Total</i>
Greg Cross, Chairman				
<i>Unlisted redeemable shares</i>	133,333 <sup>1</sup>			133,333 <sup>1</sup>
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>	1,498,032	3,211,290		4,709,322
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 <sup>1</sup>			133,333 <sup>1</sup>
Sam Knowles, Independent Director				
<i>Quoted Shares</i>	66,667			66,667
<i>Unlisted redeemable shares</i>	133,333 <sup>1</sup>			133,333 <sup>1</sup>

**Notes:** 1. Unlisted redeemable shares funded by limited recourse loans of \$200,000 to each Independent Director.  
2. 5,913,798 shares held by Pioneer Capital Fund, and 156,432 shares held by Pioneer Capital Management Ltd, the manager of that fund.

#### **8.4. Share option schemes**

SLI currently operates two share options schemes, under which certain Directors, employees and some advisers may subscribe for shares in SLI. Immediately prior to completion of the Offer, the Company will assume the benefits and obligations of SLI under those schemes. The number of options and the exercise price of those options will be adjusted to reflect a share split to be undertaken by the Company immediately before completion of the Offer. The Company intends to continue to issue employees with options when they start employment on the same essential terms as the existing scheme.

The purpose of the plan is to provide an incentive to attract, retain and reward individuals performing services for SLI and to motivate such individuals to contribute to the growth and profitability of SLI. SLI has traditionally granted each staff member options when they start employment with SLI Group (with the amount of options varying depending on the level of the position) and intends to continue to do so. The options are exercisable to

the extent of 1/4 of the option as of the one year anniversary after the grant date, then an additional 1/36th of the remaining balance on a monthly basis, so that the option is fully exercisable on the fourth anniversary of the grant date. The option is 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 table below shows details of the outstanding options at 30 April 2013, including whether those options are vested (i.e. exercisable) and of how the exercise price and number of those options would be adjusted for the share split key characteristics once assumed by the Company on completion of the Offer:

<i>SLI options exercise price</i>	<i>Adjusted Company options exercise price</i>	<i>Number of vested options in SLI</i>	<i>Number of unvested options in SLI</i>	<i>Adjusted Number of vested options in Company</i>	<i>Adjusted Number of unvested options in Company</i>	<i>Total Adjusted number of options in Company</i>	<i>Weighted average remaining term of options (years)</i>
USD 1.00	USD 0.17	66,000	0	396,000	0	396,000	0.75
USD 1.45	USD 0.24	20,000	0	120,000	0	120,000	0.58
USD 1.75	USD 0.29	246,429	0	1,478,571	0	1,478,571	3.80
USD 2.00	USD 0.33	481,808	287,005	2,890,850	1,722,028	4,612,878	7.36
USD 4.09	USD 0.68	0	123,750	0	742,500	742,500	9.11
USD 4.49	USD 0.75	0	93,200	0	559,200	559,200	9.37
USD 4.69	USD 0.78	0	37,800	0	226,800	226,800	9.77
N/A	NZD 1.50	0	51,000	0	306,000	306,000	9.97
<b>Total</b>		814,237	592,755	4,885,422	3,556,528	8,441,949	

The weighted average exercise price of the options is USD 42 cents (adjusted for the share split) and the weighted average term to expiry as at 30 April 2013 is 6.8 years. If all options on issue as at allotment under the Offer were exercised for cash, the options would confer 15% of the Shares in the Company following that exercise and the Company would receive total cash proceeds of \$4.2 million (at a NZD/USD rate of 0.85). This is illustrative only, because many of the options will not have vested at that time and there is no certainty that option holders will exercise and the Company has flexibility to permit a cashless exercise.

As at 30 April 2013, Executive Director Dr Shaun Ryan held 8,210 options in SLI exercisable at USD 2.00 each (which would equate to 49,260 options exercisable at USD 33 cents each following adjustment immediately prior to completion of the Offer). Chairman Greg Cross held 20,000 options in SLI exercisable at USD 2.00 each (which would equate to 120,000 options exercisable at USD 33 cents each following adjustment immediately prior to completion of the Offer).

## 9. PROSPECTIVE FINANCIAL STATEMENTS

### A.1. Introduction and basis of preparation

The prospective financial statements included in this section are the consolidated group position of SLI Systems Limited and its subsidiaries ("SLI Group") and include a prospective consolidated statement of comprehensive income, statement of financial position, statement of movements in equity and statement of cash flows, prepared in accordance with Financial Reporting Standard 42: Prospective Financial Statements ("FRS-42"). Also included are general and specific assumptions on which the prospective financial statements are based and a sensitivities analysis.

The prospective financial statements, including the assumptions on which they are based, are the responsibility of, and have been prepared by, the Directors and are based on events and conditions existing as at the date of this Offer Document. The Directors have given due care and attention to the preparation of the prospective financial statements, including the underlying assumptions. These assumptions should be read in conjunction with the sensitivity analysis in section A.6.13, the risk factors set out under the heading "**What are my Risks?**" in the "Answers to Important Questions" section at the front of this Offer Document – and SLI's accounting policies under the heading "**Accounting policies**" further below in this section.

Forecasts by their nature are inherently uncertain. They are predictions of future events which cannot be assured. They involve risks and uncertainties, many of which are beyond the control of SLI Group. These risks and uncertainties include, but are not limited to, the non-occurrence of anticipated events or alternatively events occurring that were not anticipated. Various risk factors and the management of those risks (including those under the heading "**What are my Risks?**" in the "Answers to Important Questions" section at the front of this Offer Document) may influence the success of SLI Group's business. Accordingly, actual results are likely to vary from the prospective financial information, and these variations may be significantly more or less favourable to SLI Group. Therefore, the Directors cannot and do not guarantee the achievement of these financial forecasts.

The prospective financial statements were prepared and authorised by the Directors as at 1 May 2013 for use in this Offer Document and not for any other purpose. The prospective financial statements cover the prospective statement of financial position as at 30 June 2013 and the period from 1 July 2013 to 30 June 2014 (FY14). The prospective financial statements for this period do not include any actual results.

The Directors have not presented prospective financial statements for the limited period from incorporation of the Company until 30 June 2013, as the Company will only acquire SLI approximately four weeks prior to that date and the Directors consider disclosure of such a limited period of trading activity and expensing of the transaction costs associated with the Offer will show a significant loss for this period that is not reflective of the expected trading profitability of the Group and as such would likely deceive or mislead the reader as to the financial performance of SLI Group. Instead this section also presents pro forma prospective financial statements for the period from 1 July 2012 to 30 June 2013 (pro forma FY13) as if SLI Systems Limited had acquired S.L.I. Systems, Inc. on or before 1 July 2012. The pro forma prospective financial statements include eight months unaudited actual results and four months prospective results. The pro forma prospective financial statements have been compiled for illustrative purposes only and they do not represent the financial statements that will be presented by the SLI Group for the year ending 30 June 2013. SLI Group's financial statements for this year will only present trading activity from the date the Company acquires SLI, which is expected to be on or around 31 May 2013.

The period from 1 March 2013 to 30 June 2014 is referred to as the Prospective Period.

The auditors' report in relation to the prospective financial information, as required by clause 28 of schedule 1 of the Securities Regulations 2009, is set out in section 11.

There is no present intention to update the prospective financial statements or to publish prospective financial statements in the future. Investors must consider the assumptions on which the prospective financial statements have been prepared and the sensitivities analysis in order to fully understand the prospective financial statements. The SLI Group will report actual financial results against the pro forma prospective financial statements and prospective financial statements in accordance with generally accepted accounting practice in the 30 June 2013 and 30 June 2014 financial statements and will provide that information to Shareholders on request under section 54B of the Securities Act 1978 and regulation 44 of the Securities Regulations 2009.

For comparative purposes this section also includes SLI's statement of comprehensive income for the year ended 30 June 2012, which is taken from SLI's audited financial statements in Appendix B.

## A.2. SLI Group Consolidated Prospective Statement of Comprehensive Income

	SLI Actual 12 months to 30-Jun-12 000's	SLI Group Pro forma PFI 12 months to 30-Jun-13 000's	SLI Group PFI 12 months to 30-Jun-14 000's
Operating Revenue	15,524	18,285	22,200
Other Income	138	534	270
Operating Expenses	(6,045)	(9,041)	(12,278)
Employee Entitlements	(9,409)	(11,930)	(17,504)
Operating Profit (Loss) before financing costs	208	(2,152)	(7,312)
Net financing costs	7	46	230
Profit (Loss) before Income tax	215	(2,106)	(7,082)
Income Tax Expense	(132)	(42)	(100)
Profit (Loss) for the period	83	(2,147)	(7,182)
Other Comprehensive Income	9	0	0
<b>Comprehensive profit (loss) for the period attributable to shareholders</b>	<b>92</b>	<b>(2,147)</b>	<b>(7,182)</b>
Operating Profit (Loss) before financing costs	208	(2,152)	(7,312)
Add back : Depreciation and Amortisation	216	296	438
<b>EBITDA</b>	<b>424</b>	<b>(1,856)</b>	<b>(6,874)</b>

## A.3. SLI Group Consolidated Prospective Statement of Changes in Equity

	SLI Group Pro forma PFI 12 months to 30-Jun-13 000's	SLI Group PFI 12 months to 30-Jun-14 000's
Opening Balance 1 July	2,033	15,503
Loss for period	(2,147)	(7,182)
Net change in foreign currency translation reserve	0	0
Director and employee share schemes	354	335
<b>Issue of ordinary shares</b>		
for cash	16,139	0
Share issue cost	(875)	0
<b>Balance end of period</b>	<b>15,503</b>	<b>8,656</b>

## A.4. SLI Group Consolidated Prospective Statement of Financial Position

	SLI Group PFI 30-Jun-13 000s	SLI Group PFI 30-Jun-14 000s
<b>Assets</b>		
Cash and Cash Equivalents	15,066	7,320
Trade and Other Receivables	3,106	4,176
Total Current Assets	18,172	11,496
<b>Non-current Assets</b>		
Property, Plant and Equipment	1,353	1,878
Intangible Assets	122	102
Deferred Tax	135	135
Total Non-Current Assets	1,611	2,115
<b>Total Assets</b>	<b>19,784</b>	<b>13,612</b>
<b>Equity</b>		
Total Equity	15,503	8,656
<b>Liabilities</b>		
Current Liabilities		
Trade and Other Payables	3,206	3,436
Employee Benefits	1,066	1,511
Taxation Payable	8	8
Total Current Liabilities	4,280	4,956
<b>Total Equity and liabilities</b>	<b>19,784</b>	<b>13,612</b>



## A.5. SLI Group Consolidated Prospective Statement of Cash Flows

	SLI Group Pro Forma PFI 12 months to 30-Jun-13 000's	SLI Group PFI 12 months to 30-Jun-14 000's
<b>Cash in (Out) flow</b>		
Cash Flows from Operating Activities		
Receipts from Customers	18,102	21,155
Receipts from Other Income	515	244
Payments to Suppliers and Employees	(19,952)	(28,333)
Interest Received	46	230
Interest Paid	0	0
Taxation Received (Paid)	(139)	(100)
Net cash inflow / outflow from operating activities	(1,427)	(6,803)
Cash Flows from Investing Activities		
Purchase of Plant and Equipment	(1,212)	(942)
Cash Flows from Financing Activities		
Net Proceeds from Capital contributed	15,264	0
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>	<b>12,625</b>	<b>(7,746)</b>
Opening Balance	2,441	15,066
Closing Balance	15,066	7,320
<b>Cash Inflow</b>	<b>12,625</b>	<b>(7,746)</b>

## A.6. Notes to the prospective financial information

The principal assumptions on which the prospective financial statements have been prepared are set out below. These assumptions should be read in conjunction with the risk factors set out under the heading “**What are my risks?**” in the “Answers to Important Questions” section at the front of this Offer Document, and the sensitivity analysis below.

The prospective financial statements comply with FRS-42 and assume the following during the periods of the prospective financial statements:

### A.6.1. General Assumptions

- A.6.1.1. **Economic environment** – there will be no material change in the general economic environments in which SLI Group operates or sells its products.
- A.6.1.2. **Political, legislative and regulatory environment** – there will be no material change to the political, legal or regulatory environments in which SLI Group operates or sells its products.
- A.6.1.3. **Competitive environment** – there will be no material change to the competitive dynamics of the markets in which SLI Group operates or sells its products, including any material change in competitor activity. No new entrants will materially change the competitive environment. The nature and extent of competition in any new markets which SLI Group enters will be comparable to that currently exhibited in its existing markets.
- A.6.1.1. **Market conditions** – there will be no material change in the general market structure, technology relations, third party relationships (including partners) or employee environments other than for a continuation of the structural shift of businesses and consumers from traditional to online channels.
- A.6.1.2. **Taxation** – there will be no material change to the income tax, excise tax or goods and services tax regime in any country or state where SLI Group operates or sells its products, including no change to the corporate tax rates in those countries.
- A.6.1.3. **Management of SLI Group** – no key Directors or key personnel will leave SLI Group, SLI will be able to recruit sufficient personnel, and management resources will be sufficient for SLI Group's requirements, including executing on growth initiatives.
- A.6.1.4. **Operating environment** – there will be no material costs incurred through either industrial or contractual disputes.
- A.6.1.5. **Disruption to operations** – there will be no material disruption to operations, including through natural disasters, fires or explosions, contention around intellectual property, information systems failure, data corruption, software defects or errors, product quality issues, security or privacy breaches or through normal hazards associated with SLI Group's activities (including disruptions to or affecting any of SLI Group's key clients).
- A.6.1.6. **Customers and key suppliers** – there will be no loss of customers, or key suppliers, except as described below in relation to customer retention. The lead time for bringing on new customers will be as described below.

### A.6.2. Specific Assumptions

#### A.6.2.1. Accounting Policies

SLI Group's accounting policies will be the same as the existing accounting policies for SLI, which are set out in the historical financial statements for the year to 30 June 2012 and included in the Prospectus. It is assumed that these accounting policies remain consistent throughout the periods covered by the prospective financial statements, except for the new policy discussed below. It is also assumed there will be no material change in New Zealand Generally Accepted Accounting Practice during this period.

SLI Group intends to adopt the following accounting policy.

### **Share Capital**

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Transaction costs related to the listing of new shares and the simultaneous listing of existing shares are allocated to those transactions on a proportional basis. Transaction costs relating to the listing of existing shares are not considered costs of an equity instrument as no equity instrument is issued, and consequently costs are recognised as an expense in the Statement of Comprehensive Income when incurred. Transaction costs related to the issue of new share capital are recognised directly in equity as a reduction of the share proceeds received.

#### **A.6.3. Revenue**

SLI Group's actual revenue for the last year and forecast revenue is set out in the table below:

	SLI Actual 12 months to 30-Jun-12 000's	SLI Group Pro forma PFI 12 months to 30-Jun-13 000's	SLI Group PFI 12 months to 30-Jun-14 000's
Learning Search and related products	11,526	14,141	17,071
Site Champion	3,246	3,745	5,010
Related Search	752	400	-
New Products	-	-	118
	<b>15,524</b>	<b>18,285</b>	<b>22,200</b>

SLI Group's ARR for the last year and forecast ARR is set out in the table below:

	SLI Actual 30-Jun-12 000's	SLI Group Pro forma PFI 30-Jun-13 000's	SLI Group PFI 30-Jun-14 000's
Learning Search and related products	12,067	15,032	19,696
Site Champion	3,401	4,131	5,923
Related Search	-	-	-
New Products	-	-	264
	<b>15,468</b>	<b>19,163</b>	<b>25,884</b>

### **Products**

SLI Group currently has two main product families being Learning Search (this includes related products: Learning Navigation, Rich Auto Complete and Mobile) and Site Champion. The Learning Search suite of products currently contributes approximately 80% of revenue and Site Champion contributes approximately 20% of revenue. This relative split is expected to continue throughout the Prospective Period. Currently approximately half of customers use the Site Champion services. All Site Champion customers have the Learning Search product.

As at 28 February 2013, SLI has ARR of NZ\$17.7 million. The ARR run rate at 30 June 2011 and 30 June 2012 was NZ\$12.1 million and NZ\$15.5 million respectively. SLI Group is forecasting ARR of NZ \$19.2 million at June 2013 and NZ\$25.9 million at June 2014.

SLI operates a subscription-based revenue model where customers sign up for services and pay for those on a regular schedule, generally monthly, rather than in a single upfront payment. SLI Group is not expecting to change the revenue model away from a recurring basis unless a new product has a requirement for a different approach.

SLI has developed, and continues to develop, a number of new products in areas relating to their existing products and targeted at SLI Group's existing customers and markets. During the Prospective Period it is anticipated that SLI Group will be developing and selling some of these new products. The existing customer base provides an effective means of promoting and selling new products that

supplement existing products or provide new benefits for customers. Given the subscriptions revenue model, the contribution from new products is anticipated to contribute less than one percent of reported revenue in FY14. The revenue from new products is expected to increase in years post the Prospective Period.

It is assumed that during the Prospective Period the sales prices for SLI Group's products do not change from the current 2013 price lists.

#### *Learning Search*

Each customer is charged a monthly subscription fee according to a tiered structure, primarily based on a range for the anticipated number of queries performed. Consequently, as the customer generates more searches through its site, the monthly subscription rate increases as they step through tiers. There are additional charges for some of the additional products that customers may add on to the base Learning Search product. These are set out below.

It is assumed that the initial monthly fee for new customers signed during the Prospective Period is approximately the same as the average initial monthly fee charged to new customers over the 24 month period ending February 2013.

Historically, the monthly revenue from Learning Search customers increases on average by approximately 80% over the first 36 months after sale. This increase is driven by:

- selling other Learning Search related products, such as: Learning Navigation, Rich Auto Complete and Mobile
- customers adding additional sites
- increases in usage of the core Learning Search product (i.e. an increase in queries moves the customer through price tiers).

There is further potential for growth after the 36 month period but this additional upside is not modelled in the Prospective Period. The forecast assumes penetration rates for these new products continue at the rates that have been achieved historically throughout the Prospective Period. However, there are a number of opportunities for SLI Group to increase revenues through higher penetration of the existing suite of products to current and new customers. This potential increase in revenue from any increase in penetration is not reflected in the forecasts for the Prospective Period.

It is assumed that revenues from customers of less than 36 months duration and new customers acquired during the Prospective Period increase in the same manner as this historical profile.

#### *Site Champion*

Site Champion revenue is performance-based. The customer is charged a fee based on the number of referrals to pages created by the Site Champion service, a portion of which go on to purchase products. It takes time for the Site Champion pages to be created, indexed and to rank in the search engines. As a consequence of this, the average Site Champion revenue per customer increases over time as the referrals increase. It is assumed that for recent new Site Champion customers and new customers acquired during the Prospective Period the revenue ramp up will be the same as this historical experience. It is also assumed the uptake of Site Champion will be consistent with the historical uptake (i.e. approximately half of all customers will use Site Champion). However, SLI Group has strategies in place to try to increase these penetration rates. The pricing of Site Champion is being reviewed with a view to increase the charges.

#### *Related Search*

Related Search is a search suggestions tool for web search portals that improves the user experience on sites by presenting their visitors related search terms. The revenue streams from Related Search are somewhat sporadic in nature in that SLI Group has often at any one time received significant revenue from only one customer. In FY11 SLI Group had revenue of \$121,000 from the Related Search product, FY12 \$752,000 and FY13 revenue forecast is \$400,000. Given the sporadic nature of revenues from this product and the stage of its product life cycle SLI Group is not forecasting to earn revenues going forward. Any comparisons to underlying growth of SLI Group's business should exclude the Related Search component as this is not a core product for the business.

## **Customers**

The growth in SLI Group's revenue has historically been determined by the number of sales staff in each market and the productivity of the respective sales staff. It is assumed that increasing sales staff will lead to growth in customers consistent with historic evidence of approximately one new customer per sales representative per month. At the start of 2012 the Company implemented a range of new sales processes including adding a new sales manager in the US. This resulted in an increase in the number of new customers being signed up per sales representative to approximately one per month and it is on the basis of calendar year 2012 that the number of sales per representative is based on for the Prospective Period. Note that there is a delay between signing up customers and converting to paying customers.

As at 28 February 2013, SLI Group had over 375 customers and is forecasting to increase to approximately 420 by June 2013. There is good visibility of the number of customers that will go live between now and June 2013. SLI currently has contracts signed but awaiting implementation that will generate annual recurring revenue of \$2.1 million. SLI is also in advanced stages of negotiation with prospects that would result in an additional \$2.9 million of annual recurring revenue if 100% converted. Based on historical performance the Company expects that two thirds of these would convert to signed customers.

SLI Group is forecasting customer numbers of 580 by June 2014. SLI Group had 300 customers at June 2011 and 338 customers at June 2012. The relatively small increase in customer numbers over the 12 months to June 2012 was offset by the higher average amount each customer was paying for services. At June 2011 an average sized customer was paying US\$34,500 per annum whereas at June 2012 the average was US\$41,000 per annum.

In general, it is assumed that sales staff will continue to sell at the same rate as they have done in calendar year 2012. It is also assumed that there is an eight month lead time between the time a new salesperson commences employment with SLI and the time that salesperson generates revenue. This is broadly consistent with SLI's historical experience, although SLI expects that new hiring and training practices would have the potential to shorten the lead time.

The average initial sell price is assumed to stay constant at current levels – there is a potential for this to increase if SLI Group signs up a higher proportion of large customers.

The assumptions regarding the increase in the number of customers are based on the different geographic areas, as explained below. It is assumed that each new customer purchases Learning Search and that approximately half purchase Site Champion. This is based on the current proportion of customers that have both Learning Search and Site Champion.

## **Customer retention**

SLI has enjoyed high rates of customer retention, which it attributes to the effectiveness of its products and high rates of customer satisfaction. SLI's retention rates on core products have averaged approximately 90% by value over the last five years (and approximately 85% by number of customers in the last two years) to 28 February 2013 and has been 92% over the last financial year and 90% per annum (annualised) over the eight months to 28 February 2013. Customer retention rates on core products have fluctuated between 93% and 83% by value over the last five financial years – with the low point of 83% occurring in FY09, when customers were heavily impacted by the global financial crisis. Customer retention was also slightly lower in FY11 in part because service levels were lower due to the Christchurch earthquakes.

Most SLI customers who terminate their agreement do so when they change ownership, change ecommerce platforms, are forced to cost-cut and discontinue site search, use other alternatives (e.g. open-source or a competitor), or they close operations due to financial hardship.

SLI expects to maintain its strong retention rates by continuing to provide customers with high levels of service and support as well as new ecommerce capabilities and functionality. Accordingly, it is assumed that retention rates of approximately 90% per annum by value on core products continue throughout the Prospective Period.

### ***Customer Geography and associated staffing***

SLI Group sells primarily via a direct sales methodology with the majority of sales historically being generated via its direct sales force. The percentage of sales made via resellers is expected to increase with SLI Group's geographic expansion into new markets and SLI Group will use resellers along with direct sales teams to sell into these new markets. See detail on the estimated relative size of these markets in section 4.1 "Online retail".

#### ***United States***

The US is SLI Group's largest market. Sales to the US are denominated in US dollars.

The sales function is staffed by nine full time in-market sales reps who hold quota targets for sales. SLI considers that there is still strong growth potential in this market. In order to grow SLI Group's US revenues there will be an additional two quota carrying sales staff added in FY13 and a further six at the start of FY14, to take the total headcount to 17 at the end of the Prospective Period.

#### ***United Kingdom***

The UK is SLI Group's second largest market. Sales are denominated in British pounds. The sales function is staffed by four full time in-market sales representatives. It is expected there will be an additional two sales representatives employed over the Prospective Period to take the total UK sales headcount to six at the end of the Prospective Period.

#### ***Australia/New Zealand***

Australia and New Zealand are SLI Group's third largest market. The region is managed by two full time in-market quota carrying staff. It is expected there will be one additional quota carrying sales staff in FY13 and a further one at the start of FY14 to take the total headcount to four at the end of the Prospective Period. Sales are denominated in Australian or New Zealand dollars in these markets.

### ***New Markets***

SLI has identified a range of new markets where it intends to build its presence. SLI has recently entered the Brazilian market with early success. This market has been identified as a market with strong demographic trends – specifically a growing middle class with good internet use leading to a rapidly expanding ecommerce sector - but the market is currently underserved by SLI's competitors.

The sales function for Brazil is currently managed by one staff member based in the US. It is expected there will be an additional sales representative employed in FY13 and a further one in mid FY14 to take the total Brazilian sales representative headcount to three at the end of the Prospective Period.

Japan has been identified as the best fit for SLI to enter as the next new market. SLI plans to expand into Japan during FY14 with two sales representatives to be added.

It is assumed that the rate of sales by sales representatives into these markets (including Japan and Brazil) will be less than in other markets, as these are markets in which SLI is less established.

Current ARR for new markets is \$750,000 and is expected to increase to \$1.2 million by June 2014.

For the purposes of these forecasts sales are denominated in US dollars in both of these markets.

### ***Other Operating Income***

Other operating income is made up of government grants and insurance proceeds. The total insurance proceeds were \$368,000 in FY13 with no other income from insurance is forecast in the Prospective Period. It is assumed SLI Group will receive \$166,000 of government grants in FY13 and a further \$270,000 in FY14. The grants are based on agreements already signed with the New Zealand Government but there may be some uncertainty to receiving 100% of these amounts as there is some open interpretation on the eligibility of some costs.

#### A.6.4. Operating Expenses

SLI's historical and forecast total operating expenses in the classification categories that will be reported/have been reported in the statutory accounts are set out in the table below:

	SLI Actual 12 months to 30-Jun-12 000's	SLI Group Pro forma PFI 12 months to 30-Jun-13 000's	SLI Group PFI 12 months to 30-Jun-14 000's
Operating Expenses	6,045	9,041	12,278
Employee Expenses	9,409	11,930	17,504
<b>Total Costs</b>	<b>15,454</b>	<b>20,971</b>	<b>29,782</b>

These expense categories can be broken down into the following categories that should provide more meaningful detail on the forecast operating expenses of SLI Group:

	SLI Actual 12 months to 30-Jun-12 000's	SLI Group Pro forma PFI 12 months to 30-Jun-13 000's	SLI Group PFI 12 months to 30-Jun-14 000's
<b>Delivery Costs</b>			
Hosting Costs	1,267	1,443	1,776
Wages cost for Client facing Engineers and CSG	1,881	2,449	3,588
Wages cost for Development staff	257	296	381
<b>Growth Costs</b>			
Marketing	2,203	2,601	4,361
New Product Development	1,027	1,183	1,524
Sales staff wages and commissions	3,373	4,171	7,019
Professional fees / contractors costs	120	541	1,434
Wages cost for Client facing Engineers and CSG	806	1,050	1,538
<b>Other Costs</b>			
Professional Fees and Contractors	628	690	1,308
Lease Expenses	533	683	1,063
Other Wages	1,571	2,123	2,402
Other Expenses	1,788	2,535	3,388
IPO Costs	-	1,206	-
<b>Total costs added through</b>	<b>15,454</b>	<b>20,971</b>	<b>29,782</b>

The costs are split out above into the categories of: Delivery Costs, which are the costs of maintaining services for customers after the customers have gone through an implementation process; Growth Costs, being the costs of growing SLI Group's customer base and Other Costs, predominantly being overhead costs. Specific details on these costs are set out below. In all wage and salary costs below, it is assumed there is a general cost of living increase in wage rates in July 2013.

#### **Delivery Costs**

- Hosting costs are the lease costs paid to external providers of hardware and bandwidth used to provide search services. The technology around the use of this hardware provides redundant and load balanced services to customers. The hosting costs are correlated with changes in revenue, largely because both revenue and hosting requirements increase with the increase in the volume of traffic by customers. The forecast costs are based on the historical hosting costs as a proportion of revenue.
- Wage costs for Customer Facing Engineers and the Customer Service Group (CSG) are the staff costs for on-going support for customers. The forecasts of these costs are based on 70% of the total cost of the existing customer facing engineers and CSG headcount together with additions to these headcount costs at salary rates similar to the rates for existing staff.

- iii. Wages costs for development staff is 20% of the staff costs of the R&D team as described below. These costs are for staff involved in enhancements to products required to retain existing customers.

### **Growth Costs**

- i. Marketing expenses include costs of trade shows, creation of marketing collateral, PR and advertising, marketing travel and accommodation and internal marketing staff wages costs. The forecasts of these external costs assume an increase in historical marketing expenditure in existing markets as well as expenditure in new markets that SLI Group intends to target. The forecasts are based on SLI Group's expectations of the level of marketing expenditure required to support the sales functions anticipated in those markets. The internal wages costs are staff costs of existing marketing staff together with additions to these headcount costs at salary rates similar to the rates for existing staff.
- ii. New Product Development costs are wages costs for staff involved in new product development and enhancements to existing products. The principal difference to the same cost category in Delivery Costs is the prospect of incremental revenue. The forecasts of these costs are based on the existing R&D headcount together with additions to these headcount costs at salary rates similar to the rates for existing staff. SLI Group currently has 14 staff in the R&D function and expects to increase this to 21 by the end of the Prospective Period.
- iii. Sales staff wages and commissions include base salaries and commissions for sales staff that have a sales quota. Commissions are paid to sales representatives on signing up a new customer, on any subsequent upsells and in some cases on the continuing monthly revenue from those customers. The forecasts are based on initial commissions of 20% of the committed annual revenue in the first year of initial sales and on any upsells, and 3% of the revenue thereafter. The modelling is a simplification of existing commission schemes but materially reflects the current commissions that are being paid. Given the recurring revenue model and SLI Group's historic retention rates, the costs of current commissions and current sales people's salaries are expected to translate into future revenue for SLI Group.
- iv. Professional Fees and Contractors Costs include recruitment costs of increasing the headcount. Recruitment costs are based on an average of \$15,000 per staff member. The other cost in this category is the cost to establish a market presence in the Brazilian and Japanese markets and is estimated at \$700,000 in FY14.
- v. Wage costs for client facing engineers and CSG are the staff costs for implementations on new customers. The forecasts of these costs are based on 30% of the total cost of existing client facing engineers and CSG headcount working on new customers together with additions to these headcount costs at salary rates similar to the rates for existing staff.

### **Other Costs**

- i. Professional Fees and Contractors Costs includes costs of professional advisors and contractors, consulting fees, directors' fees and public company costs (NZX fees, registry fees and investor relations costs). These costs are based on current arrangements with contractors and directors and quotes and price lists for public company costs.
- ii. SLI Group leases offices in New Zealand, the US, UK and Australia. It is anticipated that offices will be leased in two new markets in the Prospective Period. The forecast lease costs are based on existing lease costs for existing arrangements which run beyond the Prospective Period. The estimates for costs for the two markets that are being considered are based on costs incurred in other relevant markets and scaled for the size of office required.
- iii. Other Wages are wages for the CEO, finance, administrative, HR and product management staff. The forecasts of these costs are based on the existing headcount together with anticipated additions to this staff level at salary rates similar to the rates for existing staff.
- iv. The material items in other expenses include travel and accommodation costs, medical cover for US staff, communications costs and software licence fees. These costs are assumed to increase



in line with headcount costs based on historical correlations between these costs and employee remuneration costs.

Depreciation and amortisation is also included in this expense category. Depreciation expense in the Prospective Period is determined on a materially consistent basis as SLI Group has historically calculated depreciation.

SLI Group amortises search engine patents and software costs. Amortisation in the Prospective Period is based on the current rate of amortisation. There is no capitalisation of any patent or software costs in the Prospective Period.

v. IPO fees are discussed below in paragraph A.6.7

All operating expenses are forecast in the currencies in which they are expected to be denominated, and then converted into New Zealand dollars.

**Research and Development Accounting Policy**

Research costs are expensed as incurred. Development costs that meet the recognition criteria under NZ IAS 38 are capitalised. Historically a substantial portion of development cost is incurred in maintaining the current software and therefore development costs for specific projects have not met the recognition criteria. On this basis no development costs have been capitalised.

SLI Group expects its development costs to be a similar nature to what has historically been incurred and accordingly has not forecast for any capitalisation of research and development costs in the Prospective Period. SLI Group will comply with all appropriate accounting standards and in the event there is a change in these standards, or a change in interpretation, that requires SLI Group to capitalise research and development costs in the future, SLI Group will comply with the standards, which may result in variances between the prospective financial statements and the actual results.

**A.6.5. Capital expenditure and depreciation**

The underlying business has relatively low capital expenditure requirements. The forecast capital expenditure of \$1,212,000 in FY13 is based on the capital expenditure incurred to February 2013 and known commitments for the remainder of the financial year. Capex for FY13 is higher than expected for a normal year as this included the fit-out of new offices in Christchurch. The forecast capital expenditure of \$942,000 in FY14 is based on historical levels of capital expenditure, plus \$475,000 of one-off fit-out costs for offices in two new markets. The actual costs SLI Group ultimately incurs for any such fit-outs will be dependent on lease negotiations with local landlords.

**A.6.6. Dividends**

It is assumed that no dividends will be paid in the Prospective Period.

**A.6.7. Capital Raising**

It is assumed that gross proceeds of \$15 million will be received from the Offer and that there will be an additional \$12 million of stock sold by existing SLI stockholders for cash to be funded by the Offer. SLI Group expects net costs directly attributable to the Offer of \$2.1 million, including: NZX firm brokerage and commission fees, legal fees, NZX listing fees, share registry costs, accounting fees, advertising costs, offer document design, printing costs and postage and courier costs relating to the Offer, based on fee schedules, quotes and estimates. Of this amount \$875,000 will be accounted for as a reduction in equity and \$1.2 million will be expensed to the Income Statement in accordance with the intended accounting policy set out above. The anticipated Offer costs are based on estimates received from the Company's professional advisors and other external suppliers. Offer costs have been calculated based on an offer size of \$27 million. Any increase or reduction in the offer size will vary brokerage and other advisory fees.

The capital raising proceeds will be held on call pending use. An interest rate of 2% has been assumed, which is based on an average of call deposit rates that SLI Group is earning with its banks.

In addition, \$1.139 million was raised by SLI in the 8 months ended 28 February 2013 under a range of transactions.

**A.6.8. Debt**

SLI Group has no debt facilities.

**A.6.9. Exchange Rates**

The majority of SLI Group's revenue is denominated in currencies other than the NZ dollar, the largest single foreign exchange exposure being against the US dollar with approximately 70% of sales earned in US currency in FY12. SLI Group also has exposure to British pounds and Australian dollars. The forecasts use the following currency exchange rates against the NZ dollar for translating trading results and balance sheet amounts in the Prospective Period: US\$0.84, A\$0.81 and GBP0.545.

The assumed exchange rates are based on actual exchange rates for the current financial year to date and recent exchange rate forecasts and forward rates from a selection of major New Zealand trading banks and economic institutions.

SLI Group does not hedge its foreign currency exposures. However, SLI Group also incurs a significant portion of its operating costs in US dollars, with approximately 45% of SLI Group costs in US Dollars in FY12. This provides a partial hedge against SLI Group's US Dollar and, potentially, other currency exposure.

**A.6.10. Taxation**

It is the Company's view that shareholder continuity for retention of tax losses is likely to be breached during the Prospective Period. If a shareholder continuity breach occurs then SLI Group may not necessarily lose all tax losses available to carry forward. The quantum of tax losses that may be lost will depend on the degree of shareholder change that occurs. The tax benefit of losses has not been recognised in the prospective financial statements.

While SLI Group is making losses at a total group level there will be some tax payable in other tax jurisdictions and this is provided for in the forecast in a manner consistent with how tax has been treated historically.

**A.6.11. Employee and Director Share and Option Plans**

The prospective financial statements include the financial impact of non-recourse loans to the independent directors of \$600,000 for the purchase of redeemable preferences shares under the Offer (see section 8.3 "Directors Interests").

The terms of these loans are interest free with the loans being repaid in three years, or at a later date specified by the Board (excluding any director advanced a limited recourse loan). The loans are non-recourse to the independent directors but are secured against the shares acquired with the loan proceeds. If an independent director resigns the loan remains in place. These arrangements are accounted for as share based payments.

Additionally there are options that have been issued by SLI to employees under the two share option schemes (see section 8.4) and it is assumed that SLI will continue to issue options to new employees up to the time of the IPO. At the time of the IPO these options will be assumed by the Company. It is assumed that after the Offer the Company will continue to issue options to new employees on a materially similar basis to the current process.

The fair value charge for the share based payments (both the share based payments for the directors and employees) are calculated using the Black Scholes pricing model assuming a stock volatility of 30%. These charges are expensed over the vesting period. On the basis of these assumptions, the amounts to be expensed are expected to be \$354,000 and \$335,000 in Pro Forma FY13 and FY14 respectively.

It is assumed that none of the options that have already vested, or those that will vest during the Prospective Period will be exercised for cash consideration. It is assumed that since very few of the

vested options expire in the Prospective Period (only 86,000 options, or less than 5% of total current options, will expire), the majority of option holders will retain their options and will not seek to cash-out their options early. In any event, if options were expired, the effect on the financial statements would only affect the balance sheet (increase cash and total equity for the amount of the exercise paid) and not the income statement.

#### A.6.12. **Working Capital**

It is forecast that accounts receivable balances will grow in proportion to revenue increases, which is SLI Group's experience historically. Unless otherwise agreed, SLI Group anticipates settling all non-salary and wage payables in the month following invoice. Therefore payables are forecast to grow proportionately with monthly purchases. Income in advance is forecast to be constant and any monthly variance is assumed to be offset by compensating fluctuations in cash and debtors balances.

#### A.6.13. **Sensitivity Analysis**

The prospective financial statements are sensitive to variations in certain assumptions used in their preparation. A summary of the likely effect that variations to certain assumptions may have on the prospective revenue, ARR and EBITDA for FY14 is detailed below. The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes but are for information purposes to allow potential investors to gain an understanding of potential sensitivities of financial outcomes to changes in these key assumptions.

Care should be taken in interpreting the information set out below. Each movement in an assumption is treated in isolation from possible movements in other assumptions, which is not likely to be the case. Movements in one assumption may have offsetting or compounding effects on other variables, the impact of which is not reflected in the prospective financial statements. In addition, it is possible that more than one assumption may move at any point in time, giving rise to cumulative effects, which are not reflected in the prospective financial statements.

Four key factors that are considered to have significant potential impact on projected financial performance of SLI Group are:

##### ***Movement in the NZ dollar exchange rate***

The exchange rate assumptions are set out above. If the exchange rates change then this will impact the value of foreign currency denominated sales and expenses as recorded in New Zealand dollars. The sensitivity analysis table shows the estimated impact of a change in the NZ dollar against currencies that SLI Group has material exposures to.

The sensitivities do not reflect any currency hedging programmes that may be put in place. SLI Group does not currently have a currency hedging policy.

##### ***Sales representative headcount***

SLI Group's ability to attract new customers is influenced by the rate of hiring new sales representatives and the sales productivity of new and existing sales representatives. There is an eight month lead time between the time a new sales representative is hired and the time SLI Group expects to begin earning revenue from customers the sales representative signs up. This means that any change in the rate of hires of sales representatives will only have a relatively small impact on reported revenue in the Prospective Period. Given the eight month lead time any delay in hiring sales staff has a short term favourable impact on EBITDA (as costs are incurred for eight months while there are no corresponding revenues). However, the impact on ARR, as is set out below, reflects more appropriately the impact that any changes in hiring will have for the business's revenue over the longer term. The table below shows the change in the number of headcount hired assuming the same phasing but with a pro-rated adjustment depending on the sensitivity adjustment. By way of example in the negative 20% column if SLI had planned to hire five representatives in a particular month the negative 20% scenario would have them hiring four representatives in that month.

##### ***Sales representative productivity***

The rate at which sales representatives can sign new customers will also have an impact on SLI Group's revenue over the longer term. The tables below show this impact on revenue, ARR and EBITDA.

**Customer retention rate**

If the level of customer retention is different to the assumed rate then the level of revenue, ARR and EBITDA will be impacted as set out below.

The impacts on revenue, ARR and EBITDA of variations to the assumptions regarding the four factors listed above are set out in the table below:

Assumption			Increase / (decrease) in revenue for a change in assumptions for FY14 (\$'000)		
			Base PFI Assumptions / Revenue		
Change in NZ\$ against the US\$ GBP and AU\$	US\$0.88 GBP0.575 AU\$0.85 (1,033)	US\$0.86 GBP0.56 AU\$0.83 (529)	US\$0.84 GBP0.545 AU\$0.81 22,200	US\$0.82 GBP0.53 AU\$0.79 +556	US\$0.80 GBP0.515 AU\$0.77 +1,139
Sales representative headcount additions	-20% (80)	-10% (40)	See paragraph A.6.3 22,200	+10% 40	+20% 79
Sales Rep Productivity	-20% (890)	-10% (445)	See paragraph A.6.3 22,200	+10% +445	+20% +890
Customer annual retention rate	80% (2,249)	85% (1,209)	90.8% 22,200	95% +872	

Assumption			Increase / (decrease) in ARR for a change in assumptions for FY14 (\$'000)		
			Base PFI Assumptions / ARR		
Change in NZ\$ against the US\$, GBP and AU\$	US\$0.88 GBP0.575 AU\$0.85 (1,201)	US\$0.86 GBP0.56 AU\$0.83 (615)	US\$0.84 GBP0.545 AU\$0.81 25,884	US\$0.82 GBP0.53 AU\$0.79 +645	US\$0.80 GBP0.515 AU\$0.77 +1,324
Sales representative headcount additions	-20% (350)	-10% (175)	See paragraph A.6.3 25,884	+10% +175	+20% +350
Sales Rep Productivity	-20% (1,616)	-10% (808)	See paragraph A.6.3 25,884	+10% +808	+20% +1,616
Customer annual retention rate	80% (3,387)	85% (1,839)	90.8% 25,884	95% +1,350	

Assumption			Increase / (decrease) in EBITDA for a change in assumptions for FY14 (\$'000)		
			Base PFI Assumptions / EBITDA		
Change in NZ\$ against the US\$, GBP and AU\$	US\$0.88	US\$0.86	US\$0.84	US\$0.82	US\$0.80
	GBP0.575	GBP0.56	GBP0.545	GBP0.53	GBP0.515
	AU\$0.85	AU\$0.83	AU\$0.81	AU\$0.79	AU\$0.77
	(118)	(61)	(6,874)	+64	+130
Sales representative headcount additions	-20%	-10%	See paragraph A.6.3	+10%	+20%
	+339	+171	(6,874)	(171)	(343)
Sales Rep Productivity	-20%	-10%	See paragraph A.6.3	+10%	+20%
	(482)	(241)	(6,874)	+241	+482
Customer annual retention rate	80%	85%	90.8%	95%	
	(1,761)	(945)	(6,874)	+682	

Given the short time period covered by the Pro Forma FY13 forecasts and the level of certainty provided by the recurring revenue stream, it is unlikely that there will be a material variance in those periods.

The above sensitivities also do not take into account any mitigating measure that SLI Group may take. In the case of a significant change in exchange rate, SLI Group may choose to change the costs being spent in certain jurisdictions and would endeavour to stimulate demand through measured additional sales and marketing initiatives.

Investors should also refer to the discussion of these factors set out under the heading “**What are my risks**” in the “Answers to Important Questions” section at the front of this Offer Document.

## 10. TAXATION SUMMARY

In this section, “you” refers to the person who acquires the Shares.

Tax will affect your return from the Shares.

The following comments are of a general nature of application to New Zealand tax resident investors. They are based on the law at the date of this Offer Document and do not deal with your specific circumstances.

You should seek your own tax advice in relation to your Shares.

### ***Are you tax resident in New Zealand?***

Your tax residence will affect how New Zealand taxes apply to your return on the Shares. Natural persons who have:

- a permanent place of abode in New Zealand; and/or
- been present in New Zealand for more than 183 days in a 12 month period, and not subsequently absent from New Zealand for more than 325 days in a 12 month period,

are New Zealand tax resident.

A company is tax resident in New Zealand if it is incorporated in New Zealand, has its head office or centre of management in New Zealand, or if its directors exercise control of the company in New Zealand.

Generally Shares held by a trustee will be treated as held by a New Zealand resident if a New Zealand resident has contributed to the trust.

### **Tax implications for New Zealand tax resident Shareholders**

The Company will be treated as if it were tax resident in the United States of America as a result of the Company's purchase of SLI being treated as a corporate inversion for the purposes of United States domestic tax legislation. As a result, investors should assume that the Company will be treated as a foreign company for New Zealand income tax purposes, as it may not be treated as a resident of New Zealand for the purposes of the tax treaty between New Zealand and the United States of America. The Company does not believe this treatment is appropriate and is taking steps to confirm its position.

New Zealand's foreign investment fund (FIF) tax regime applies to shares held by a New Zealand tax resident shareholder in a foreign company unless the shareholder is a natural person (but not a trustee, other than for certain very limited purposes) and the total cost of all interests owned by the shareholder (either directly or through a custodian holding as bare trustee) which would otherwise be subject to the FIF regime is \$50,000 or less.

Under the FIF regime, shareholders are generally required to use the fair dividend rate (*FDR*) method to calculate assessable income from shares. Income under the FDR method in an income year is:

- (a) 5% of the market value of shares (measured in NZ Dollars) held by the shareholder at the beginning of the income year (regardless of whether all or some of those shares are subsequently sold during the year); plus
- (b) an amount referred to as the ‘quick sale adjustment’ if the shareholder has bought and later sold shares during the year.

To calculate any ‘quick sale adjustment’ the shareholder first needs to calculate its ‘peak holding adjustment’. To calculate its peak holding adjustment with respect to shares, the shareholder must calculate the excess (if any) of the greatest number of Shares held at any point during the income year over the greater of:

- (i) the number of shares held at the beginning of the income year; and
- (ii) the number of shares held at the end of the income year.

The shareholder must then multiply any such excess by the average cost of the shares it acquired during the year. The peak holding adjustment is 5% of this amount.

The 'quick sale adjustment' amount which then must be returned by the shareholder is the lesser of:

- (iii) the peak holding adjustment for the shares and all other FIF interests for which a quick sale adjustment must be calculated; and
- (iv) the profit (if any) made on the sale of shares (or other interests) acquired during the year, plus any distributions received on those shares (or other interests).

A shareholder is subject to tax on this assessable income at their marginal rate.

Any dividends received by a shareholder and any sales or redemptions are ignored under the FDR method (except when the sale or redemption occurs in the same year as Shares are acquired). A modified version of the above method is used by managed funds.

If a shareholder is a natural person or a family trust and can show that the sum of:

- (a) the total increase in the market value of all the shareholder's FIF interests (including the Shares, but excluding certain debt-like FIF interests); plus
- (b) any realised gains and distributions received from this pool of interests,

is less than the shareholder's total income from the pool under the FDR method, the shareholder can elect to only be subject to tax on this lesser amount. The shareholder cannot claim a deduction for any loss however.

A shareholder who is not a portfolio investment entity and who, together with its associates, owns 10% or more of a foreign company may also elect to be taxed under the attributable FIF income method. Under this method, the shareholder must return as income in their own tax return all of the passive FIF income from the foreign company. This is subject to the requirement that the shareholder be able to provide to the Commissioner of Inland Revenue sufficient information to check their attributable FIF calculations. Such shareholders should obtain their own advice concerning the taxation of their shares.

### ***Distributions***

The Directors have adopted a policy that there will not be any dividend payments or other distributions made for the foreseeable future as any surplus funds will be retained in order to capitalise on immediate and future growth opportunities.

However, if the Company does make distributions, then in addition to usual New Zealand tax implications, investors may also be subject to US withholding tax.

### ***Sale or disposal of Shares***

Although New Zealand does not have a capital gains tax, there are instances where you will be subject to New Zealand tax on gains you make on the sale or disposal of your Shares. You must consider your individual circumstances to determine whether any gain you make on the sale or disposal of your Shares is taxable. Generally, if you are not subject to the FDR tax method under the FIF rules, you will be subject to tax on any gain arising from the sale or disposal of your Shares if you:

- are in the business of dealing in shares;
- acquire your Shares as part of a profit making undertaking or scheme; or
- acquire your Shares with the dominant purpose of selling them.

Your taxable gain (or tax deductible loss) will be the difference between the cost of your Shares and the market value of the consideration you receive for the Shares.

**Tax profile of the Company**

The Company is liable for tax on its worldwide income in both New Zealand and the United States of America, as a result of being a tax resident in both jurisdictions. While the tax legislation in both jurisdictions provides some recognition for taxes paid in the other jurisdiction (and there is a Double Tax Agreement in force between New Zealand and the United States of America), it is likely that the Company will be subject to tax on any earnings at the higher of the tax rates applying in New Zealand and the United States of America.

If the Company is treated as a foreign company, the Company will not be eligible to maintain an imputation credit account.





SLI Systems Limited  
EPIC Building, Manchester St  
Christchurch 8011  
New Zealand

6 May 2013

Dear Directors

***Independent Auditors' Report for Inclusion in SLI Systems Limited's Prospectus***

As auditors of SLI Systems Limited (the Company) we have prepared this report pursuant to clause 28 of Schedule 1 of the Securities Regulations 2009 for inclusion in a prospectus issued by the Company to be dated 6 May 2013 (the Prospectus).

The Prospectus includes:

- (a) summary financial statements of S.L.I. Systems, Inc (SLI), a business to be acquired by the Company as part of the initial public offering, which comprise summary statements of financial position as at 30 June 2008, 30 June 2009, 30 June 2010, 30 June 2011 and 30 June 2012, summary statements of comprehensive income, summary statements of changes in equity and summary statements of cash flows for the periods then ended, as required by clause 12(3)(d) of Schedule 1 of the Securities Regulations 2009;
- (b) the prospective financial information, comprising a prospective statement of financial position as at 30 June 2013 and a prospective statement of financial position, a prospective statement of comprehensive income, a prospective statement of changes in equity and a prospective statement of cash flows, of the Company and its subsidiary (the Group) for the year ending 30 June 2014, including the assumptions on which they are based, as required by clause 11 of Schedule 1 of the Securities Regulations 2009; and
- (c) the pro forma prospective financial information, comprising a pro forma prospective statement of comprehensive income, a pro forma prospective statement of changes in equity and a pro forma prospective statement of cash flows, of the Company and its subsidiary (the Group) for the year ending 30 June 2013, including the assumptions on which they are based.

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements therefore is not a substitute for reading the full financial statements of SLI.

This report is made solely to the Directors of the Company in accordance with clause 28 of Schedule 1 to the Securities Regulations 2009. Our work has been undertaken so that we might state to the Directors of the Company those matters we are required to state to them in a report from the auditor and for no other purpose. To the fullest extent permitted by law and subject to section 61 of the Securities Act 1978, we do not accept or assume responsibility to anyone other than the Directors for



this report, or for the opinions we have formed. In addition, we take no responsibility for, nor do we report on, any part of the Prospectus not specifically mentioned in our report.

#### ***Directors' Responsibilities***

The Company's Directors are responsible for the preparation and presentation of:

- (a) the summary financial statements of SLI for the periods ended 30 June 2008, 30 June 2009, 30 June 2010, 30 June 2011 and 30 June 2012 as required by clause 12(3)(d) of Schedule 1 of the Securities Regulations 2009;
- (b) the prospective statement of financial position of the Group as at 30 June 2013 and the prospective financial statements of the Group for the year ending 30 June 2014, including the assumptions on which they are based, as required by clause 11 of Schedule 1 of the Securities Regulations 2009; and
- (c) the pro forma prospective financial information of the Group for the year ending 30 June 2013, including the assumptions on which they are based.

#### ***Auditors' Responsibilities***

We are responsible for reporting, in accordance with clause 28 of Schedule 1 of the Securities Regulations 2009, on:

- (a) the amounts included in the summary financial statements of SLI for the periods ended 30 June 2008, 30 June 2009, 30 June 2010, 30 June 2011 and 30 June 2012;
- (b) the prospective statement of financial position as at 30 June 2013 and the prospective financial statements of the Group for the year ending 30 June 2014; and
- (c) the pro forma prospective financial information of the Group for the year ending 30 June 2013.

In respect of the summary financial statements of SLI we have undertaken procedures pursuant to clause 28(1)(h) of Schedule 1 of the Securities Regulations 2009. Our engagement was conducted to obtain reasonable assurance that, in all material respects, the amounts set out in the summary financial statements included in the Prospectus have been correctly taken from the audited financial statements of SLI.

In respect of the prospective statement of financial position as at 30 June 2013, the prospective financial statements for the year ending 30 June 2014 and pro forma prospective financial statements of the Group we have undertaken procedures pursuant to clause 28(2) of Schedule 1 of the Securities Regulations 2009. Our engagement was conducted to obtain reasonable assurance that, in all material respects, so far as the accounting policies and calculations are concerned, the prospective financial statements and pro forma prospective financial statements have been properly compiled on the footing of the assumptions made or adopted by the Directors and are presented on a basis consistent with the accounting policies normally adopted or which are intended to be adopted by the Group.

We have no relationship with or interests in the Company or its subsidiaries other than in our capacities as auditors and providers of other assurance services. These services have not impaired our independence as auditors of the Company and its subsidiaries.





### ***Opinion on SLI's Summary Financial Statements***

In our opinion, and pursuant to clause 28(1)(h) of Schedule 1 of the Securities Regulations 2009, the summary financial statements and applicable disclosures in Appendix A of the Prospectus and taken from the audited financial statements of SLI for the years ended 30 June 2008, 30 June 2009, 30 June 2010, 30 June 2011 and 30 June 2012:

- are consistent, in all material respects, with those audited financial statements; and
- have been correctly taken from the audited financial statements of SLI for those periods from which they were extracted.

### ***Opinion on the Group's Prospective Financial Statements and Pro Forma Prospective Financial Statements***

In our opinion, the pro forma prospective financial statements for the year ending 30 June 2013, the prospective statement of financial position as at 30 June 2013 and the prospective financial statements for the year ending 30 June 2014, and so far as the accounting policies and calculations are concerned, have been properly compiled on the footing of the assumptions made or adopted by the Directors of the Company as set out in Section 9 of this Prospectus and are presented on a basis consistent with the accounting policies normally adopted or as set out in Section 9 which are intended to be adopted by the Group.

Actual results are likely to be different from the prospective financial statements and pro forma prospective financial statements since anticipated events frequently do not occur as expected and the variation could be material. Accordingly, we express no opinion as to whether the results reported in the prospective financial statements and pro forma prospective financial statements will be achieved.

### ***Restriction on Use***

This report has been prepared for inclusion in the Prospectus for the purpose of clause 28 of Schedule 1 to the Securities Regulations 2009. We disclaim any responsibility for reliance on this report or the amounts included in the financial statements for any purpose other than that for which they were prepared.

Yours faithfully

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

Chartered Accountants  
6 May 2013

Auckland

## 12. STATUTORY INFORMATION

The information in this section is included in accordance with the requirements of Schedule 1 to the Securities Regulations 2009.

The paragraph numbers below correspond with the clause numbers of Schedule 1 of the Securities Regulations 2009.

### 1 Main Terms of Offer

The issuer of the Shares is SLI Systems Limited, which has its registered office at 1st Floor, Epic Centre, 78 – 106 Manchester Street, Christchurch, 8011.

The securities being offered are fully paid ordinary shares in the Company. A fuller description of the Shares being offered is set out in section 6 “Details of the Offer”.

The maximum number of Shares being offered under the Broker Firm Offer and the Institutional Firm Offer is 18 million Shares. In addition, further Shares may be issued if employees exercise options at the relevant exercise price, and in the maximum numbers, described in section 8.4 “Share option schemes”.

The Offer Price for the Shares being offered under the Broker Firm Offer and the Institutional Firm Offer is \$1.50 per Share. If the Offer is fully subscribed the gross amount of consideration received by the Company under the Offer will be \$27 million, of which \$12 million in aggregate will be paid to current stock holders in SLI as part consideration for the acquisition of their stock in exchange for Shares in the Company immediately prior to completion of the Offer.

### 2 Name and Address of Offeror

Not applicable.

### 3 Details of Incorporation of the Company

The Company was incorporated in New Zealand on 17 April 2013 under the Companies Act 1993. The Company’s registration number is 4407725. The public register relating to the Company is available for inspection on the Companies Office website at <http://www.business.govt.nz/companies>.

### 4 Principal Subsidiaries of the Company

As at the date of this Offer Document, the Company has no subsidiaries. However S.L.I. Systems, Inc. and SLI Systems (UK) Limited are intended to become wholly-owned subsidiaries on completion of the Offer.

### 5 Names, Addresses and Other Information

The Directors of the Company, and their principal residence as at the date of this Offer Document, are Gregory Evan Cross (Auckland, New Zealand), Matthew Gainsford Houtman (Auckland, New Zealand), Samuel Ian Knowles (Wellington, New Zealand), Steven E Marder (Berkeley, California, United States of America), Shaun William Ryan (Christchurch, New Zealand) and Sarah Louise Smith (Kaiapoi, New Zealand).

The Directors can be contacted at the registered office of the Company at 1st Floor, Epic Centre, 78 – 106 Manchester Street, Christchurch, 8011.

Shaun Ryan is employed by SLI and holds the position of Chief Executive Officer. No Directors are employees of the Company.

S.L.I. Systems, Inc. of 1st Floor, Epic Centre, 78 - 106 Manchester Street, Christchurch, 8011 is the promoter of the Offer.

The name and address of each of the Company’s auditor, securities registrar, Joint Lead Managers, and solicitors, who have been involved in the preparation of this Offer Document, are set out in the Directory.

The Offer is not underwritten.

## 6 Restrictions on Directors' Powers

The Constitution incorporates by reference the requirements of the Listing Rules. The principal restrictions on the powers of the Board imposed by the Constitution (including the requirements of the Listing Rules incorporated into the Constitution) are that the Board may not:

- (a) issue or acquire any equity securities except in accordance with the provisions of the Companies Act, the Constitution and the Listing Rules;
- (b) give financial assistance for the purpose of, or in connection with, the acquisition of equity securities issued or to be issued by the Company, except in limited circumstances and in accordance with the provisions of the Companies Act, the Constitution and the Listing Rules;
- (c) cause the Company to enter into any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of (otherwise than by way of charge) assets of the Company which would change the essential nature of the business of the Company in respect of which the gross value is in excess of 50% of the average market capitalisation of the Company, without the prior approval of an ordinary resolution of Shareholders; and
- (d) allow the Company to enter into certain material transactions with related parties if that related party is, or is likely to become, a direct or indirect party to the material transaction without the prior approval of an ordinary resolution of Shareholders.

In addition, Directors may not vote on any matter in which he or she is interested, unless permitted by the Companies Act and the Listing Rules, where he or she has complied with the relevant provisions and signed a certificate in respect of the matter.

## 7 Substantial Equity Security Holders of Issuer

The following table sets out the names of the largest registered holders of equity securities as at 30 April 2013:

Shareholder	Number of Shares	%
Shaun William Ryan	one	100%

The person named above does not guarantee, or undertake any liability in respect of, the Shares.

## 8 Description of Activities of the Issuing Group

The Company comprises the "issuing group" for the purposes of the Securities Regulations 2009. The Company was incorporated on 17 April 2013 for the purpose of acquiring the common and preferred stock in SLI and completing this Offer. The activities of SLI are described in section 5 "Business Description". The Company has no assets as at the date of this Offer Document.

## 9 Summary Financial Statements

As the Company was incorporated on 17 April 2013, it has not yet completed any accounting period, and accordingly there are no summary financial statements for it to report.

## 10 Prospects and Forecasts

A statement as to the trading prospects of SLI Group, together with any relevant material information that may be relevant to those prospects, is set out under the heading "Business Description" in section 5, and "Prospective Financial Statements" in section 9.

Any special trade factors and risks which could materially affect the prospects of SLI Group and which are not likely to be known or anticipated by the general public are set out under the heading "**What are my risks?**" in the "Answers to Important Questions" section at the front of this Offer Document.

## 11 Provisions Relating to initial flotations and minimum subscription

The plans of the Directors in respect of the Company during the 12 month period commencing on the date of this Offer Document are described under the heading “Business Description” in section 5.

The source of finance required for these plans will be funds received from the issue of new Shares pursuant to the Offer, operating cash flows, working capital and other financial accommodation considered prudent and appropriate by SLI Group during that 12 month period.

Notwithstanding the plans of the Directors, the proceeds of the Offer may be applied towards any other purpose.

A prospective consolidated statement of financial position, a prospective statement of comprehensive income, a prospective statement of changes in equity, and a prospective statement of cash flows of the issuing group for the accounting period 30 June 2014 are set out under the heading “Prospective Financial Statements” in section 9.

The Directors have not presented prospective financial statements for the limited period from incorporation of the Company until 30 June 2013, as the Company will only acquire SLI approximately four weeks prior to that date and the Directors consider disclosure of such a limited period of trading activity and expensing of the transaction costs associated with the Offer will show a significant loss for this period that is not reflective of the expected trading profitability of the Group and as such would likely deceive or mislead the reader as to the financial performance of SLI Group.

For the purposes of section 37(2) of the Securities Act 1978, the minimum amount that, in the opinion of the Directors, must be raised in order to provide the sums required to be provided in respect of:

- (a) the purchase price of any property to be purchased which is to be defrayed in whole or in part out of the proceeds of the Offer;
- (b) any preliminary expenses payable by the Company, and any commission payable to any person in consideration of his or her agreeing to subscribe for, or of his or her procuring or agreeing to procure subscriptions for, Shares;
- (c) working capital; and
- (d) the repayment of any money borrowed by the Company in respect of any of the foregoing matters,

is \$27 million.

## 12 Acquisition of Business or Subsidiary

No business or subsidiary has been acquired by the Company in the two years preceding the date of this Offer Document.

The Company has entered into share exchange agreements with all existing stockholders of SLI under which the Company has agreed to acquire 100% of the stock in SLI in consideration for a total of 6,678,089 ordinary shares in the Company (before the share split) and \$12 million.

Settlement of the share exchange agreements is intended to occur immediately before allotment under the Offer and the Company will hold 100% of the stock in SLI on the Allotment Date.

Further information relating to the share exchange agreements is set out under the heading “**Material contracts**” in this section 12, “Statutory Information”.

In the five years preceding the date of this Offer Document, SLI has carried on the online site search and navigation business. Further detail on SLI’s business activities is contained in section 5 “Business Description”.

Summary financial statements for SLI in respect of the five accounting periods preceding the date of this Offer Document that comply with clause 9(2) to (4) of Schedule 1 of the Securities Regulations 2009 (with

any necessary modifications) are set out in Appendix A “S.L.I. Systems, Inc. Summary Historical Financial Statements”.

Audited financial statements for SLI for the accounting period ended 30 June 2012 are set out in Appendix B “S.L.I. Systems, Inc. Full Financial Statements”.

In addition, unaudited interim financial statements for SLI for the period from 1 July 2012 to 31 December 2012 are set out in Appendix C, “S.L.I. Systems, Inc. Interim Financial Statements”.

The net tangible asset backing per Share as at 30 June 2012, calculated in accordance with the assumption that SLI had been acquired and all of the Shares under the Offer (including shares to be allotted to existing stockholders under the share exchange agreements) had been allotted and the subscriptions received before that date, is \$0.25 per Share.

### **13 Securities Paid up Otherwise than in Cash**

Not applicable.

### **14 Options to Subscribe for Securities of the Issuing Group**

At the date of this Offer Document, no options to subscribe for securities of the Company have been granted to any person by or on behalf of the Company. However the Company has agreed to assume the rights and obligations of the 1,406,992 options granted by S.L.I. Systems, Inc. as at the date of this Offer Document as described in more detail under the heading “**Share Option Schemes**” in section 8, “Corporate Governance”. Details of the total number of each class of option granted to directors (being the only principal officers as defined in the Act) are set out in the same section. All other options have been granted for the benefit of employees of SLI. The expiry date of each class of option is set out in Appendix D.

### **15 Appointment and Removal of Directors**

The Company is or will be a party to a listing agreement with NZX Limited (a registered exchange) and the method by which Directors of the Company may be appointed to or may be removed from, or otherwise vacate, office is the same as that contained in the Listing Rules.

Each Director has the power to appoint any person as an alternate director, who may be any person not disqualified under the Companies Act 1993 from holding the position of a director of a company and who is approved by a majority of the other Directors.

### **16 Interested Persons**

Except as described in section 8, “Corporate Governance”, no Director of the Company (nor any associated person of any Director) is entitled to any remuneration for services in respect of SLI Group other than by way of directors’ fees, and reasonable travelling, accommodation and other expenses incurred in the course of performing duties or exercising powers as a director. There is no dollar limit on the expenses that the Directors are entitled to recover from the Company.

### **17 Material Contracts**

SLI Group has entered into the following material contracts (not being contracts entered into in the ordinary course of business) in the two years preceding the date of registration of this Offer Document:

- (a) A Deed of Directors’ Indemnity entered into by the Company in favour of the Directors of the Company, dated 1 May 2013.
- (b) Exchange agreements dated 17 April 2013 between the Company and each existing stockholder in SLI, under which the Company agrees to acquire 100% of the common and preferred stock in SLI.

The key terms of the exchange agreements are outlined in section 6.4 “Acquisition of SLI”.

### **18 Pending Proceedings**

There are no legal proceedings or arbitrations pending as at the date of registration of this Offer Document that may have a material adverse effect on SLI Group.

**19 Preliminary and Issue Expenses**

Issue expenses (including NZX firm brokerage and commission fees, NZX Listing fees, share registry costs, legal fees, accounting fees, Joint Lead Manager fees, advertising costs, Offer Document design, printing costs and postage and courier costs relating to the Offer) are estimated to amount to an aggregate of \$2.1 million based on an offer size of \$27 million. SLI will pay all costs associated with the Offer.

The Joint Lead Managers will be paid a fee in connection with the Offer, from which they will pay firm allocation commissions of 0.5% and retail brokerage of 1.0% on retail applications bearing brokers' stamps pursuant to a firm allocation under the Broker Firm Offer.

No preliminary expenses have been incurred by the Company.

**20 Restrictions on SLI Group**

There are no restrictions on the ability of SLI Group to make a distribution or to borrow, being restrictions which result from any undertaking given, or any contract or debt entered into, by SLI Group.

**21 Other Terms of Offer and Securities**

All of the terms of the Offer, and all the terms of the Shares, are set out in this Offer Document, other than any terms implied by law or any terms set out in a document that has been registered with a public official, is available for public inspection and is referred to in this Offer Document.

**22-23 Financial Statements**

As at the date of this Offer Document, the Company has not commenced business and acquired an asset or incurred a debt. Accordingly, no financial statements of the Company have been prepared.

**24 Additional Financial Statements**

Not applicable.

**25 Places of Inspection of Documents**

The Constitution of the Company and copies of the material contracts referred to above under the heading "Material Contracts", may be inspected (without charge) during normal business hours at the registered office of the Company at 1st Floor, Epic Centre, 78 - 106 Manchester Street, Christchurch, 8011. Copies of those documents are also available for public inspection on the Companies Office website at <http://www.business.govt.nz/companies>.

**26 Other Material Matters**

There are no other material matters relating to the Offer, other than those set out in this Offer Document, the financial statements or in contracts entered into in the ordinary course of business of SLI Group.

**27 Directors' Statement**

Not applicable.

**28 Auditors' Report**

PricewaterhouseCoopers' auditors' report required by clause 28 of Schedule 1 to the Securities Regulations 2009 is set out in section 11. PricewaterhouseCoopers and its partners have obtained a transitional licence under the Auditor Regulation Act 2011 effective from 1 May 2012.



**Signatures required by the Securities Act 1978**

The copy of this Offer Document delivered for registration to the Registrar of Financial Service Providers has been signed by or on behalf of each director of SLI Systems Limited, and by S.L.I. Systems, Inc. as promoter of the Offer.



Roger Wallis  
authorized agent for each director  
and S.L.I. Systems Inc.

### 13. GLOSSARY

**"Allotment Date"** means 31 May 2013, unless brought forward or extended by the Company.

**"Applicant"** means a person who submits an Application Form under the Offer.

**"Application"** means an application to subscribe for Shares under the Offer.

**"Application Form"** means the form circulated with the investment statement to subscribe for Shares under the Offer.

**"ARR"** means annualised subscription revenue, a non-GAAP financial performance measure used internally by SLI that represents the annualised monthly subscription revenue from SLI's customers for its Learning Search and related products and its Site Champion product on an assumed constant currency basis using the current exchange rates. ARR does not include revenue from SLI's Related Search product, which it does not actively promote. See the explanation under the table of Key Performance Indicators in section 1 "Important Dates and Offer Statistics".

**"best of breed"** means, in relation to products, products which have been identified as the best products of its type. Enterprises often purchase software from different vendors to obtain the best of breed offering for each application area. For example, enterprises may purchase a human-resource package from one vendor and an accounting package from another. It is difficult for a single vendor to excel in every application area.

**"Board"** means the board of directors of the Company.

**"Broker Firm Offer"** means the offer of Shares under this Offer Document to New Zealand resident retail clients of brokers who have received an allocation from their broker.

**"CAGR"** means compound annual growth rate (an average growth rate over a period of time assuming compounding constant annual growth throughout the period).

**"Closing Date"** means 5.00pm on 28 May 2013, unless varied by the Company.

**"Company"** means SLI Systems Limited, which on the Allotment Date is intended to be the holding company of SLI.

**"customer retention rate"** is the rate (expressed as a percentage) of customers retained in a particular period, and is measured either by value of customers or by number of customers (as specified in the Offer Document). The customer retention rates for SLI exclude the impact of Related Search, because this is a non-core product that SLI does not actively promote.

**"Director"** means a director of the Company.

**"Dividend"** means a payment per share that a company makes to shareholders, usually from its profits. The level of dividends that are paid by companies to their shareholders is generally linked to how profitable the company is. A company is not obliged to pay dividends.

**"EBITDA"** means earnings before interest, tax, depreciation and amortisation.

**"FIN"** means an alphanumeric identifier issued by NZX, the Company (as issuer) or the Share Registrar, to a Shareholder who provides authority to access that Shareholder's account held by the Share Registrar.

**"FY"** means a financial year. For the Company and SLI, this is a 12 month period ending on 30 June (e.g. FY14 is the 12 month period ending 30 June 2014).

**"GAAP"** means generally accepted accounting practice.

**"Independent Directors"** means the independent directors of the Company, being Sam Knowles, Sarah Smith and Greg Cross.

**"Institutional Firm Offer"** means the invitation to Institutional Investors under this Offer Document, as described in the "Details of the Offer" section of this Offer Document.

**"Institutional Investor"** means an investor to whom offers or invitations in respect of securities can be made without the need for a lodged prospectus (or other formality, other than a formality which the Company is willing to comply with), including in New Zealand persons to whom offers or invitations can be made without the need for a registered prospectus under the Securities Act 1978.

**"Joint Lead Managers"** and **"Joint Organising Participants"** means Craigs Investment Partners Limited and Forsyth Barr Group Limited.

**"Listing Rules"** means the listing rules of the NZX Main Board as amended from time to time.

**"NZX"** means NZX Limited.

**"NZX Main Board"** means the main board equity security market operated by NZX.

**"NZX Primary Market Participant"** means a company, firm, organisation, or corporation designated or approved as a 'Primary Market Participant' from time to time by NZX. See [www.nzx.com/investing/find\\_a\\_participant](http://www.nzx.com/investing/find_a_participant) for a list.

**"Offer"** means the offer of Shares under this Offer Document.

**"Offer Document"** means this document.

**"Offer Price"** means the price at which Shares may be bought under the Offer.

**"Opening Date"** means 14 May 2013.

**"PFI"** means prospective financial information for the Company.

**"Pro Forma PFI"** means prospective financial information for the Company for the period from 1 July 2012 to 30 June 2013 as if the Company had acquired SLI on or before 1 July 2012.

**"Prospectus"** means the registered prospectus in respect of the Offer dated 6 May 2013, as may be amended in accordance with the Securities Act 1978.

**"Prospective Period"** means the period from 1 March 2013 to 30 June 2014.

**"SaaS"** means Software as a Service (described further in section 4.4 "Software as a Service").

**"SEO"** means search engine optimisation – the process of affecting the visibility of a website or webpage in a search engine's 'natural' or unpaid search results.

**"Share"** means an ordinary share of the Company.

**"Shareholder"** means a person for the time being entered on the register of the Company either alone or jointly with others as the holder of a Share.

**"Share Registrar"** means Link Market Services Limited.

**"SLI"** means S.L.I. Systems, Inc. and, where the context requires, includes SLI Systems (UK) Limited.

**"SLI Group"** means the Company and its subsidiaries, which on the Allotment Date is intended to include SLI and SLI Systems (UK) Limited.

## 14. DIRECTORY

### REGISTERED OFFICE OF THE COMPANY

1st Floor, Epic Centre  
78 - 106 Manchester Street  
Christchurch, 8011

Telephone: 0800 754 797  
Facsimile: +64 (3) 961 3262  
Website: [www.sli-systems.com](http://www.sli-systems.com)

### DIRECTORS OF THE COMPANY

Greg Cross, *Non-Executive Chairman*  
Dr. Shaun Ryan, *Chief Executive Officer*  
Steven E Marder, *Non-Executive Director*  
Matthew Houtman, *Non-Executive Director*  
Sarah Smith, *Independent Director*  
Sam Knowles, *Independent Director*

### JOINT LEAD MANAGERS AND JOINT ORGANISING PARTICIPANTS

#### **Craigs Investment Partners Limited**

Level 32, Vero Centre  
48 Shortland Street  
Auckland 1010

Telephone: +64 (9) 919 7400  
Freephone: 0800 226 263  
Facsimile: +64 (9) 926 9549  
Website: [www.craigsip.com](http://www.craigsip.com)

#### **Forsyth Barr Limited**

Level 9, Forsyth Barr House  
The Octagon  
Dunedin 9016

Telephone: +64 (3) 477 7464  
Freephone: 0800 367 227  
Facsimile: +64 (3) 479 9296  
Website: [www.forsythbarr.co.nz](http://www.forsythbarr.co.nz)

### SOLICITORS

#### **Chapman Tripp**

Level 35, ANZ Centre  
23-29 Albert Street  
Auckland 1010

Telephone: +64 (9) 357 9000  
Facsimile: +64 (9) 357 9099  
Website: [www.chapmantripp.com](http://www.chapmantripp.com)

### AUDITOR

#### **PricewaterhouseCoopers**

188 Quay Street  
Auckland 1010

Telephone: +64 (9) 355 8000  
Facsimile: + 64 (9) 355 8001

### REGISTRAR

#### **Link Market Services Limited**

Level 16, Brookfields House  
19 Victoria Street West  
Auckland 1010  
PO Box 91976  
Victoria Street West, Auckland 1142

Telephone: +64 (9) 375 5998  
Facsimile: +64 (9) 375 5990  
Email: [enquiries@linkmarketservices.co.nz](mailto:enquiries@linkmarketservices.co.nz)  
Website: [www.linkmarketservices.co.nz](http://www.linkmarketservices.co.nz)

## **APPENDIX A: S.L.I. SYSTEMS, INC. SUMMARY FINANCIAL STATEMENTS**

### **Introduction**

The summary financial statements are those of S.L.I. Systems, Inc. (SLI) and its subsidiary (SLI Group).

SLI has designated itself as a profit-oriented entity for the purposes of NZ GAAP.

The summary financial statements have been prepared in accordance with New Zealand Financial Reporting Standard No. 43, subject to the Securities Regulations 2009. The summary financial statements have been extracted from the full financial statements. The summary financial statements were authorised for issue on 1 May 2013 by the board of SLI.

The financial statements for the financial year ended 30 June 2012 are in compliance with full NZ IFRS, including the comparative financial statements for the financial year ended 30 June 2011, which are presented in this section. These financial statements also comply with IFRS.

The financial statements for 30 June 2008, 30 June 2009, 30 June 2010 and 30 June 2011 are in compliance with NZ IFRS subject to differential reporting concessions that SLI utilised as it was a qualifying entity within the Framework of Differential Reporting. SLI took advantage of all differential reporting concessions available except for NZ IAS 18: Revenue, that permits qualifying entities to recognise revenue and expenses on a GST inclusive basis. Due the reporting concessions available for these years SLI did not prepare statements of cash flows.

The financial statements for the historical periods were authorised for issue on the following dates:

<b>Period</b>	<b>Authorised</b>
30 June 2012	18 April 2013
30 June 2011	8 February 2013
30 June 2010	2 September 2011
30 June 2009	27 January 2010
30 June 2008	6 March 2009

The summary financial statements cannot be expected to provide as complete an understanding as provided by the financial statements.

Copies of the financial statements for the year ended 30 June 2012 and the half year ended 31 December 2012 are included in Appendix B and Appendix C. All the annual financial statements can be obtained from the Company or from the New Zealand Companies Office website.

The financial statements for the year ended 30 June 2012, including the comparatives for the year ended 30 June 2011, have been audited by PricewaterhouseCoopers. For the year ended 30 June 2008 the financial statements have been audited by WHK Cook Adam Ward Wilson and for the years ended 30 June 2009, 30 June 2010 and 30 June 2011 the financial statements have been audited by WHK South NZ. The audit opinions were all unqualified.

The summary financial statements are presented in New Zealand dollars and are rounded to the nearest thousand.

### **Changes in accounting policies and transition to full NZ IFRS**

The financial statements for the years ended 30 June 2008, 30 June 2009 and 30 June 2010 have not been restated or had any changes in accounting policies.

In making the transition to full NZ IFRS, the Company and Group now account for tax in accordance with NZ IAS 12 'Income Taxes' and no longer use the taxes payable method of accounting for income tax. There has been an adjustment to the statement of financial position and the statement of changes in equity as at 1 July 2010 in regards to the recognition of a deferred tax asset of \$130,619. There has been an adjustment to the statement of comprehensive income for the years ended 30 June 2011 and 30 June 2012 relating to the movement in the deferred tax asset of \$30,065 and (\$25,306) respectively.

The main impact of the transition to full NZ IFRS for SLI is the additional disclosures required within the notes to the financial statements.

**S.L.I. Systems, Inc. and its Subsidiary**  
**Statement of Comprehensive Income**

NZ\$'000	Audited NZ IFRS Differential Reporting 12 months to 30 June 2008	Audited NZ IFRS Differential Reporting 12 months to 30 June 2009	Audited NZ IFRS Differential Reporting 12 months to 30 June 2010	Audited NZ IFRS 12 months to 30 June 2011	Audited NZ IFRS 12 months to 30 June 2012
Revenue	6,985	10,385	10,965	12,826	15,524
Employee entitlements	(3,943)	(5,886)	(6,420)	(7,767)	(9,409)
Net finance income/(costs)	(269)	324	(271)	(3)	7
Income tax (expense)	(9)	(23)	(65)	(84)	(132)
Comprehensive profit/(loss) for the period attributable to shareholders of SLI	(325)	143	71	(158)	92

***Reconciliation from profit / (loss) before tax to EBITDA***

NZ\$'000	Audited NZ IFRS Differential Reporting 12 months to 30 June 2008	Audited NZ IFRS Differential Reporting 12 months to 30 June 2009	Audited NZ IFRS Differential Reporting 12 months to 30 June 2010	Audited NZ IFRS 12 months to 30 June 2011	Audited NZ IFRS 12 months to 30 June 2012
<b>Profit / (loss) before tax</b>	<b>(316)</b>	<b>168</b>	<b>159</b>	<b>23</b>	<b>215</b>
Less: Interest income	(3)	(8)	(3)	(2)	(7)
Add: Interest expense	35	4	5	5	0
Add: Depreciation and amortisation expense	135	204	218	230	216
<b>EBITDA<sup>1</sup></b>	<b>(150)</b>	<b>369</b>	<b>379</b>	<b>256</b>	<b>424</b>

<sup>1</sup>

EBITDA is not separately disclosed in the financial statements, but is calculated based on the information in those financial statements as set out in this table.

**S.L.I. Systems, Inc. and its Subsidiary**  
**Statement of Changes in Equity**

NZ\$'000	Audited NZ IFRS Differential Reporting 12 months to 30 June 2008	Audited NZ IFRS Differential Reporting 12 months to 30 June 2009	Audited NZ IFRS Differential Reporting 12 months to 30 June 2010	Audited NZ IFRS 12 months to 30 June 2011	Audited NZ IFRS 12 months to 30 June 2012
<b>Total equity at the start of the financial period</b>	<b>1,025</b>	<b>1,367</b>	<b>1,440</b>	<b>1,554</b>	<b>1,733</b>
Effect of change in accounting policy	-	-	-	131	-
<b>Restated total equity at the beginning of the financial period</b>	<b>1,025</b>	<b>1,367</b>	<b>1,440</b>	<b>1,684</b>	<b>1,733</b>
Total comprehensive income	(325)	143	71	(158)	92
Net change in foreign currency reserve	-	3	23	-	-
Capital contributions	1,023	-	-	-	-
NBC shares repurchased	(356)	-	-	-	-
Share option expense for the year	-	3	-	123	100
Share options exercised during the year	-	(75)	19	83	109
<b>Total equity at the end of the financial period</b>	<b>1,367</b>	<b>1,440</b>	<b>1,554</b>	<b>1,733</b>	<b>2,033</b>

**S.L.I. Systems, Inc. and its Subsidiary**  
**Statement of Financial Position**

As at NZ\$'000	Audited NZ IFRS Differential Reporting 30 June 2008	Audited NZ IFRS Differential Reporting 30 June 2009	Audited NZ IFRS Differential Reporting 30 June 2010	Audited NZ IFRS 30 June 2011	Audited NZ IFRS 30 June 2012
Current Assets	2,526	3,058	3,577	4,257	5,345
Non-current Assets	753	694	871	727	695
<b>Total Assets</b>	<b>3,279</b>	<b>3,752</b>	<b>4,448</b>	<b>4,984</b>	<b>6,040</b>
Current Liabilities	1,850	2,237	2,805	3,220	3,969
Non-current Liabilities	63	76	89	31	38
<b>Total Liabilities</b>	<b>1,912</b>	<b>2,312</b>	<b>2,894</b>	<b>3,251</b>	<b>4,007</b>
<b>Net Assets</b>	<b>1,367</b>	<b>1,440</b>	<b>1,554</b>	<b>1,733</b>	<b>2,033</b>
Share Capital	2,100	2,773	2,773	3,298	4,324
Reserves	3,109	2,360	2,356	1,850	1,025
Accumulated losses	(3,842)	(3,694)	(3,575)	(3,415)	(3,317)
<b>Total Equity at the end of the period</b>	<b>1,367</b>	<b>1,440</b>	<b>1,554</b>	<b>1,733</b>	<b>2,033</b>



**S.L.I. Systems, Inc. and its Subsidiary**  
**Statement of Cash Flows**

NZ\$'000	Audited NZ IFRS 12 months to 30 June 2011	Audited NZ IFRS 12 months to 30 June 2012
<b>Cash flows from operating activities</b>		
Receipts from customers	11,789	15,918
Payments made to suppliers and employees	(12,823)	(14,411)
Interest paid	(5)	-
Interest received	2	7
Net GST received	26	78
Insurance proceeds	487	138
Government grants	443	0
Income tax paid	(65)	(106)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(146)</b>	<b>1,624</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(360)	(222)
<b>Net cash inflow/(outflow) from investing activities</b>	<b>(360)</b>	<b>(222)</b>
<b>Cash flows from financing activities</b>		
Cash received from share options exercised	83	109
<b>Net cash inflow/(outflow) from financing activities</b>	<b>83</b>	<b>109</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(423)</b>	<b>1,511</b>
Cash and cash equivalents at the beginning of the year	1,354	930
<b>Cash and cash equivalents at the end of the year</b>	<b>930</b>	<b>2,441</b>

## **APPENDIX B: S.L.I. SYSTEMS, INC. FULL FINANCIAL STATEMENTS**

*PwC's audit of the financial statements of S.L.I. Systems, Inc for the year ended 30 June 2012 was completed on 1 May 2013 and the audit opinion was issued on that date. PwC has not undertaken any additional audit procedures in relation to those financial statements from the date of the completion of the audit.*



## ***Independent Auditors' Report*** to the shareholders of S.L.I. Systems, Inc

### ***Report on the Financial Statements***

We have audited the financial statements of S.L.I. Systems, Inc ("the Company") on pages 3 to 28, which comprise the balance sheets as at 30 June 2012, the income statements, statements of comprehensive income and statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2012 or from time to time during the financial year.

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

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

### ***Auditors' Responsibility***

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

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

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

We have no relationship with or interests in the Company or its subsidiary other than in our capacities as auditors and providers of other assurance services. These services have not impaired our independence as auditors of the Company and the Group.



## ***Independent Auditors' Report***

S.L.I. Systems, Inc

### ***Opinion***

In our opinion, the financial statements on pages 3 to 28:

- (i) comply with generally accepted accounting practice in New Zealand; and
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and the Group as at 30 June 2012, and their financial performance and cash flows for the year then ended.

### ***Report on Other Legal and Regulatory Requirements***

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2012:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

### ***Restriction on Distribution or Use***

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

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', written over a horizontal line.

Chartered Accountants  
1 May 2013

Christchurch

**S.L.I. Systems, Inc. and its Subsidiary**  
**Income Statements**  
**For the Year Ended 30 June 2012**

	Note	Group		Parent	
		2012	2011	2012	2011
		\$	\$	\$	\$
Revenue	3	15,524,225	12,825,888	12,582,481	10,542,763
Other income	3	138,142	930,237	502,530	1,229,564
<b>Total revenue &amp; other income</b>		<b>15,662,367</b>	<b>13,756,125</b>	<b>13,085,011</b>	<b>11,772,327</b>
Operating expenses	4	(6,044,980)	(5,962,791)	(4,998,151)	(5,294,750)
Employee entitlements	5	(9,408,926)	(7,767,486)	(8,286,975)	(6,995,421)
<b>Operating profit / (loss) before finance costs</b>		<b>208,461</b>	<b>25,848</b>	<b>(200,115)</b>	<b>(517,844)</b>
Finance income	6	7,006	1,978	7,006	1,975
Finance expenses	6	(15)	(5,127)	(15)	(5,105)
<b>Net financing income / (cost)</b>		<b>6,991</b>	<b>(3,149)</b>	<b>6,991</b>	<b>(3,130)</b>
<b>Profit / (loss) before tax</b>		<b>215,452</b>	<b>22,699</b>	<b>(193,124)</b>	<b>(520,974)</b>
Income tax (expense)/ credit	7	(132,039)	(84,070)	(45,903)	30,065
<b>Profit / (loss) for the year</b>		<b>83,413</b>	<b>(61,371)</b>	<b>(239,027)</b>	<b>(490,909)</b>
<b>Profit / (loss) attributable to the Shareholders of the Company</b>		<b>83,413</b>	<b>(61,371)</b>	<b>(239,027)</b>	<b>(490,909)</b>
<b>Earnings / (loss) per share</b>					
Basic earnings / (loss) per share	26	0.014	(0.011)		
Diluted earnings / (loss) per share	26	0.011	(0.011)		

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

**S.L.I. Systems, Inc. and its Subsidiary**  
**Statements of Comprehensive Income**  
**For the Year Ended 30 June 2012**

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Profit / (loss) for year</b>	83,413	(61,371)	(239,027)	(490,909)
<b>Other comprehensive income</b>				
Currency translation movement	8,695	(96,236)	-	-
<b>Total comprehensive income / (loss) for the year attributable to the shareholders of the company</b>	<b>92,108</b>	<b>(157,607)</b>	<b>(239,027)</b>	<b>(490,909)</b>

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

**S.L.I. Systems, Inc. and its Subsidiary**  
**Statement of Changes in Equity**  
**As at 30 June 2012**

<b>Group</b>	<b>Share Capital \$</b>	<b>Share Option Reserve \$</b>	<b>Translation Reserve \$</b>	<b>Accumulated Losses \$</b>	<b>Total Equity \$</b>
<b>Balance as at 1 July 2011</b>	3,298,268	1,979,927	(130,265)	(3,415,074)	1,732,856
Profit/(loss) for the year	-	-	-	83,413	83,413
Currency translation movement	-	-	8,695	-	8,695
<b>Total comprehensive income for the year</b>	-	-	8,695	83,413	92,108
<b>Transactions with owners</b>					
Share options exercised during year	1,026,051	(917,443)	-	-	108,608
Share options expired during year	-	(15,229)	-	15,229	-
Share option expense for the year	-	99,652	-	-	99,652
<b>Balance as at 30 June 2012</b>	<b>4,324,319</b>	<b>1,146,907</b>	<b>(121,570)</b>	<b>(3,316,432)</b>	<b>2,033,224</b>
<b>Balance 1 July 2010</b>	2,773,264	2,389,936	(34,029)	(3,575,529)	1,553,642
Effect of change in accounting policy (Note 2)	-	-	-	130,619	130,619
<b>Restated total equity at beginning of the financial period</b>	<b>2,773,264</b>	<b>2,389,936</b>	<b>(34,029)</b>	<b>(3,444,910)</b>	<b>1,684,261</b>
Profit/(loss) for the year	-	-	-	(61,371)	(61,371)
Currency translation movement	-	-	(96,236)	-	(96,236)
<b>Total comprehensive income for the year</b>	-	-	(96,236)	(61,371)	(157,607)
<b>Transactions with owners</b>					
Share options exercised during year	525,004	(441,854)	-	-	83,150
Share options expired during year	-	(91,207)	-	91,207	-
Share option expense for the year	-	123,052	-	-	123,052
<b>Balance as at 30 June 2011</b>	<b>3,298,268</b>	<b>1,979,927</b>	<b>(130,265)</b>	<b>(3,415,074)</b>	<b>1,732,856</b>

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

**S.L.I. Systems, Inc. and its Subsidiary**  
**Statement of Changes in Equity**  
**As at 30 June 2012**

<b>Parent</b>	<b>Share Capital \$</b>	<b>Share Option Reserve \$</b>	<b>Accumulate d Losses \$</b>	<b>Total Equity \$</b>
<b>Balance as at 1 July 2011</b>	3,298,268	1,979,927	(4,278,659)	999,536
Profit/(loss) for the year	-	-	(239,027)	(239,027)
<b>Total comprehensive income for the year</b>	-	-	(239,027)	(239,027)
<b>Transactions with owners</b>				
Share options exercised during the year	1,026,051	(917,443)	-	108,608
Share options expired during the year	-	(15,229)	15,229	-
Share option expense for the year	-	99,652	-	99,652
<b>Balance as at 30 June 2012</b>	<b>4,324,319</b>	<b>1,146,907</b>	<b>(4,502,457)</b>	<b>968,769</b>
<b>Balance 1 July 2010</b>	2,773,264	2,389,936	(4,009,576)	1,153,624
Effect of change in accounting policy (Note 2)	-	-	130,619	130,619
<b>Restated total equity at beginning of the financial period</b>	<b>2,773,264</b>	<b>2,389,936</b>	<b>(3,878,957)</b>	<b>1,284,243</b>
Profit/(loss) for the year	-	-	(490,909)	(490,909)
Other comprehensive income	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	(490,909)	(490,909)
<b>Transactions with owners</b>				
Share options exercised during year	525,004	(441,854)	-	83,150
Share options expired during year	-	(91,207)	91,207	-
Share option expense for the year	-	123,052	-	123,052
<b>Balance as at 30 June 2011</b>	<b>3,298,268</b>	<b>1,979,927</b>	<b>(4,278,659)</b>	<b>999,536</b>

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



**S.L.I. Systems, Inc. and its Subsidiary**  
**Balance Sheets**  
**As at 30 June 2012**

		<b>Group</b>		<b>Parent</b>	
	<b>Note</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	11	2,441,101	930,493	1,215,251	754,664
Trade and other receivables	12	2,903,772	3,326,960	2,517,954	2,581,234
<b>Total current assets</b>		<b>5,344,873</b>	<b>4,257,453</b>	<b>3,733,205</b>	<b>3,335,898</b>
<b>Non- current assets</b>					
Property, plant and equipment	9	402,605	358,325	310,423	332,745
Investment in subsidiary	21	-	-	3	3
Intangible assets	10	157,444	207,893	157,444	207,893
Deferred tax assets	8	135,378	160,684	135,378	160,684
<b>Total non- current assets</b>		<b>695,427</b>	<b>726,902</b>	<b>603,248</b>	<b>701,325</b>
<b>Total assets</b>		<b>6,040,300</b>	<b>4,984,355</b>	<b>4,336,453</b>	<b>4,037,223</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	15	2,774,566	2,274,399	2,419,488	2,273,707
Employee benefits	16	1,088,643	839,622	889,296	732,484
Taxation payable	7	105,564	105,982	20,597	-
<b>Total current liabilities</b>		<b>3,968,773</b>	<b>3,220,003</b>	<b>3,329,381</b>	<b>3,006,191</b>
<b>Non- current liabilities</b>					
Employee benefits	17	38,303	31,496	38,303	31,496
<b>Total non- current liabilities</b>		<b>38,303</b>	<b>31,496</b>	<b>38,303</b>	<b>31,496</b>
<b>Total liabilities</b>		<b>4,007,076</b>	<b>3,251,499</b>	<b>3,367,684</b>	<b>3,037,687</b>
<b>Net assets</b>		<b>2,033,224</b>	<b>1,732,856</b>	<b>968,769</b>	<b>999,536</b>
<b>EQUITY</b>					
Share Capital	14	4,324,319	3,298,268	4,324,319	3,298,268
Reserves		1,025,337	1,849,662	1,146,907	1,979,927
Accumulated losses		(3,316,432)	(3,415,074)	(4,502,457)	(4,278,659)
<b>Total equity</b>		<b>2,033,224</b>	<b>1,732,856</b>	<b>968,769</b>	<b>999,536</b>

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

**S.L.I. Systems, Inc. and its Subsidiary**  
**Statements of Cash Flows**  
**For the Year Ended 30 June 2012**

		Group		Parent	
	Note	2012	2011	2012	2011
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
<b>Cash was provided from:</b>					
Receipts from customers		15,917,812	11,789,034	12,996,209	10,293,396
Insurance proceeds		138,142	487,428	128,640	487,428
Government grants		-	442,809	-	442,809
Interest received		7,006	1,978	7,006	1,975
Net GST received		77,840	25,674	28,219	34,298
<b>Cash was applied to:</b>					
Payments made to suppliers and employees		(14,410,469)	(12,823,481)	(12,668,657)	(11,234,125)
Income tax paid	7	(105,982)	(64,581)	-	-
Interest paid		(15)	(5,127)	(15)	(5,105)
<b>Net cash inflow/(outflow) from operating activities</b>	27	<b>1,624,334</b>	<b>(146,266)</b>	<b>491,402</b>	<b>20,676</b>
<b>Cash flows from investing activities</b>					
<b>Cash was applied to:</b>					
Purchase of property, plant & equipment	9	(222,334)	(360,034)	(139,423)	(337,211)
<b>Net cash outflow from investing activities</b>		<b>(222,334)</b>	<b>(360,034)</b>	<b>(139,423)</b>	<b>(337,211)</b>
<b>Cash flows from financing activities</b>					
<b>Cash was provided from:</b>					
Cash received from share options exercised		108,608	83,150	108,608	83,150
<b>Net cash inflow from financing activities</b>		<b>108,608</b>	<b>83,150</b>	<b>108,608</b>	<b>83,150</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,510,608</b>	<b>(423,150)</b>	<b>460,587</b>	<b>(233,385)</b>
Cash and cash equivalents at the beginning of the year		930,493	1,353,643	754,664	988,049
<b>Cash and cash equivalents at the end of the year</b>	11	<b>2,441,101</b>	<b>930,493</b>	<b>1,215,251</b>	<b>754,664</b>

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

# **S.L.I. Systems, Inc. and its Subsidiary**

## **Notes to the Financial Statements**

### **As at 30 June 2012**

#### **1 General information**

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

The consolidated financial statements for the Group for the year ended 30 June 2012 were authorised for issue in accordance with a resolution of the Directors on 18 April 2013.

#### **2 Summary of significant accounting policies**

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice. 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 all the periods presented, unless otherwise stated.

##### *Entities reporting*

The financial statements for the "Parent" are for S.L.I Systems, Inc as a separate legal entity which includes its operations in the US and its New Zealand branch. The consolidated financial statements for the "Group" are for the economic entity comprising S.L.I Systems, Inc and its subsidiary.

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

##### *Statutory base*

SLI is a limited company, incorporated in the United States and registered under the New Zealand Companies Act 1993 as an overseas company. The registered office of the Company is 78-106 Manchester Street, Christchurch, New Zealand.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

##### *Historical cost convention*

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

##### *Critical accounting estimates and judgements*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reporting of amounts of assets, liabilities, income and expenses. There are no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements except for the determination of the functional currency for the Company.

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

Therefore, on balance the Directors have concluded that the NZ dollar is the functional currency of the Parent.

##### *Transition to full NZ IFRS*

The financial statements of SLI until 30 June 2011 had been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities that qualify for and apply differential reporting concessions. The Company's financial statements for the year ended 30 June 2012 are the first financial statements that comply with NZ IFRS ('full NZ IFRS') and IFRS and no longer apply the differential reporting concessions available under NZ IFRS.

In making the transition to full NZ IFRS, the Company and Group now account for tax in accordance with NZ IAS 12 'Income Taxes' and no longer use the taxes payable method of accounting for income tax. There has been an adjustment to the statement of financial position and the statement of changes in equity as at 1 July 2010 in regards to the recognition of a deferred tax asset of \$130,619. There has been an adjustment to the statement of comprehensive income for the years ended 30 June 2011 and 30 June 2012 relating to the movement in the deferred tax asset of \$30,065 and (\$25,306) respectively. The main impact of the transition for the Company and Group is the additional disclosures required within the notes to the financial statements.

# **S.L.I. Systems, Inc. and its Subsidiary**

## **Notes to the Financial Statements**

### **As at 30 June 2012**

As the only adjustment to the opening statement of financial position at 1 July 2010 is to recognise deferred tax no third balance sheet at 1 July 2010 is presented.

#### **(b) Principles of consolidation**

##### *Subsidiary*

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies, 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 Company controls another entity.

Subsidiaries which form part of the Group are consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### **(c) Foreign currency translation**

##### **(i) Functional and presentation currency**

Items included in the financial statements of the subsidiary are measured using the currency of the primary economic environment in which it operates ('the functional currency'). 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 the exchange rates prevailing at the dates of the 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 profit and loss component of the statements of comprehensive income.

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

The results and balance sheets of all foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from New Zealand dollars are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each profit and loss component of the statements of comprehensive income are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions; and
- all resulting exchange differences are recognised as other comprehensive income.

#### **d) Revenue recognition**

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

**S.L.I. Systems, Inc. and its Subsidiary**  
**Notes to the Financial Statements**  
**As at 30 June 2012**

Revenue in advance represents amounts billed to customers in advance of the provision of services and are accounted for as a liability. Uninvoiced revenue represents the opposite of the above 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) Dividend income**

Dividend income is recognised when the right to receive payment is established.

**(iii) 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.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

**(e) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other Comprehensive Income and Equity. 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 is provided on temporary differences arising on the investment in the subsidiary, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

**(f) Goods and Services Tax (GST)**

The Income Statement and the Statement of cash flow have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

**(g) Leases**

**(i) The Group is the lessee**

**Operating leases**

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

**(h) Impairment of non-financial assets**

All non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest level for which there are separately identifiable cash flows (cash generating units).

**(i) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**S.L.I. Systems, Inc. and its Subsidiary**  
**Notes to the Financial Statements**  
**As at 30 June 2012**

**(j) Trade receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), 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 profit and loss component of the statements of comprehensive income within 'other 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 'other expenses' in the statements of comprehensive income.

**(k) Financial assets**

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

*Classification*

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

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

**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.

**(l) Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and the Group has transferred substantially all risks and rewards or ownership.

**(m) Derivatives**

The Group does not have any derivatives.

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

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are charged to the Income Statement during the financial period in which they are incurred.

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

- Computer Equipment	31% - 60%
- Furniture, Equipment & Other	11% - 48%

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

**S.L.I. Systems, Inc. and its Subsidiary**  
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**(o) Intangible assets**

**(i) Research and development**

Research costs are expensed as incurred.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets where the following criteria are met:

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

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

(ii) Other intangible assets acquired are initially measured at cost. Internally generated assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the Income Statement in the year in which the expenditure is incurred.

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.

(iii) Amortisation is recognised in the Income Statement on a straight-line basis over the estimated useful life of the intangible asset, from the date it is available for use.

The estimated useful lives are:

Trademarks / patents	10-20 years
Software	3 – 5 years

**(p) Investments in subsidiary**

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

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

**(q) 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 or in the normal operating cycle of the business if longer. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**(r) Share capital**

Ordinary shares are classified as equity. Preference share capital is classified as equity as this class of share can only convert to a fixed number of ordinary shares.

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

**(s) Provisions**

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

**S.L.I. Systems, Inc. and its Subsidiary**  
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**(t) 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. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

**(u) Equity settled share option plan**

The Employee Share Option Plan allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense in the Income Statement with a corresponding increase in the employee share based payments 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 valuation approach, taking into account the terms and conditions upon which the options are granted. When options are exercised the amount in the share option reserve relating to those options, together with the exercise price paid by the employee, is transferred to share capital.

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

**(v) Dividends**

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

Dividend distribution to the Company shareholders is recognised as a liability in the Company's and Group's financial statements in the period in which the dividends are approved by the Directors and notified to the Company's shareholders.

**(w) 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.

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

**(x) Standards adopted by the Group**

The following new standards and amendments to standards were applied during the year:

- **NZ IAS 24: Related Parties Disclosures (effective 1 January 2011):**  
The amendment simplifies and clarifies the definition of a related party.
- **FRS 44: New Zealand Additional Disclosures and Harmonisation Amendments (effective 1 July 2011):**  
FRS 44 sets out New Zealand specific disclosures for entities that apply NZ IFRSs. These disclosures have been relocated from NZ IFRSs to clarify that these disclosures are additional to those required by IFRSs.

Adoption of the new rules has not affected any of the amounts recognised in the financial statements, but has simplified some of the Company's and Group's current disclosures.

**(y) Standards, interpretations and amendments not yet effective**

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

This standard replaces the parts of *NZ IAS 39 Financial Instruments: Recognition and Measurement* that relates to the classification and measurement of financial instruments.

All financial assets are required to be classified into two measurement categories: at fair value and at amortised cost.

The determination is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The Group intends to adopt the new standard in the annual reporting period ending 30 June 2016.



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**NZ IFRS 10 Consolidated Financial Statements (effective 1 January 2013), revised NZ IAS 27 Separate Financial Statements:**

NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 Consolidated and Separate Financial Statements, and NZ IFRIC 12 Consolidation.

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. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

NZ IAS 27 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the group and parent entity will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the parent's investments in the separate parent entity financial statements.

The Group intends to adopt the new standard in the annual reporting period ending 30 June 2014.

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

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

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

**3. Revenue and other income**

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	15,524,225	12,825,888	12,582,481	10,542,763
Government grants received	-	442,809	-	442,808
Fees received from SLI Systems (UK) Limited (formerly named SLI Systems Limited)	-	-	373,890	299,328
Insurance Proceeds	138,142	487,428	128,640	487,428
<b>Total revenue and other income</b>	<b>15,662,367</b>	<b>13,756,125</b>	<b>13,085,011</b>	<b>11,772,327</b>

NZTE / MSI Export Market Development funding and FRST Funding received during the period was nil (2011: \$333,009). Ministry of Social Development Earthquake subsidy funding received during the period was nil (2011: \$109,800). There are no unfulfilled conditions or contingencies relating to this funding.

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

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
New Zealand	415,459	312,572
US	10,345,890	9,413,834
Australia	1,523,197	739,881
United Kingdom	2,839,294	2,230,454
Rest of the world	400,385	129,147
	<b>15,524,225</b>	<b>12,825,888</b>

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**4. Operating expenses**

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Advertising and marketing	1,774,917	1,347,382	1,595,495	1,177,392
Amortisation of intangible assets (note 10)	38,014	41,836	38,014	41,836
Bad debt expense	30,998	173,402	(27,345)	144,101
Communication and office administration	201,334	203,721	188,000	189,856
Consulting and subcontracting	649,135	541,576	612,987	502,480
Depreciation on property, plant & equipment (note 9)	178,374	188,130	161,746	183,780
Eurekster Loans impairment	10,374	-	10,374	-
Fees paid to auditors (note 28)	35,680	25,977	35,680	25,977
Intangible assets written off	12,435	-	12,435	-
Operating leases expenses	533,368	502,845	318,968	405,735
Loss on disposal of property, plant and equipment	-	434,698	-	434,698
Loss on foreign exchange transactions	5,561	282,143	5,485	281,726
Travel expenses	345,703	320,846	293,320	291,712
Other operating expenses	2,229,087	1,900,235	1,752,992	1,615,457
<b>Total Operating expenses</b>	<b>6,044,980</b>	<b>5,962,791</b>	<b>4,998,151</b>	<b>5,294,750</b>

**5. Employee entitlements**

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Wages and salaries	8,985,321	7,535,432	7,955,580	6,764,795
Increase in long service leave	249,021	59,471	156,811	58,043
Share options expense	99,652	123,052	99,652	123,052
Employer contribution to defined contribution plans	74,932	49,531	74,932	49,531
	<b>9,408,926</b>	<b>7,767,486</b>	<b>8,286,975</b>	<b>6,995,421</b>

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

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

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Interest income	7,006	1,978	7,006	1,975
<b>Finance Income</b>	<b>7,006</b>	<b>1,978</b>	<b>7,006</b>	<b>1,975</b>
Interest expense	(15)	(5,127)	(15)	(5,105)
<b>Finance expenses</b>	<b>(15)</b>	<b>(5,127)</b>	<b>(15)</b>	<b>(5,105)</b>
<b>Net Financing income/(cost)</b>	<b>6,991</b>	<b>(3,149)</b>	<b>6,991</b>	<b>(3,130)</b>

**S.L.I. Systems, Inc. and its Subsidiary**  
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**7. Taxation**

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Income tax expense</b>				
Profit/(loss) before tax	215,452	22,699	(193,124)	(520,974)
Add – Permanent differences	107,821	256,187	107,823	256,361
Tax losses not recognised	85,301	264,613	85,301	264,613
Overseas taxable income	408,574	543,499	-	-
Branch taxable income	68,657	-	68,657	-
Taxable income	477,232	543,499	68,657	-
<b>Total current tax (Group weighted average effective tax rate 22%, 2011: 21%. Parent 30%, 2011: 30%)</b>	<b>106,733</b>	<b>114,135</b>	<b>20,597</b>	<b>-</b>
Deferred tax (Note 8)	25,306	(30,065)	25,306	(30,065)
<b>Total income tax expense/(credit)</b>	<b>132,039</b>	<b>84,070</b>	<b>45,903</b>	<b>(30,065)</b>
<b>Current Tax</b>				
Opening balance	105,982	64,581	-	-
Current period expense	106,733	114,135	20,597	-
Translation on tax receivable / payable	(1,169)	(8,153)	-	-
Tax paid	(105,982)	(64,581)	-	-
<b>Closing balance</b>	<b>105,564</b>	<b>105,982</b>	<b>20,597</b>	<b>-</b>
<b>Imputation Credit Account</b>				
Opening balance	25,703	24,689	25,703	24,689
Credits for tax paid and tax deducted from income received	-	1,014	-	1,014
Less debits for tax refund received				
<b>Closing balance</b>	<b>25,703</b>	<b>25,703</b>	<b>25,703</b>	<b>25,703</b>

**8. Deferred tax**

The analysis of the deferred tax asset is as follows:

	<b>Employee entitlements</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
<b>Group and parent</b>		
At 1 July 2011	160,684	160,684
Charged to income statement	(25,306)	(25,306)
<b>At 30 June 2012</b>	<b>135,378</b>	<b>135,378</b>
At 1 July 2010	130,619	130,619
Credit to income statement	30,065	30,065
<b>At 30 June 2011</b>	<b>160,684</b>	<b>160,684</b>

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 of \$1,790,280 (2011: \$1,251,513) subject to shareholder continuity being maintained as required by New Zealand tax legislation.

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**9. Property, Plant and Equipment**

	Computer equipment \$	Furniture, Equipment & Other \$	Total \$
<b>Group – Year ended 30 June 2012</b>			
<b>Cost</b>			
Balance as at 1 July 2011	450,793	163,006	613,799
Additions	197,336	24,998	222,334
<b>Balance at 30 June 2012</b>	<b>648,129</b>	<b>188,004</b>	<b>836,133</b>
<b>Depreciation</b>			
Balance as at 1 July 2011	(211,377)	(43,777)	(255,154)
Depreciation expense	(151,295)	(27,079)	(178,374)
<b>Balance as at 30 June 2012</b>	<b>(362,672)</b>	<b>(70,856)</b>	<b>(433,528)</b>
<b>Net carrying amount</b>	<b>285,457</b>	<b>117,148</b>	<b>402,605</b>
<b>Group – Year ended 30 June 2011</b>			
<b>Cost</b>			
Balance as at 1 July 2010	616,725	586,875	1,203,600
Additions	266,654	93,380	360,034
Disposals	(432,586)	(517,249)	(949,835)
<b>Balance at 30 June 2011</b>	<b>450,793</b>	<b>163,006</b>	<b>613,799</b>
<b>Depreciation</b>			
Balance as at 1 July 2010	(428,415)	(154,067)	(582,482)
Depreciation expense	(113,613)	(74,517)	(188,130)
Depreciation on disposal	330,331	184,807	515,138
<b>Balance as at 30 June 2011</b>	<b>(211,697)</b>	<b>(43,777)</b>	<b>(255,474)</b>
<b>Net carrying amount</b>	<b>239,096</b>	<b>119,229</b>	<b>358,325</b>
<b>Parent – Year ended 30 June 2012</b>			
<b>Cost</b>			
Balance as at 1 July 2011	407,681	163,006	570,687
Additions	114,425	24,998	139,423
<b>Balance at 30 June 2012</b>	<b>522,106</b>	<b>188,004</b>	<b>710,110</b>
<b>Depreciation</b>			
Balance as at 1 July 2011	(194,164)	(43,777)	(237,941)
Depreciation expense	(134,667)	(27,079)	(161,746)
<b>Balance as at 30 June 2012</b>	<b>(328,831)</b>	<b>(70,856)</b>	<b>(399,687)</b>
<b>Net carrying amount</b>	<b>193,275</b>	<b>117,148</b>	<b>310,423</b>
<b>Parent – Year ended 30 June 2011</b>			
<b>Cost</b>			
Balance as at 1 July 2010	595,359	586,875	1,182,234
Additions	243,830	93,381	337,211
Disposals	(431,508)	(517,250)	(948,758)
<b>Balance at 30 June 2011</b>	<b>407,681</b>	<b>163,006</b>	<b>570,687</b>
<b>Depreciation</b>			
Balance as at 1 July 2010	(414,153)	(154,067)	(568,220)
Depreciation expense	(109,263)	(74,517)	(183,780)
Depreciation on disposal	329,252	184,807	514,059
<b>Balance as at 30 June 2011</b>	<b>(194,164)</b>	<b>(43,777)</b>	<b>(237,941)</b>
<b>Net carrying amount</b>	<b>213,517</b>	<b>119,228</b>	<b>332,745</b>

The net carrying value of property, plant and equipment held in New Zealand is \$192,391 (2011: \$214,315), within the United States \$97,807 (2011: \$107,546) within United Kingdom \$92,182 (2011: \$25,578) and within Australia \$20,225 (2011: \$10,886).

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**10. Intangible assets**

	<b>Patents &amp; Trademarks \$</b>	<b>Software \$</b>	<b>Total \$</b>
<b>Group and Parent – for the year ended 30 June 2012</b>			
<b>Cost</b>			
Opening balance	498,433	59,839	558,272
Disposals	(12,435)	-	(12,435)
<b>Balance as at 30 June 2012</b>	<b>485,998</b>	<b>59,839</b>	<b>545,837</b>
<b>Amortisation</b>			
Balance as at 1 July 2011	(296,750)	(53,629)	(350,379)
Amortisation during year	(35,033)	(2,981)	(38,014)
<b>Balance as at 30 June 2012</b>	<b>(331,783)</b>	<b>(56,610)</b>	<b>(388,393)</b>
<b>Net carrying value</b>	<b>154,215</b>	<b>3,229</b>	<b>157,444</b>
<b>Group and Parent – for the year ended 30 June 2011</b>			
<b>Cost</b>			
Opening balance	498,433	59,839	558,272
<b>Balance as at 30 June 2011</b>	<b>498,433</b>	<b>59,839</b>	<b>558,272</b>
<b>Amortisation and impairment</b>			
Balance as at 1 July 2010	(260,647)	(47,896)	(308,543)
Amortisation during year	(36,103)	(5,733)	(41,836)
<b>Balance as at 30 June 2011</b>	<b>(296,750)</b>	<b>(53,629)</b>	<b>(350,379)</b>
<b>Net carrying value</b>	<b>201,683</b>	<b>6,210</b>	<b>207,893</b>

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

All intangible assets have been developed within New Zealand.

**11. Cash and cash equivalents**

	<b>Group</b>		<b>Parent</b>	
	<b>2012 \$</b>	<b>2011 \$</b>	<b>2012 \$</b>	<b>2011 \$</b>
Cash at bank and on hand	2,421,101	910,493	1,195,251	734,664
Short-term bank deposits	20,000	20,000	20,000	20,000
	<b>2,441,101</b>	<b>930,493</b>	<b>1,215,251</b>	<b>754,664</b>

As at 30 June 2012 the amounts held in foreign currency were as follows;

	<b>Group</b>		<b>Parent</b>	
	<b>2012 \$</b>	<b>2011 \$</b>	<b>2012 \$</b>	<b>2011 \$</b>
USD	436,434	482,092	436,434	482,092
GBP	1,225,850	175,829	-	-
AUD	292,597	65,839	292,597	65,839

**12. Trade and other receivables**

	<b>Group</b>		<b>Parent</b>	
	<b>2012 \$</b>	<b>2011 \$</b>	<b>2012 \$</b>	<b>2011 \$</b>
Gross Trade receivables	1,907,742	2,420,506	1,566,065	1,716,573
Provision for impairment of receivables	(79,946)	(225,982)	(60,215)	(191,848)
Net Trade receivables	1,827,796	2,194,524	1,505,850	1,524,725
Uninvoiced revenue	903,345	574,338	839,473	498,411
Prepayments and other receivables	172,631	558,098	172,631	558,098
<b>Total loans and receivables</b>	<b>2,903,772</b>	<b>3,326,960</b>	<b>2,517,954</b>	<b>2,581,234</b>

**S.L.I. Systems, Inc. and its Subsidiary**  
**Notes to the Financial Statements**  
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**13. Trade receivables provisioning**

**(a) Impaired receivables**

As at 30 June 2012 trade receivables with a nominal value of \$79,946 (2011: \$225,982) were impaired in respect of the Group. For the Parent the amount was \$60,215 (2011: \$191,848). The ageing analysis of these trade receivables is as follows;

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
1-60 days overdue	-	-	-	-
61-90 days overdue	8,656	66,513	2,250	56,326
91+ days overdue	71,290	159,469	57,965	135,522
Impairment provision	(79,946)	(225,982)	(60,215)	(191,848)
	-	-	-	-

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

As at 30 June 2012 trade receivables of the Group of \$91,128 (2011: \$374,412) were past due but not impaired. The past due but not impaired for the Parent was \$60,630 (2011: \$308,833). 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;

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
1-30 days overdue	50,940	194,564	39,481	159,933
Greater than 31 days overdue	41,188	179,848	21,149	148,900
	91,128	374,412	60,630	308,833

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

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

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Opening balance	225,982	138,568	191,848	130,758
Additional provisions	143,412	173,402	85,069	144,101
Unused amounts reversed	(112,414)	-	(112,414)	-
Amounts written off	(177,034)	(85,988)	(104,288)	(83,011)
Closing balance	79,946	225,982	60,215	191,848

**(d) As at 30 June 2012 the amounts receivable in foreign currency were as follows;**

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
USD	2,143,245	1,794,806	2,143,245	1,794,806
GBP	385,817	745,726	-	-
AUD	229,544	206,487	229,544	206,487

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**14. Contributed equity**

	<b>2012 Common Stock \$</b>	<b>2012 Preferred Series B \$</b>	<b>2012 Preferred Series C \$</b>	<b>2011 Common Stock \$</b>	<b>2011 Preferred Series B \$</b>	<b>2011 Preferred Series C \$</b>
<b>Group and Parent</b>						
<b>Balance at beginning of year</b>	1,785,798	489,776	1,022,694	1,260,794	489,776	1,022,694
Share options exercised during the year	1,026,051	-	-	525,004	-	-
<b>Balance at end of year</b>	<b>2,811,849</b>	<b>489,776</b>	<b>1,022,694</b>	<b>1,785,798</b>	<b>489,776</b>	<b>1,022,694</b>
	<b>2012 Common Stock</b>	<b>2012 Preferred Series B</b>	<b>2012 Preferred Series C</b>	<b>2011 Common Stock</b>	<b>2011 Preferred Series B</b>	<b>2011 Preferred Series C</b>
<b>Number of issued shares</b>						
<b>Balance at beginning of year</b>	5,680,102	872,715	447,429	5,457,102	872,715	447,429
Share options exercised during the year	466,000	-	-	223,000	-	-
<b>Balance at end of year</b>	<b>6,146,102</b>	<b>872,715</b>	<b>447,429</b>	<b>5,680,102</b>	<b>872,715</b>	<b>447,429</b>

**Voting rights**

All share classes have equal voting rights and have a par value of US\$0.000001 per share.

**Rights on winding up**

Preferred Series B shares have liquidation preferences. Series B shares are entitled to dividends at the rate of US\$0.02 per share per annum, such dividends only being payable when and if declared by the Board and are not cumulative. Series C shares have preferential rights to notification of and participation in certain capital changes in the corporation. Series C shares do not have any preferred rights to dividends. Preferred Series B & C share are convertible to Common Stock at the option of the holder on a 1 for 1 basis. There is an automatic conversion to Common Stock on the initial public offering of any nature affected under any foreign securities registration scheme where the proceeds are above a certain threshold.

**15. Trade and other payables**

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Trade payables	475,759	411,005	426,514	360,373
Revenue in advance	2,201,349	1,629,417	1,673,121	1,111,003
Advance from SLI Systems (UK) Limited (formerly named SLI Systems Limited)	-	-	293,937	675,059
Other payables and accrued expenses	97,458	233,977	25,916	127,272
	<b>2,774,566</b>	<b>2,274,399</b>	<b>2,419,488</b>	<b>2,273,707</b>

**16. Current employee benefits**

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Liability for annual and long service leave	445,403	365,576	403,386	335,141
Other employee payables	643,240	474,046	485,910	397,343
	<b>1,088,643</b>	<b>839,622</b>	<b>889,296</b>	<b>732,484</b>

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As at 30 June 2012 the amounts payable (including revenue in advance and employee entitlements) in foreign currency were as follows;

	Group		Parent	
	2012	2011	2012	2011
	\$	\$	\$	\$
USD	1,839,438	1,316,653	1,839,438	1,316,653
GBP	933,331	888,869	-	-
AUD	303,662	196,210	303,662	196,210

**17. Non-current employee benefits**

	Group		Parent	
	2012	2011	2012	2011
	\$	\$	\$	\$
Liability for long service leave - non current	38,303	31,496	38,303	31,496
	<b>38,303</b>	<b>31,496</b>	<b>38,303</b>	<b>31,496</b>

**18. Operating lease commitment**

	Group		Parent	
	2012	2011	2012	2011
	\$	\$	\$	\$
Non-cancellable operating lease rentals are payable as follows:				
Less than one year	629,041	366,553	442,083	275,429
Between one and five years	1,637,088	497,124	875,080	319,371
More than five years	68,313	-	60,375	-
	<b>2,334,442</b>	<b>863,677</b>	<b>1,377,538</b>	<b>594,800</b>

The Group leases properties and plant and equipment. 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. There are no options to purchase assets held under operating leases.

**19. Capital commitments**

The Parent and Group had contractual obligations to purchase plant and equipment for \$778,000 at balance date (Parent 2011: \$nil; Group 2011: \$nil) principally relating to the completion of the EPIC building property fit out. This commitment is expected to be settled within 12 months from balance date.

**20. Contingencies**

There are no contingencies that are not recorded in the balance sheet at June 2012 (June 2011: \$nil).

**21. Group entities**

Subsidiary

Name	Country of Incorporation	Ownership	
		2012	2011
SLI Systems (UK) Limited (formerly named SLI Systems Limited)	United Kingdom	100%	100%



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**22. Related parties**

**Parent and ultimate controlling party**

The immediate parent and ultimate controlling party of the Group is S.L.I. Systems, Inc.

**Related party transactions and balances**

The following transactions were carried out with related parties:

**(i) Provision of services**

	2012 \$	2011 \$
<b>Subsidiary</b>		
Provision of services to related companies as follows:		
Management Fees received from SLI Systems (UK) Limited (formerly named SLI Systems Limited)	373,890	299,328
<b>Total</b>	<b>373,890</b>	<b>299,328</b>

**(ii) Debt written off**

	Group 2012 \$	2011 \$	Parent 2012 \$	2011 \$
Eurekster loan written off	10,374	-	10,374	-
	<b>10,374</b>	<b>-</b>	<b>10,374</b>	<b>-</b>

**(iii) Year-end**

	Group 2012 \$	2011 \$	Parent 2012 \$	2011 \$
Receivable /(payable) from / to a related company				
Eurekster	-	10,374	-	10,374
SLI Systems (UK) Limited (formerly named SLI Systems Limited)	-	-	(293,937)	(675,059)
	<b>-</b>	<b>10,374</b>	<b>(293,937)</b>	<b>(664,685)</b>

Shaun Ryan was a director of S.L.I. Systems, Inc. and of SLI Systems (UK) Limited (formerly named SLI Systems Limited) during the year.

Steven Marder was a director of Eurekster during the year.

All key holders of options are disclosed in the Share options Note 23 to the accounts. The advance owing from Eurekster Inc. is unsecured and has been fully provided for as a doubtful debt

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

Matthew Houtman is a director of Pioneer Capital Management Ltd which manages certain entities which are shareholders in SLI.

**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.

	2012 \$	2011 \$
Short term employee benefits	1,980,874	1,690,765
Share options (under Employee Share Options Scheme)	20,626	18,556

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**23. Share options**

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

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

Reconciliation of outstanding options	No of options 2012	Weighted average exercise price US\$ 2012	No of options 2011	Weighted average exercise price US\$ 2011
Balance at beginning of year	1,880,219	1.24	2,028,469	1.10
Forfeited during the year	(62,007)	1.86	(227,750)	1.73
Exercised during the year	(466,000)	0.18	(223,000)	0.23
Issued	371,750	2.70	302,500	2.00
<b>Balance at end of year</b>	<b>1,723,962</b>	<b>1.82</b>	<b>1,880,219</b>	<b>1.24</b>
Exercisable at 30 June	839,797	1.33	1,033,429	0.68

For the options exercised the estimated weighted average share price at time of exercise was US\$2.71 (2011: US\$2.00)

Share options outstanding at the end of the year have the following expiry date, exercise dates and exercise prices

The following options are outstanding at balance date	Range of exercise prices	Weighted average contractual life at balance date 2012	Weighted average contractual life at balance date 2011
150,000 (2011: 616,000) options at	US \$0.18 - \$0.99 per share	0 year	1 year
216,000 (2011: 216,000) options at	US \$1.00 - \$1.44 per share	1.5 years	2.5years
20,000 (2011: 23,000) options at	US \$1.45 - \$1.74 per share	1.4 years	2.6 years
376,429 (2011: 403,429) options at	US \$1.75 - \$1.99 per share	4.8 years	5.7 years
837,783 (2011: 621,790) options at	US \$ 2.00 per share	9.6 years	8.9 years
123,750 (2011: nil) options at	US \$ 4.09 per share	9.9 years	n/a

**Measurement of fair value**

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

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

	<b>Weighted average contractual life at balance date 2012</b>	<b>Weighted average contractual life at balance date 2011</b>
Fair value at grant date (weighted average \$US)	\$0.62	\$0.80
Share price at grant date (weighted average \$US)	\$2.04	\$1.76
Exercise price (weighted average \$US)	\$1.82	\$1.24
Expected volatility (weighted average)	20%	20%
Expected life (weighted average)	4	4
Risk-free interest rate (weighted average)	3.2%	3.4%

**Key management personnel**

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

<b>Exercise price</b>	<b>US\$0.18</b>	<b>US\$2.00</b>
Steven Marder	150,000	-
Shaun Ryan	-	8,210
Greg Cross	-	20,000

Steven Marder also holds 150,000 options at a price calculated as per a valuation of US 10,000,000 on a fully diluted basis (including all issued common, preferred options and warrants at the time of the exercise).

The following Directors exercised options during the year.

Grant Ryan	US\$0.18	150,000
Shaun Ryan	US\$0.18	150,000

**Founder Employees**

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

<b>Exercise price</b>	<b>-</b>	<b>US\$2.00</b>
Geoffrey Brash		8,240
Wayne Munro		8,680

The following founder employees exercised options during the year:

Grant Ryan	\$US0.18	50,000
Shaun Ryan	\$US0.18	116,000

**24. Subsequent events**

The company has signed an agreement for the fit out of the new Christchurch premise totalling \$778,000 to be conducted in August 2012.

In July 2012, the UK Company signed a lease agreement for a new floor in Kemp House, City Road for a term of five years.

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**25. Financial risk management**

**(i) Financial instrument by classification**

	<b>Group</b>		<b>Parent</b>	
	<b>Loans and receivables \$</b>	<b>Other amortised costs \$</b>	<b>Loans and receivables \$</b>	<b>Other amortised cost \$</b>
<b>2012</b>				
<b>Assets</b>				
Cash and cash equivalents	2,441,101	-	1,215,251	-
Trade and other receivables	2,903,772	-	2,517,954	-
<b>Total current assets</b>	<b>5,344,873</b>	<b>-</b>	<b>3,733,205</b>	<b>-</b>
<b>Total non-current assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>5,344,873</b>	<b>-</b>	<b>3,733,205</b>	<b>-</b>
<b>Liabilities</b>				
Trade and other payables	-	3,968,773	-	3,329,381
<b>Total current liabilities</b>	<b>-</b>	<b>3,968,773</b>	<b>-</b>	<b>3,329,381</b>
Other payables	-	38,303	-	38,303
<b>Total non-current liabilities</b>	<b>-</b>	<b>38,303</b>	<b>-</b>	<b>38,303</b>
<b>Total Liabilities</b>	<b>-</b>	<b>4,007,076</b>	<b>-</b>	<b>3,367,684</b>

	<b>Group</b>		<b>Parent</b>	
	<b>Loans and receivables \$</b>	<b>Other amortised costs \$</b>	<b>Loans and receivables \$</b>	<b>Other amortised cost \$</b>
<b>2011</b>				
<b>Assets</b>				
Cash and cash equivalents	930,493	-	754,664	-
Trade and other receivables	3,326,960	-	2,581,234	-
<b>Total current assets</b>	<b>4,257,453</b>	<b>-</b>	<b>3,335,898</b>	<b>-</b>
<b>Total non-current assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>4,257,453</b>	<b>-</b>	<b>3,335,898</b>	<b>-</b>
<b>Liabilities</b>				
Trade and other payables	-	3,220,003	-	3,006,191
<b>Total current liabilities</b>	<b>-</b>	<b>3,220,003</b>	<b>-</b>	<b>3,006,191</b>
Other payables	-	31,496	-	31,496
<b>Total non-current liabilities</b>	<b>-</b>	<b>31,496</b>	<b>-</b>	<b>31,496</b>
<b>Total Liabilities</b>	<b>-</b>	<b>3,251,499</b>	<b>-</b>	<b>3,037,687</b>

**(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 Company's day-to-day activities.

As at 30 June 2012 if interest rates had been 0.25% higher/lower with all other variables held constant, interest income, net profit/(loss) and accumulated losses for the Company and the Group would have decreased/increased by an immaterial amount in respect of both 2012 and 2011.

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**Liquidity risk**

Liquidity risk is the risk that the Company or Group cannot pay contractual liabilities as they fall due. The Group has no debt and therefore management remains focused on generating sufficient revenue from sales to cover the ongoing costs of operation.

Generally trade payables are settled with 30 days and the employee benefits (accrued wages and salaries, holiday pay and long service leave) will be settled within 12 months with the exception of \$38,303 (2011: \$31,496) for long service leave that will be settled after more than 12 months.

**Credit risk**

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

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

Maximum exposure to credit risk at balance date:

	<b>Group</b>		<b>Parent</b>	
	<b>2102</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	2,441,101	930,493	1,215,251	754,664
Receivables	2,903,772	3,326,960	2,517,954	2,581,234
<b>Total</b>	<b>5,344,873</b>	<b>4,257,453</b>	<b>3,733,205</b>	<b>3,335,898</b>

**Foreign currency risk**

The Group faces the risk of movements in foreign currency exchange rates against the New Zealand dollar. The Group operates in three main currencies, being US dollars, UK pounds, and Australian dollars. As a result the Group's Income Statement and Statements of Financial Position 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 company does not use derivatives to hedge its foreign currency risk.

The Group and Parent hold financial assets and liabilities denominated in foreign currency and the Group has a subsidiary whose reporting currency is not New Zealand dollars. The potential effect on the Company's and Group's results for the year ended 30 June 2012 if the New Zealand dollar had increased/decreased by 10% against the other operating currencies, with all other variables remaining constant, is set out below;

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Appreciation of NZD against foreign currency (10%)				
(Decrease)/increase in profit/(loss) before tax	(163,705)	(106,904)	(95,971)	(103,635)
(Decrease)/increase in equity after tax	(203,614)	(118,970)	(69,027)	(74,617)
Depreciation of NZD against foreign currency (10%)				
(Decrease)/increase in profit/(loss) before tax	163,705	106,904	95,917	103,635
(Decrease)/increase in equity after tax	203,614	118,970	69,027	74,617

**Capital risk management**

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

**Fair value**

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

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**26. Earnings per share**

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

	2012	2011
Net profit/(loss) after tax	\$83,413	(\$61,371)
Ordinary shares on issue	6,146,102	5,680,102
Weighted average number of shares on issue	5,932,769	5,484,644
Adjustment for share options	185,917	-
Adjustment for conversion of Series B & C preferred stock	1,320,144	1,320,144
Basic earnings/(loss) per share	\$0.014	(\$0.011)
Diluted earnings/(loss) per share	\$0.011	(\$0.011)

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

	Group 2012 \$	Group 2011 \$	Parent 2012 \$	Parent 2011 \$
Net (loss)/profit after tax	83,413	(61,371)	(239,027)	(490,909)
<b>Adjustments</b>				
Depreciation	178,374	188,130	161,746	183,780
Amortisation	38,014	41,836	38,014	41,836
Deferred tax	25,306	(30,065)	25,306	(30,065)
Loss on disposal on property, plant and equipment	-	434,698	-	434,698
Loss on disposal of intangible assets	12,435	-	12,435	-
Loss/(gain) on foreign exchange transactions	8,695	(96,236)	-	-
Share option expense	99,652	123,052	99,652	123,052
<b>Changes in working capital items</b>				
(Increase)/decrease in trade receivables & prepayments	429,347	(1,036,983)	69,439	(568,603)
(Decrease)/increase in trade payables & accruals	755,674	251,549	309,399	329,163
(Increase)/decrease in GST	(6,159)	(2,276)	(6,159)	(2,276)
(Increase)/decrease in current tax payable	(417)	41,400	20,597	-
<b>Net cash from operating activities</b>	<b>1,624,334</b>	<b>(146,266)</b>	<b>491,402</b>	<b>20,676</b>

**28. Remuneration of auditors**

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and other network audit firms:

	Group		Parent	
	2012 \$	2011 \$	2012 \$	2011 \$
WHK audit	35,680	25,977	35,680	25,977
<b>Total remuneration for audit services</b>	<b>35,680</b>	<b>25,977</b>	<b>35,680</b>	<b>25,977</b>

## S.L.I. Systems, Inc. and its Subsidiary Business Directory

### Directors Remuneration

The company paid no directors fees in the year. No other remuneration was paid to directors in their capacity as directors. The CEO who is also a director was paid a salary in his capacity as an employee.

### Employee's Remuneration

The list below shows the number of employees paid greater than 100,000 in the year.

Remuneration range NZ\$	No. of employees
100,000-109,999	5
110,000-119,999	3
140,000-149,999	1
150,000-159,999	1
160,000-169,999	2
180,000-189,999	1
190,000-199,999	2
200,000-209,999	2
210,000-219,999	2
230,000-239,999	1
260,000-269,999	1
290,000-299,999	1
310,000-319,999	2
370,000-379,999	1
410,000- 419,999	1

### Donations

The Company made no donations during the year.

### Changes in Directors' Shareholdings

The following directors exercised share options in the year

	No. of shares	Option price paid	Date acquired
GJ Ryan	150,000	US\$0.18 per share	12-Oct-11
SW Ryan	150,000	US\$0.18 per share	07-Oct-11

### Directors' Shareholdings

The Directors owned the following shareholding either directly or beneficially at year end.

SE Marder	710,000	common stock
GJ Ryan	608,806	common stock
GJ Ryan	88,067	series B preferred stock
SW Ryan	600,000	common stock

### Directors' Insurances

The Company has directors and officers liability insurance cover.

## S.L.I. Systems, Inc. and its Subsidiary Business Directory

Nature of Business	Internet Technology
Reporting Basis	Differential exemption
Business Address	78-106 Manchester Street Christchurch
Postal Address	PO Box 13841 Christchurch
IRD Number	80-042-817
Company Number	1157651
Date of Incorporation	24 August 2001
Address for Service	78-106 Manchester Street Christchurch
Directors	G E Cross S E Marder G J Ryan – resigned 20 February 2013 S W Ryan M G Houtman I S Knowles – appointed 20 February 2013 S L Smith – appointed 20 February 2013
Auditors	PricewaterhouseCoopers Chartered Accountants 5 Sir Gil Simpson Drive Christchurch
Bankers	ASB Armagh Street Christchurch  ANZ National Bank Box 336 Christchurch  Silicon Valley Bank 3003 Tasman Drive Santa Clara California  Barclays Bank 99 Hatton Garden London  Commonwealth Bank of Australia 48 Martin Place Sydney



**APPENDIX C: S.L.I. SYSTEMS, INC. INTERIM FINANCIAL STATEMENTS**

**S.L.I. Systems, Inc. - Interim Report**  
**Consolidated Income Statement**  
**For the Six Months Ended 31 December 2012**

	Note	Unaudited Six Months Ended 31 December 2012 NZ\$'000	Unaudited Six Months Ended 31 December 2011 NZ\$'000	Audited Year Ended 30 June 2012 NZ\$'000
Revenue		9,146	7,236	15,524
Other income		429	67	138
<b>Total revenue &amp; other income</b>		<b>9,575</b>	<b>7,303</b>	<b>15,662</b>
Operating expenses	3	(3,458)	(2,817)	(6,045)
Employee entitlements		(5,278)	(4,395)	(9,409)
<b>Operating profit before finance costs</b>		<b>839</b>	<b>91</b>	<b>208</b>
Finance income	3	4	3	7
Finance expenses	3	-	-	-
<b>Net financing income</b>		<b>4</b>	<b>3</b>	<b>7</b>
<b>Profit before income tax</b>		<b>843</b>	<b>94</b>	<b>215</b>
Income tax (expense)		(48)	(1)	(132)
<b>Profit after income tax</b>		<b>795</b>	<b>93</b>	<b>83</b>
<b>Basic earnings per share</b>		0.131	0.016	0.014
<b>Diluted earnings per share</b>		0.120	0.013	0.011
<b>Weighted average basic ordinary shares outstanding ('000)</b>		6,091	5,671	5,933
<b>Weighted average diluted ordinary shares outstanding ('000)</b>		7,800	7,507	7,439

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

**S.L.I. Systems, Inc. - Interim Report**  
**Consolidated Statement of Comprehensive Income**  
**For the Six Months Ended 31 December 2012**

	Unaudited Six Months Ended 31 December 2012 NZ\$'000	Unaudited Six Months Ended 31 December 2011 NZ\$'000	Audited Year Ended 30 June 2012 NZ\$'000
Profit for the period	795	93	83
<b>Other comprehensive income</b>			
Currency translation movement	4	31	9
<b>Total comprehensive income for the period attributable to shareholders of the company</b>	<b>799</b>	<b>124</b>	<b>92</b>

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

**S.L.I. Systems, Inc. - Interim Report**  
**Consolidated Statement of Changes in Equity**  
**For the Six Months Ended 31 December 2012**

	<b>Note</b>	<b>Unaudited Six Months Ended 31 December 2012 NZ\$'000</b>	<b>Unaudited Six Months Ended 31 December 2011 NZ\$'000</b>	<b>Audited Year Ended 30 June 2012 NZ\$'000</b>
<b>Total equity at the beginning of the period</b>		2,033	1,733	1,733
<b>Total comprehensive income for the period</b>		799	124	92
Issue of share capital		1,000	-	-
Share options exercised during the period		-	70	109
Share option expense for the period		83	-	99
<b>Total equity at the end of the period</b>		<b>3,915</b>	<b>1,927</b>	<b>2,033</b>

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

**S.L.I. Systems, Inc. - Interim Report**  
**Consolidated Balance Sheet**  
**As at 31 December 2012**

	Note	Unaudited as at 31 December 2012 NZ\$'000	Unaudited as at 31 December 2011 NZ\$'000	Audited as at 30 June 2012 NZ\$'000
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		2,746	1,668	2,441
Trade and other receivables		3,596	3,180	2,904
<b>Total current assets</b>		<b>6,342</b>	<b>4,848</b>	<b>5,345</b>
<b>Non-current assets</b>				
Property, plant and equipment	10	1,203	386	403
Intangible assets		132	178	157
Deferred tax		135	161	135
<b>Total non-current assets</b>		<b>1,470</b>	<b>725</b>	<b>695</b>
<b>Total assets</b>		<b>7,812</b>	<b>5,573</b>	<b>6,040</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		(2,857)	(2,601)	(2,775)
Employee benefits		(850)	(905)	(1,089)
Current tax liabilities		(146)	(109)	(105)
<b>Total current liabilities</b>		<b>(3,853)</b>	<b>(3,615)</b>	<b>(3,969)</b>
<b>Non-current liabilities</b>				
Employee benefits		(44)	(31)	(38)
<b>Total non-current liabilities</b>		<b>(44)</b>	<b>(31)</b>	<b>(38)</b>
<b>Total liabilities</b>		<b>(3,897)</b>	<b>(3,646)</b>	<b>(4,007)</b>
<b>Net assets</b>		<b>3,915</b>	<b>1,927</b>	<b>2,033</b>
<b>EQUITY</b>				
Share capital		5,324	3,369	4,324
Reserves		1,112	1,880	1,025
Accumulated losses		(2,521)	(3,322)	(3,316)
<b>Total equity</b>		<b>3,915</b>	<b>1,927</b>	<b>2,033</b>

On Behalf of the Board

\_\_\_\_\_  
**Director**

SW Ryan

\_\_\_\_\_  
**Date**

\_\_\_\_\_  
**Director**

GE Cross

\_\_\_\_\_  
**Date**

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

**S.L.I. Systems, Inc. - Interim Report**  
**Consolidated Statement of Cash Flows**  
**For the Six Months Ended 31 December 2012**

	Note	Unaudited as at 31 December 2012 NZ\$'000	Unaudited as at 31 December 2011 NZ\$'000	Audited as at 30 June 2012 NZ\$'000
<b>Cash flows from operating activities</b>				
<b>Cash was provided from:</b>				
Receipts from customers		8,485	7,421	15,918
Insurance proceeds		369	-	138
Interest received		4	3	7
Net GST (paid) / received		(12)	12	78
		<b>8,846</b>	<b>7,436</b>	<b>16,141</b>
<b>Cash was applied to:</b>				
Payments made to suppliers and employees		(8,623)	(6,683)	(14,410)
Income tax paid		(8)	3	(107)
		<b>(8,631)</b>	<b>(6,680)</b>	<b>(14,517)</b>
<b>Net cash inflow from operating activities</b>	<b>4</b>	<b>215</b>	<b>756</b>	<b>1,624</b>
<b>Cash flows from investing activities</b>				
<b>Cash was applied to:</b>				
Purchase of property, plant and equipment	<b>10</b>	(910)	(88)	(222)
<b>Net cash (outflow) from investing activities</b>		<b>(910)</b>	<b>(88)</b>	<b>(222)</b>
<b>Cash flows from financing activities</b>				
<b>Cash was provided from:</b>				
Cash received from share options exercised		-	70	109
Capital invested		1,000	-	-
		<b>1,000</b>	<b>70</b>	<b>109</b>
<b>Net cash inflow from financing activities</b>		<b>1,000</b>	<b>70</b>	<b>109</b>
<b>Net increase in cash and cash equivalents</b>		<b>305</b>	<b>738</b>	<b>1,511</b>
Cash and cash equivalents at the beginning of the period		2,441	930	930
<b>Cash and cash equivalents at the end of the period</b>		<b>2,746</b>	<b>1,668</b>	<b>2,441</b>

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

**S.L.I. Systems, Inc. - Interim Report 2013**  
**Notes to the financial statements**  
**For the Six Months Ended 31 December 2012**

**1 GENERAL INFORMATION**

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

SLI is a limited company, incorporated in the United States and registered under the New Zealand Companies Act 1993. The registered office of the Company is 78-106 Manchester Street, Christchurch, New Zealand.

These consolidated financial statements have been approved for issue by the Board of Directors on 18 April 2013, and have been reviewed, not audited.

**2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

These general purpose financial statements for the six months ended 31 December 2012 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 S.L.I. Systems, Inc. for the year ended 30 June 2012 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 S.L.I. Systems, Inc. for the year ended 30 June 2012.

**3 EXPENSES**

	<b>Unaudited Six Months Ended 31 December 2012 NZ\$'000</b>	<b>Unaudited Six Months Ended 31 December 2011 NZ\$'000</b>	<b>Audited Year Ended 30 June 2012 NZ\$'000</b>
<b>Profit before tax includes the following expenses:</b>			
Depreciation on property, plant & equipment	(94)	(60)	(178)
Amortisation of intangibles	(25)	(30)	(38)
Employee entitlements	(5,278)	(4,395)	(9,409)
Operating lease expense	(310)	(214)	(533)
<b>Finance costs – net consist of:</b>			
Interest income	4	3	7

**S.L.I. Systems, Inc. - Interim Report**  
**Consolidated Statement of Cash Flows**  
**For the Six Months Ended 31 December 2012**

**4 RECONCILIATION OF NET PROFIT AFTER TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES**

	Unaudited Six Months Ended 31 December 2012 NZ\$'000	Unaudited Six Months Ended 31 December 2011 NZ\$'000	Audited Year Ended 30 June 2012 NZ\$'000
<b>Profit after taxation</b>	<b>795</b>	<b>93</b>	<b>83</b>
Movement in working capital:			
(Increase) / decrease in receivables and prepayments	(697)	178	429
Increase / (decrease) in trade and other payables	(145)	361	751
(Decrease) / increase in tax liability	40	3	-
	(802)	542	1,180
<i>Add non cash items:</i>			
Depreciation	94	60	178
Amortisation	25	30	38
Deferred taxation	-	-	25
Loss/(gain) on foreign exchange transactions	4	31	9
Share option expense	83	-	99
Loss on disposal of property, plant and equipment	16	-	-
Loss on disposal of intangible assets	-	-	12
	222	121	361
<b>Cash inflow from operating activities</b>	<b>215</b>	<b>756</b>	<b>1,624</b>

**5 RELATED PARTY DISCLOSURES**

**Parent and Ultimate Controlling Party**

The immediate parent and ultimate controlling party of the Group is S.L.I. Systems, Inc.

Steven Marder was a director of Eureka during the year.

Shaun Ryan was a director of S.L.I. Systems, Inc. and of SLI Systems (UK) Limited (formerly named SLI Systems Limited) during the year.

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

Matthew Houtman is a director of Pioneer Capital Management Ltd which manages certain entities which are shareholders in SLI.

**6 INTEREST BEARING LIABILITIES**

There are no interest bearing liabilities in 2012 (2011: nil).

**7 CONTINGENT LIABILITIES**

There are no contingent liabilities in 2012 (2011: nil).

**8 CONTINGENT ASSETS**

There are no contingent assets in 2012 (2011: nil).



**S.L.I. Systems, Inc. - Interim Report**  
**Consolidated Statement of Cash Flows**  
**For the Six Months Ended 31 December 2012**

**9 COMMITMENTS**

**(a) Operating lease commitments**

**Group as lessee:**

Rent expenses reported in these financial statements relate to non-cancellable operating leases. The future commitments on these leases are as follows:

	Unaudited as at 31 December 2012 NZ\$'000	Unaudited as at 31 December 2011 NZ\$'000	Audited as at 30 June 2012 NZ\$'000
Due within 1 year	590	463	629
Due within 1-2 years	398	517	445
Due within 2-5 years	1,015	858	1,193
Due after 5 years	-	164	68
	<b>2,003</b>	<b>2,002</b>	<b>2,335</b>

Some of the existing lease agreements have right of renewal options for varying terms.

The Group leases various properties under non-cancellable lease agreements. These leases are generally between 1 - 10 years.

**(b) Operating lease receivables**

**Group as lessor:**

There are no operating lease receivables in 2012 (2011: nil).

**(c) Capital commitments**

Capital commitments contracted for at balance date are:

	Unaudited as at 31 December 2012 NZ\$'000	Unaudited as at 31 December 2011 NZ\$'000	Audited as at 30 June 2012 NZ\$'000
Property, plant and equipment	20	20	778

**10 PROPERTY PLANT & EQUIPMENT**

	Unaudited as at 31 December 2012 NZ\$'000	Unaudited as at 31 December 2011 NZ\$'000	Audited as at 30 June 2012 NZ\$'000
Additions	910	88	222
Disposals	(16)	-	-

**S.L.I. Systems, Inc. - Interim Report**  
**Consolidated Statement of Cash Flows**  
**For the Six Months Ended 31 December 2012**

**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.

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

**12      EVENTS OCCURRING AFTER BALANCE DATE**

There are no events occurring after balance date that materially affect the information within the financial statements.

# **S.L.I. Systems, Inc. - Interim Report 2013**

## **STATUTORY INFORMATION**

### **GROUP STRUCTURE**

S.L.I. Systems, Inc. owns 100% of the following companies:  
SLI Systems (UK) Limited (formerly named SLI Systems Limited)

### **DIRECTORS' DETAILS**

G E Cross	Chairman, Non Executive
S W Ryan	Managing Director and Chief Executive Officer
S E Marder	Non-Executive Director
M G Houtman	Non-Executive Director
S L Smith	Non-Executive Director – appointed 20 February 2013
I S Knowles	Non-Executive Director – appointed 20 February 2013
G J Ryan	Non-Executive Director – resigned 20 February 2013

### **EXECUTIVES' DETAILS**

S W Ryan	Chief Executive Officer
R W Garrett	Chief Financial Officer

### **DIRECTORY**

#### **Christchurch Office**

78-106 Manchester Street  
1st Floor, Epic Centre  
Christchurch, 8011  
New Zealand

#### **USA Office**

333 West San Carlos  
Suite 1250  
San Jose, CA 95110-2738  
USA

#### **UK Office**

5th Floor  
Kemp House  
152-160 City Road,  
London, EC1V 2NP,  
United Kingdom

#### **Australia Office**

L1, 481 Church Street  
Richmond  
Melbourne, VIC 3121  
Australia

# APPENDIX D: EXPIRY DATE OF SHARE OPTIONS

Grant Date	Options	Options	Exercise Price	Exercise Price	Expiry Date
	Pre share split	After share split	Pre share split	After share split	
17-Nov-03	20,000	120,000	USD 1.45	USD 0.2417	17-Nov-13
01-Jan-04	66,000	396,000	USD 1.00	USD 0.1667	01-Jan-14
28-Nov-05	10,000	60,000	USD 1.75	USD 0.2917	29-Nov-15
13-Mar-06	20,000	120,000	USD 1.75	USD 0.2917	13-Mar-16
26-Apr-06	20,000	120,000	USD 1.75	USD 0.2917	26-Apr-16
19-Sep-06	60,000	360,000	USD 1.75	USD 0.2917	19-Sep-16
13-Nov-06	30,000	180,000	USD 1.75	USD 0.2917	13-Nov-16
05-Feb-07	10,000	60,000	USD 1.75	USD 0.2917	05-Feb-17
19-Mar-07	10,000	60,000	USD 1.75	USD 0.2917	19-Mar-17
29-Mar-07	11,429	68,571	USD 1.75	USD 0.2917	29-Mar-17
13-Aug-07	10,000	60,000	USD 1.75	USD 0.2917	13-Aug-17
24-Sep-07	10,000	60,000	USD 1.75	USD 0.2917	24-Sep-17
29-Oct-07	10,000	60,000	USD 1.75	USD 0.2917	29-Oct-17
06-Nov-07	5,000	30,000	USD 1.75	USD 0.2917	06-Nov-17
07-Jan-08	10,000	60,000	USD 1.75	USD 0.2917	07-Jan-18
28-Jan-08	10,000	60,000	USD 1.75	USD 0.2917	28-Jan-18
25-Mar-08	45,000	270,000	USD 2.00	USD 0.3333	25-Mar-18
07-Apr-08	10,000	60,000	USD 2.00	USD 0.3333	07-Apr-18
05-May-08	10,000	60,000	USD 2.00	USD 0.3333	05-May-18
12-May-08	10,000	60,000	USD 1.75	USD 0.2917	12-May-18
19-May-08	10,000	60,000	USD 1.75	USD 0.2917	19-May-18
30-Jun-08	12,360	74,160	USD 2.00	USD 0.3333	30-Jun-18
01-Nov-08	16,500	99,000	USD 2.00	USD 0.3333	01-Nov-18
19-Jan-09	8,250	49,500	USD 2.00	USD 0.3333	19-Jan-19
09-Mar-09	8,250	49,500	USD 2.00	USD 0.3333	09-Mar-19
13-Apr-09	8,250	49,500	USD 2.00	USD 0.3333	13-Apr-19
14-Apr-09	8,250	49,500	USD 2.00	USD 0.3333	14-Apr-19
10-May-09	8,250	49,500	USD 2.00	USD 0.3333	10-May-19
30-Jun-09	20,600	123,600	USD 2.00	USD 0.3333	30-Jun-19
09-Nov-09	8,250	49,500	USD 2.00	USD 0.3333	09-Nov-19
15-Feb-10	16,500	99,000	USD 2.00	USD 0.3333	15-Feb-20
01-Mar-10	8,250	49,500	USD 2.00	USD 0.3333	01-Mar-20
15-Mar-10	8,250	49,500	USD 2.00	USD 0.3333	15-Mar-20
23-Mar-10	35,000	210,000	USD 2.00	USD 0.3333	23-Mar-20
06-Apr-10	8,250	49,500	USD 2.00	USD 0.3333	06-Apr-20
03-May-10	16,500	99,000	USD 2.00	USD 0.3333	03-May-20
31-May-10	8,250	49,500	USD 2.00	USD 0.3333	31-May-20
08-Jun-10	8,250	49,500	USD 2.00	USD 0.3333	08-Jun-20
14-Jun-10	8,250	49,500	USD 2.00	USD 0.3333	14-Jun-20
21-Jun-10	8,250	49,500	USD 2.00	USD 0.3333	21-Jun-20
30-Jun-10	26,780	160,680	USD 2.00	USD 0.3333	30-Jun-20
01-Jul-10	16,500	99,000	USD 2.00	USD 0.3333	01-Jul-20
09-Aug-10	50,000	300,000	USD 2.00	USD 0.3333	09-Aug-20
23-Aug-10	8,250	49,500	USD 2.00	USD 0.3333	23-Aug-20
04-Oct-10	8,250	49,500	USD 2.00	USD 0.3333	04-Oct-20
08-Nov-10	16,500	99,000	USD 2.00	USD 0.3333	08-Nov-20
11-Nov-10	8,250	49,500	USD 2.00	USD 0.3333	11-Nov-20
29-Nov-10	8,250	49,500	USD 2.00	USD 0.3333	29-Nov-20
10-Jan-11	8,250	49,500	USD 2.00	USD 0.3333	10-Jan-21
15-Jan-11	35,000	210,000	USD 2.00	USD 0.3333	15-Jan-21
28-Feb-11	8,250	49,500	USD 2.00	USD 0.3333	28-Feb-21
16-May-11	8,250	49,500	USD 2.00	USD 0.3333	16-May-21
09-Jun-11	10,000	60,000	USD 2.00	USD 0.3333	09-Jun-21
27-Jun-11	8,250	49,500	USD 2.00	USD 0.3333	27-Jun-21
30-Jun-11	51,573	309,438	USD 2.00	USD 0.3333	30-Jun-21
01-Jul-11	13,500	81,000	USD 2.00	USD 0.3333	01-Jul-21

Grant Date	Options	Options	Exercise Price	Exercise Price	Expiry Date
	Pre share split	After share split	Pre share split	After share split	
04-Jul-11	8,250	49,500	USD 2.00	USD 0.3333	04-Jul-21
12-Jul-11	20,000	120,000	USD 2.00	USD 0.3333	12-Jul-21
15-Aug-11	8,250	49,500	USD 2.00	USD 0.3333	15-Aug-21
03-Oct-11	24,750	148,500	USD 2.00	USD 0.3333	03-Oct-21
17-Oct-11	8,250	49,500	USD 2.00	USD 0.3333	17-Oct-21
01-Nov-11	8,250	49,500	USD 2.00	USD 0.3333	01-Nov-21
14-Nov-11	16,500	99,000	USD 2.00	USD 0.3333	14-Nov-21
21-Nov-11	8,250	49,500	USD 2.00	USD 0.3333	21-Nov-21
05-Dec-11	16,500	99,000	USD 2.00	USD 0.3333	05-Dec-21
13-Dec-11	8,250	49,500	USD 2.00	USD 0.3333	13-Dec-21
02-Jan-12	8,250	49,500	USD 2.00	USD 0.3333	02-Jan-22
17-Jan-12	33,000	198,000	USD 2.00	USD 0.3333	17-Jan-22
12-Mar-12	8,250	49,500	USD 2.00	USD 0.3333	13-Mar-22
02-Apr-12	33,000	198,000	USD 2.00	USD 0.3333	02-Apr-22
30-Apr-12	41,250	247,500	USD 4.09	USD 0.6817	30-Apr-22
28-May-12	8,250	49,500	USD 4.09	USD 0.6817	28-May-22
01-Jun-12	16,500	99,000	USD 4.09	USD 0.6817	01-Jun-22
05-Jun-12	8,250	49,500	USD 4.09	USD 0.6817	05-Jun-22
11-Jun-12	8,250	49,500	USD 4.09	USD 0.6817	11-Jun-22
18-Jun-12	8,250	49,500	USD 4.09	USD 0.6817	18-Jun-22
25-Jun-12	16,500	99,000	USD 4.09	USD 0.6817	25-Jun-22
01-Jul-12	17,000	102,000	USD 4.49	USD 0.7483	01-Jul-22
02-Jul-12	8,250	49,500	USD 4.49	USD 0.7483	02-Jul-22
16-Jul-12	8,250	49,500	USD 4.49	USD 0.7483	16-Jul-22
18-Jul-12	8,250	49,500	USD 4.49	USD 0.7483	18-Jul-22
20-Aug-12	13,650	81,900	USD 4.49	USD 0.7483	20-Aug-22
10-Sep-12	5,400	32,400	USD 4.49	USD 0.7483	10-Sep-22
12-Sep-12	5,400	32,400	USD 4.49	USD 0.7483	12-Sep-22
08-Oct-12	10,800	64,800	USD 4.49	USD 0.7483	08-Oct-22
05-Nov-12	5,400	32,400	USD 4.49	USD 0.7483	05-Nov-22
19-Nov-12	5,400	32,400	USD 4.49	USD 0.7483	19-Nov-22
03-Dec-12	5,400	32,400	USD 4.49	USD 0.7483	03-Dec-22
03-Jan-13	10,800	64,800	USD 4.69	USD 0.7817	03-Jan-23
07-Jan-13	5,400	32,400	USD 4.69	USD 0.7817	07-Jan-23
14-Jan-13	10,800	64,800	USD 4.69	USD 0.7817	14-Jan-23
15-Feb-13	5,400	32,400	USD 4.69	USD 0.7817	15-Feb-23
18-Feb-13	5,400	32,400	USD 4.69	USD 0.7817	18-Feb-23
04-Mar-13	10,800	64,800	N/A	NZD 1.50	04-Mar-23
11-Mar-13	5,400	32,400	N/A	NZD 1.50	11-Mar-23
25-Mar-13	5,400	32,400	N/A	NZD 1.50	25-Mar-23
01-Apr-13	5,400	32,400	N/A	NZD 1.50	01-Apr-23
02-Apr-13	5,400	32,400	N/A	NZD 1.50	02-Apr-23
08-Apr-13	5,400	32,400	N/A	NZD 1.50	08-Apr-23
10-Apr-13	5,400	32,400	N/A	NZD 1.50	10-Apr-23
22-Apr-13	7,800	46,800	N/A	NZD 1.50	22-Apr-23
<b>Totals</b>	<b>1,406,992</b>	<b>8,441,949</b>			

EXPIRY DATE OF SHARE OPTIONS