

SLI Systems Limited
and its Subsidiaries
Interim Report

For the six months ended 31 December 2017

SLI Systems Limited and its Subsidiaries Contents

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SLI Systems Limited and its Subsidiaries
Consolidated Statement of Comprehensive Income
For the six months ended 31 December 2017

	Unaudited 6 months ended 31 Dec 2017 \$'000	Unaudited 6 months ended 31 Dec 2016 \$'000	Audited 12 months ended 30 Jun 2017 \$'000
Operating revenue	16,548	15,482	31,546
Government grants received and receivable	207	248	489
Total revenue and other income	16,755	15,730	32,035
Operating expenses	(6,154)	(6,714)	(13,089)
Employee entitlements	(9,426)	(10,291)	(20,542)
Operating profit / (loss) before finance income	1,175	(1,275)	(1,596)
Finance income	3	25	27
Net finance income	3	25	27
Profit / (loss) before tax	1,178	(1,250)	(1,569)
Income tax (expense)	(42)	(33)	(284)
Profit / (loss) for the period	1,136	(1,283)	(1,853)
Other comprehensive income recycled through profit and loss			
Currency translation movement	109	(102)	(87)
Total comprehensive profit / (loss) for the period attributable to the shareholders of the company	1,245	(1,385)	(1,940)
	Unaudited 31 Dec 2017	Unaudited 31 Dec 2016	Audited 30 Jun 2017
Profit / (loss) per share			
Basic and diluted profit / (loss) per share	\$0.018	(\$0.021)	(\$0.030)

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

SLI Systems Limited and its Subsidiaries
Consolidated Statement of Changes in Equity
For the six months ended 31 December 2017

Unaudited	Share Capital \$'000	Share Option Reserve \$'000	Translation Reserve \$'000	Accumulated Losses \$'000	Total Equity \$'000
Opening balance at 1 July 2017	18,771	2,091	(124)	(16,130)	4,608
Profit for the period	-	-	-	1,136	1,136
Currency translation movement	-	-	109	-	109
Total comprehensive profit / (loss) for the period	-	-	109	1,136	1,245
Transactions with owners					
Share options & share appreciation rights					
- exercised during period	-	-	-	-	-
- expense for the period	-	29	-	-	29
- expired / forfeited for the period	-	(398)	-	398	-
Balance at 31 December 2017	18,771	1,722	(15)	(14,596)	5,882

Unaudited	Share Capital \$'000	Share Option Reserve \$'000	Translation Reserve \$'000	Accumulated Losses \$'000	Total Equity \$'000
Opening balance at 1 July 2016	18,771	1,848	(37)	(14,797)	5,785
(Loss) for the period	-	-	-	(1,283)	(1,283)
Currency translation movement	-	-	(102)	-	(102)
Total comprehensive profit / (loss) for the period	-	-	(102)	(1,283)	(1,385)
Transactions with owners					
Share options & share appreciation rights					
- exercised during period	-	-	-	-	-
- expense for the period	-	484	-	-	484
- expired / forfeited for the period	-	(368)	-	368	-
Balance at 31 December 2016	18,771	1,964	(139)	(15,712)	4,884

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

SLI Systems Limited and its Subsidiaries
Consolidated Balance Sheet
As at 31 December 2017

	Unaudited 31 Dec 2017 \$'000	Unaudited 31 Dec 2016 \$'000	Audited 30 Jun 2017 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	6,439	6,012	5,646
Trade and other receivables	6,671	5,795	6,341
Total current assets	13,110	11,807	11,987
Non-current assets			
Deferred tax assets	468	675	468
Property, plant and equipment	1,149	1,208	1,202
Intangible assets	114	182	139
Total non-current assets	1,731	2,065	1,809
Total assets	14,841	13,872	13,796
LIABILITIES			
Current liabilities			
Taxation payable	90	53	51
Trade and other payables	7,012	6,850	7,480
Employee benefits	1,815	2,051	1,612
Total current liabilities	8,917	8,954	9,143
Non-current liabilities			
Employee benefits	25	21	28
Deferred tax liabilities	17	13	17
Total non-current liabilities	42	34	45
Total liabilities	8,959	8,988	9,188
Net assets	5,882	4,884	4,608
EQUITY			
Share capital	18,771	18,771	18,771
Reserves	1,707	1,825	1,967
Accumulated losses	(14,596)	(15,712)	(16,130)
Total equity	5,882	4,884	4,608
	Unaudited 31 Dec 2017	Unaudited 31 Dec 2016	Audited 30 Jun 2017
Net tangible asset backing per ordinary security	\$0.09	\$0.08	\$0.07

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

SLI Systems Limited and its Subsidiaries
Consolidated Statement of Cash Flows
For the six months ended 31 December 2017

	Note	Unaudited 6 months ended 31 Dec 2017 \$'000	Unaudited 6 months ended 31 Dec 2016 \$'000	Audited 12 months ended 30 Jun 2017 \$'000
Cash flows from operating activities				
Cash was provided from:				
Receipts from customers		16,396	15,499	31,724
Interest received		5	23	25
Net GST (paid) / received		(89)	71	146
Government grants		244	325	332
Cash was applied to:				
Payments made to suppliers and employees		(15,608)	(16,473)	(32,965)
Income tax (paid)		(4)	(14)	(54)
Net cash inflow / (outflow) from operating activities	3	944	(569)	(792)
Cash flows from investing activities				
Cash was provided from / applied to:				
Purchase of property, plant and equipment		(150)	(47)	(194)
Sale of property, plant and equipment		2	2	6
Purchase of intangibles		(3)	(139)	(139)
Net cash (outflow) from investing activities		(151)	(184)	(327)
Cash flows from financing activities				
Cash was provided from:				
Cash received from share options exercised		-	-	-
Net cash inflow from financing activities		-	-	-
Net increase / (decrease) in cash and cash equivalents		793	(753)	(1,119)
Cash and cash equivalents at the beginning of the period		5,646	6,765	6,765
Cash and cash equivalents at the end of the period		6,439	6,012	5,646

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

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

1. General information

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

The consolidated financial statements for the Group for the period ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 23 February 2018.

2. Basis of preparation

The Group consists of profit-oriented companies and the condensed consolidated interim financial information for the six months ended 31 December 2017 has been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). These financial statements comply with NZ IAS 34 'Interim Financial Reporting' and with International Accounting Standard 34 (IAS 34). The condensed consolidated interim financial information should be read in conjunction with the audited annual financial statements for the year ended 30 June 2017, which have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

The basis of preparation and the accounting policies used in the preparation of the interim financial statements are consistent with those of the audited annual financial statements of SLI Systems Limited and its subsidiaries for the year ended 30 June 2017.

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

	Unaudited 6 months ended 31 Dec 2017 \$'000	Unaudited 6 months ended 31 Dec 2016 \$'000	Audited 12 months ended 30 Jun 2017 \$'000
Net profit / (loss) after tax	1,136	(1,283)	(1,853)
Adjustments			
Depreciation	105	147	295
Amortisation	28	22	65
Gain / (loss) on currency translation movement	101	(96)	(80)
Loss on disposal of assets	105	-	-
Share options and share appreciation rights expense	29	484	763
Changes in working capital items			
(Increase) in trade receivables, income in advance and prepayments	(72)	(56)	(196)
(Decrease) / increase in trade payables and accruals	(534)	208	(47)
Decrease / (increase) in GST	8	(14)	33
Decrease in tax	38	19	228
Net cash inflow / (outflow) from operating activities	944	(569)	(792)

4. Share Appreciation Rights

Share Appreciation Rights (SARs), a share based payment plan, were developed as a Long Term Incentive plan for key executives and senior management and provides the company with the flexibility to settle any share appreciation in cash or shares. An appropriate Long Term Incentive plan is critical to attracting and retaining key talent.

Conditional SARs

In the six months to 31 December 2017, SLI granted 1,038,000 SARs at a weighted average exercise price NZ \$0.25 cents that vest and become exercisable as of the one year anniversary after the grant date. The SARs can only be exercised on the appropriate anniversary date or some other date as agreed by the Board, and if they are not exercised they will terminate after the expiry of the relevant exercise date.

SLI Systems Limited and its Subsidiaries

Notes to the Financial Statements

The SARs include non-market performance obligations that will determine the percentage of SARs that will be eligible to vest. The Board will at its discretion determine if the performance obligations have been satisfied. All performance obligations will have been determined as satisfied or not by November 2018. For the purposes of determining the fair value the assumed achievement of non-market performance obligations is 100%.

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

6. US Tax reform

On 22 December 2017, the US Government signed into law extensive changes to the US tax system. These changes are known as the 'Tax Cuts and Jobs Act' (the 2017 Act). As at the date of signing these accounts the impact on the financial statements has been determined as minimal. A full impact assessment will be completed for the year-end.

7. Subsequent events

There have been no material subsequent events after 31 December 2017.