

SLI Systems Limited
and its Subsidiaries
Financial Statements
For the year ended 30 June 2015

SLI Systems Limited and its Subsidiaries

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Presentation of the Financial Statements

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

The major changes are:

Separate financial statements for SLI Systems Limited are no longer presented; and

Accounting policies can be found throughout the notes to the financial statements.



Independent Auditors' Report to the shareholders of SLI Systems Limited

Report on the Financial Statements

We have audited the Group financial statements of SLI Systems Limited (“the Company”) on pages 6 to 25, which comprise the consolidated balance sheet as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the financial statements that include significant accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 30 June 2015 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

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



Independent Auditors' Report

SLI Systems Limited

Opinion

In our opinion, the financial statements on pages 6 to 25 present fairly, in all material respects, the financial position of the Group as at 30 June 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Restriction on Use of our Report

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

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', is written over a faint, larger version of the PwC logo.

Chartered Accountants
24 August 2015

Christchurch

Directors' Responsibility Statement

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

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

The directors believe that proper accounting records have been kept which enable with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance with the Financial Reporting Act 1993.

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

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

For and on behalf of the Board,



Greg Cross

Chairman of Board



Sarah Smith

Chair of Audit and Risk Committee

SLI Systems Limited and its Subsidiaries
Consolidated Statement of Comprehensive Income
For the Year Ended 30 June 2015

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

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

SLI Systems Limited and its Subsidiaries
Consolidated Statement of Changes in Equity
For the Year Ended 30 June 2015

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

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

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

SLI Systems Limited and its Subsidiaries
Consolidated Balance Sheet
As at 30 June 2015

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

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

SLI Systems Limited and its Subsidiaries
Consolidated Statement of Cash Flows
For the Year Ended 30 June 2015

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

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

1. General information

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

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

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice ("NZGAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

(a) Basis of preparation

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

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

Entities reporting

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

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

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

Historical cost convention

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

Critical accounting estimates and judgements

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

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of the subsidiaries of SLI Systems Limited as at 30 June 2015 and the results of the subsidiaries for the year then ended. SLI Systems Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

(c) Foreign currency translation

(i) *Functional and presentation currency*

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

(ii) **Transactions and balances**

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

(iii) **Foreign operations**

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

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

(d) **Goods and Services Tax (GST)**

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

(e) **Provisions**

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

(f) **Segment reporting**

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

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

(g) **Changes in accounting policy and disclosures**

New standards and interpretations not yet adopted.

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

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group will apply this standard from 1 July 2018 and has yet to assess its full impact.

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

(h) Accounting Policies disclosed in the Notes

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

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

3. Revenue and other income

Revenue for the Group is analysed below.

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

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

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

Accounting policy: Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services, excluding Goods and Services Tax, Value Added Tax, rebates and discounts. Revenue is recognised as follows:

(i) Provision of services

The provision of services is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Revenue in advance represents amounts billed to customers in advance of the provision of services and is accounted for as a liability.

Un-invoiced revenue represents the opposite of revenue in advance where services have been provided to customers but have not been invoiced at year end. These amounts have met the revenue recognition criteria of the Group and are shown as a receivable.

(ii) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grant income is recognised in the month the relevant expense is incurred.

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

4. Operating expenses

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

5. Employee entitlements

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

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

6. Taxation

(a) Income tax (credit) / expense can be reconciled to accounting (loss) / profit as follows:	2015 \$'000	2014 \$'000
Accounting (loss) / profit before tax	(7,231)	(5,913)
Tax at the Group's effective income tax rate of 28%	(2,025)	(1,656)
Adjustments in respect of current income tax of previous years	(4)	(26)
Tax effect of non-deductible expenditure	182	170
Tax effect of deduction for share options exercised in UK	-	(79)
Unrecognised current year tax losses	1,728	1,477
Tax effect of foreign jurisdictions	21	15
Tax losses brought forward utilised	(43)	-
Other	40	(92)
Aggregate income tax (credit) / expense	(101)	(191)
Comprising		
Current tax		
- Current year tax	50	23
- Prior year adjustment	(4)	(38)
Deferred tax	(147)	(176)
Income tax (credit) / expense	(101)	(191)

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

(b) Recognised tax asset / (liability)	2015	2014
	\$'000	\$'000
Opening balance	30	(76)
Charged to income	(50)	(23)
Tax (refund) / paid	(8)	91
Prior year adjustment	4	38
Closing balance	(24)	30

(c) Imputation credit balance

There is no imputation credit balance at 30 June 2015 (30 June 2014 nil).

7. Deferred taxation

Deferred tax asset / (liability):	2015	2014
	\$'000	\$'000
Opening balance	343	167
Credited to income	186	85
Prior year adjustment	(39)	91
Closing balance	490	343

Deferred income tax at 30 June relates to the following:

	2015	2014
	\$'000	\$'000
Deferred tax assets:		
Employee entitlements and other temporary differences	324	233
Provisions	81	74
Doubtful Debts	92	49
Other	5	2
Gross recognised deferred tax assets	502	358
Deferred tax liabilities:		
Property, plant and equipment	(12)	(15)
Gross recognised deferred tax liabilities	(12)	(15)
Net recognised deferred tax asset	490	343

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

Accounting policy: Income tax

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

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

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

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

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

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

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

Accounting policy: Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

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

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

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

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

9. Intangible assets	Patents and Trademarks \$'000	Software \$'000	Total \$'000
Year ended 30 June 2015			
Cost			
Balance at 1 July 2014	486	117	603
Additions	17	23	40
Balance at 30 June 2015	503	140	643
Amortisation			
Balance at 1 July 2014	(402)	(86)	(488)
Amortisation	(36)	(20)	(56)
Balance at 30 June 2015	(438)	(106)	(544)
Net carrying value	65	34	99
	Patents and Trademarks \$'000	Software \$'000	Total \$'000
Year ended 30 June 2014			
Cost			
Balance at 1 July 2013	486	107	593
Additions	-	10	10
Balance at 30 June 2014	486	117	603
Amortisation			
Balance at 1 July 2013	(367)	(64)	(431)
Amortisation	(35)	(22)	(57)
Balance at 30 June 2014	(402)	(86)	(488)
Net carrying value	84	31	115

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

All intangible assets have been purchased from third parties.

Accounting policy: Intangible assets

(i) Research costs are expensed as incurred.

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

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

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

(ii) Other intangible assets acquired are initially measured at cost. Internally generated assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the statement of comprehensive income in the year in which the expenditure is incurred.

(iii) The useful lives of the Group's intangible assets are assessed to be finite. Assets with finite lives are amortised over their useful lives and tested for impairment whenever there are indications that the assets may be impaired. Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful life of the intangible asset, from the date it is available for use.

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

The estimated useful lives are:

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

10. Cash and cash equivalents

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

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

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

Accounting policy: Cash and cash equivalents

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

11. Trade and other receivables

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

12. Trade receivables provisioning

(a) Impaired receivables

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

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

(b) Past due but not impaired

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

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

(c) Provision for impairment of receivables

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

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

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

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

Accounting policy: Trade receivables

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

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

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

13. Contributed equity

(a) Ordinary share capital

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

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

Accounting policy: Contributed capital

Ordinary shares are classified as equity.

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

(b) Redeemable shares

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

In satisfaction of the issue price of the redeemable shares, the Company provided loans to the redeemable shareholders. The loans provided are interest free, have recourse only against the redeemable shares and are repayable in full on the third anniversary of the issue date, or some other date under certain conditions. The substance of these transactions is similar in nature to the issuing of share options and as such are valued in accordance with Note 21 using the Black-Scholes pricing model. As at 30 June 2015, no cash has been exchanged in relation to these transactions and the loans are not recognised in the financial statements.

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

The unlisted redeemable shares as at 30 June 2015 are as follows:

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

14. Trade and other payables

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

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

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

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Notes to the Financial Statements

Accounting policy: Trade and other payables

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

15. Employee benefits

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

Non-current employee benefits

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

Accounting policy: Employee benefits

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

16. Operating lease commitment

Non-cancellable operating lease rentals are payable as follows:	2015 \$'000	2014 \$'000
Less than one year	1,432	1,129
Between one and five years	1,866	2,758
More than five years	-	-
	3,298	3,887

Accounting policy: Leases

Operating leases

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

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

17. Capital commitments

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

18. Contingencies

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

19. Subsidiaries

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

20. Related parties

Parent and ultimate controlling party

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

Related party transactions and balances

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

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

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

Key management personnel remuneration

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

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

21. Share options

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

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

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

Current Year	Number of Options	Weighted Average Exercise Price USD
<i>Reconciliation of outstanding options</i>	2015	2015
Balance at 1 July 2014	6,786,960	0.71
Expired during the year	(519,837)	1.00
Exercised during the year	(664,096)	0.37
Issued during the year	1,588,900	0.91
Balance at 30 June 2015	7,191,927	0.65
Exercisable at 30 June 2015	4,788,959	0.53

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

Prior Year	Number of Options	Weighted Average Exercise Price USD
Reconciliation of outstanding options		
	2014	2014
Balance at 1 July 2013	8,663,574	0.46
Expired during the year	(772,985)	0.81
Exercised during the year	(2,360,912)	0.31
Issued during the year	1,257,282	1.66
Balance at 30 June 2014	6,786,960	0.71
Exercisable at 30 June 2014	4,487,595	0.50

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

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

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

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

Measurement of fair value

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

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

USD options	2015	2014
Share price at grant date (weighted average USD)	0.41	0.42
Exercise price (weighted average USD)	0.42	0.42
Expected volatility (weighted average)	20% to 30%	20% to 30%
Expected life (weighted average)	4	4
Risk-free interest rate (weighted average)	3.0%	3.0%
Fair value at grant date (weighted average USD)	0.08	0.10

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

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

Directors

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

	Exercise price	
Shaun Ryan	USD 0.33	49,260
Greg Cross	USD 0.33	120,000

Accounting policy: Equity settled share option plan

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

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

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

22. Financial risk management

i) Financial instrument classification

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

Accounting Policy: Financial assets

Loans and receivables are classified as financial assets. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its assets at initial recognition and re-evaluates this designation at every reporting date.

Classification

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Loans and receivables are subsequently carried at cost.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(ii) Financial risk factors

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

Interest rate risk

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

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

Liquidity risk

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

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

Credit risk

Where the Group has a receivable from another party, there is a credit risk in the event of non-performance by that other party. Financial instruments that potentially subject the Group to credit risk principally consist of bank balances and receivables. The Group manages its exposure to credit risk by monitoring the credit quality of the financial institutions that hold its cash balances. The credit risk associated with trade receivables is small because of the inherently low individual transaction value and the spread over many customers.

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

Foreign currency risk

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

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

The Group holds financial assets and liabilities denominated in foreign currency and the Group has subsidiaries whose reporting currency is not New Zealand dollars. The potential impact on the Group's results for the period ended 30 June 2015 if the New Zealand dollar had changed to a closing rate of 10% higher / lower than other operating currencies, with all other variables remaining constant, is set out below;

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

Capital risk management

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

Fair value

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

23. Earnings per share

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

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

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

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

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

25. Remuneration of auditors

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

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

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

26. Subsequent events

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