SLI Systems Limited

and its Subsidiaries

Financial Statements

For the year ended 30 June 2018

SLI Systems Limited and its Subsidiaries
Contents

Independent auditor's report

To the shareholders of SLI Systems Limited

The financial statements comprise:

- the consolidated balance sheet as at 30 June 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements of SLI Systems Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

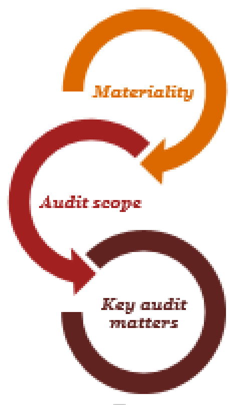
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of research and development grant application review, compliance assurance engagement over the interim financial statements and generic professional ethics training. The provision of these other services has not impaired our independence as auditor of the Group.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality was $338,000, which represents approximately 1% of total Group operating revenue.

We chose total Group operating revenue as the benchmark because, in our view, it is the benchmark against which the performance of the Group is measured by users, and is a generally accepted benchmark.

We have determined that there are two key audit matters:

- Revenue recognition
- Classification of research and development expenditure

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The accounting function and records for the Group are maintained in New Zealand providing consistent accounting systems and processes across the jurisdictions that the Group operates in. Our audit was conducted in New Zealand and the scope of our testing covered the transactions and balances for the entire Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition The Group's operating revenue comprises revenue from Software as a Service ("SaaS") agreements and amounted to $33.8 million for the year ended 30 June 2018. The Group's SaaS agreements include two main elements, subscription based contract revenue (billed in advance) and activity based (referrals) revenue (billed in arrears). Revenue is generated from a high volume of transactions and is dependent on the operation of IT systems. Revenue is recognised in the accounting period in which the services are rendered, as per the Group's accounting policy in Note 3 to the financial statements. Revenue is a key measure of the financial performance of the Group and in our view is of particular interest to the users of the financial statements in assessing the performance of the Group. Due to the significant audit effort required to assess the occurrence and cut-off of revenue recognition we determined this area to be a key audit matter.	Our audit procedures included the following: We obtained an understanding of the SaaS agreements. We evaluated and tested the Group's IT systems, processes and controls over revenue recognition to initiate, calculate and determine the amount and timing of subscription and activity based revenue transactions. We assessed the appropriateness of revenue recognition for subscription and activity based revenue by performing the following procedures, on a sample basis, for both existing and new contracts: • assessed the appropriateness of classification of revenue as subscription or activity based. This assessment was made with reference to the terms of the contract; • ensured revenue recognised from monthly subscription fees was supported by signed contracts; • assessed the existence of receivables, and thereby the occurrence of revenues, by testing the balances paid and outstanding to contracts and cash received; • reviewed credit notes issued after year-end; • tested evidence of the level of site activity (i.e. referrals) by agreeing the number of recorded visits to customers' websites in order to support the occurrence of activity based revenue recognised; and • reperformed a sample of the revenue in advance calculations for subscription revenue at balance date by agreement to supporting documentation. From the procedures performed, we have no matters to report.

Key audit matter	How our audit addressed the key audit matter
Classification of research and development expenditure As a software as a service provider, the Group incurs significant research and development costs on the development and maintenance of software. Development costs that meet certain criteria under the accounting standard NZ IAS 38 Intangible Assets are capitalised. The criteria for capitalisation includes determination of the software's technical feasibility, likelihood of generating future economic benefits and an assessment of resources required for completion. This was an audit area of focus because management exercises judgement in determining which of these costs are expensed, and which are capitalised. As per Note 9 to the financial statements, $3.0 million of research costs were expensed during the year. No development costs were capitalised, as management assessed that they did not meet the capitalisation criteria.	Our audit procedures included the following: We obtained an understanding of the processes and controls over the recognition of research and development expenses as well as the trigger point for the capitalisation of these costs. We evaluated the appropriateness of the treatment of these costs as expenditure rather than being capitalised by meeting with project managers and reviewing all project plans to obtain an understanding of the nature of the projects. We also performed an assessment of the software projects against the accounting standard criteria including evaluating: how the software is used in the business, the stage of development, technical feasibility, the likelihood of the software being successfully completed and used to generate revenue exceeding costs beyond one year and whether the costs are maintaining or enhancements of an existing software product post release rather than new or substantially improved products. From the procedures performed, we have no matters to report.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, and will not express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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.

The engagement partner on the audit resulting in this independent auditor's report is Nathan Wylie.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
28 August 2018

Christchurch

Directors’ Responsibility Statement

The directors are responsible on behalf of the Company, including its subsidiaries (the Group), for presenting the consolidated financial statements in accordance with New Zealand law and Generally Accepted Accounting Practice, which present fairly the financial position of the Group as at 30 June 2018, its financial performance and its cash flows for the year ended on that date.

The financial statements presented cover a period of 12 months from 1 July 2017 to 30 June 2018.

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

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

The Board of Directors of the Group authorised the financial statements presented for issue on 28 August 2018.

For and on behalf of the Board,

Greg Cross

Chairman of Board

Sarah Smith

Chair of Audit and Risk Management Committee

SLI Systems Limited and its Subsidiaries
Consolidated Statement of Comprehensive Income
For the Year Ended 30 June 2018

	Note	2018 $'000	2017 $'000
Operating revenue	3	33,802	31,546
Government grants received and receivable		615	489
Total revenue and other income		**34,417**	**32,035**
Operating expenses	4	(11,771)	(13,089)
Employee entitlements	5	(18,558)	(20,542)
Operating profit / (loss) before finance income		**4,088**	**(1,596)**
Finance income		18	27
Net finance income		**18**	**27**
Profit / (Loss) before tax		**4,106**	**(1,569)**
Income tax (expense)	6	(84)	(284)
Profit / (Loss) for the year		**4,022**	**(1,853)**
Other comprehensive income recycled through profit and loss			
Currency translation movement		150	(87)
Total comprehensive profit / (loss) for the year attributable to the shareholders of the company		**4,172**	**(1,940)**

Earnings per share		**2018**	**2017**
Basic and diluted earnings per share	24	0.065	(0.030)

SLI Systems Limited and its Subsidiaries
Consolidated Statement of Changes in Equity
For the Year Ended 30 June 2018

	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 year	-	-	-	4,022	4,022
Currency translation movement	-	-	150	-	150
Total comprehensive profit for the year	**-**	**-**	**150**	**4,022**	**4,172**
Transactions with owners					
Share options & share appreciation rights					
- exercised during year	-	-	-	-	-
- expense for the year	-	97	-	-	97
- expired / forfeited for the year	-	(449)	-	449	-
Balance at 30 June 2018	**18,771**	**1,739**	**26**	**(11,659)**	**8,877**

	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 year	-	-	-	(1,853)	(1,853)
Currency translation movement	-	-	(87)	-	(87)
Total comprehensive (loss) for the year	**-**	**-**	**(87)**	**(1,853)**	**(1,940)**
Transactions with owners					
Share options & share appreciation rights					
- exercised during year	-	-	-	-	-
- expense for the year	-	763	-	-	763
- expired / forfeited for the year	-	(520)	-	520	-
Balance at 30 June 2017	**18,771**	**2,091**	**(124)**	**(16,130)**	**4,608**

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 2018

	Note	2018 $'000	2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10	9,146	5,646
Trade and other receivables	11	7,515	6,341
Total current assets		**16,661**	**11,987**
Non-current assets			
Deferred tax assets	7	476	468
Property, plant and equipment	8	1,096	1,202
Intangible assets	9	87	139
Total non-current assets		**1,659**	**1,809**
Total assets		**18,320**	**13,796**
LIABILITIES			
Current liabilities			
Taxation payable	6	68	51
Trade and other payables	14	7,431	7,480
Employee benefits	15	1,888	1,612
Total current liabilities		**9,387**	**9,143**
Non-current liabilities			
Employee benefits	15	35	28
Deferred tax liabilities	7	21	17
Total non-current liabilities		**56**	**45**
Total liabilities		**9,443**	**9,188**
Net assets		**8,877**	**4,608**
EQUITY			
Share capital	13	18,771	18,771
Reserves		1,765	1,967
Accumulated losses		(11,659)	(16,130)
Total equity		**8,877**	**4,608**

	2018	2017
Net tangible asset backing per ordinary security	$0.13	$0.06

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 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		32,744	31,724
Interest received		14	25
Net GST (paid) / refund		(100)	146
Government grants		491	332
Cash was applied to:			
Payments made to suppliers and employees		(29,368)	(32,965)
Income tax (paid)	6	(75)	(54)
Net cash inflow / (outflow) from operating activities	25	**3,706**	**(792)**
Cash flows from investing activities			
Cash was applied to:			
Purchase of property, plant and equipment	8	(207)	(194)
Sale of property, plant and equipment		4	6
Purchase of intangibles	9	(3)	(139)
Net cash (outflow) from investing activities		**(206)**	**(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		**3,500**	**(1,119)**
Cash and cash equivalents at the beginning of the year		5,646	6,765
Cash and cash equivalents at the end of the year	10	**9,146**	**5,646**

The accompanying notes form part of, and should be read in conjunction with, these 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 2018 were authorised for issue in accordance with a resolution of the Directors on 28 August 2018.

2. Summary of significant accounting policies

The consolidated financial statements of the group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The Group is a for-profit entity for the purposes of complying with NZ GAAP and for financial reporting purposes. The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also 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.

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 not required to be prepared and presented.

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

There have been no significant changes in accounting policies during the period.

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:

1. Determining the classification of research related costs (note 9);
2. Determining the parameters of the Black-Scholes pricing model (note 21);
3. Determining deferred tax asset recognition (note 7);
4. Determination of share appreciation rights (SARs) being an equity settled share option scheme (note 22);
5. Determining the provision for doubtful debts required in relation to the level of receivables (note 12).

(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 2018 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.

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

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

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

(c) Foreign currency translation

(i) ***Functional and presentation currency***

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

(ii) ***Transactions and balances***

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

(iii) ***Foreign operations***

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

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

(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) 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.

(f) Changes in accounting policy and disclosures

The International Accounting Standards Board has issued standards, amendments and interpretations which are not yet effective and which may have an impact on the Group's financial statements. These are detailed below. The Group has not yet applied these in preparing the financial statements.

NZ IFRS 9

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. The Group will apply this standard from 1 July 2018. It anticipates that the classification and measurement basis for its financial assets and liabilities will be largely unchanged by adoption of NZ IFRS 9. The main impact of adopting NZ IFRS 9 is likely to arise from the implementation of the expected loss model on trade receivables. The Group will use the simplified approach and group customers into risk bands by assessing the risk of a customer defaulting based on numerous factors including, customer industry, region, collections history and customer size. The expected credit loss will be calculated based on the customer risk profiles. No material impact is expected on profit for future periods, however additional disclosure will be required.

NZ IFRS 15

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 Group will apply this standard from 1 July 2018 and will apply the modified retrospective method of adoption which will result in a cumulative adjustment to the opening retained earnings without restating the comparative.

The Group has a project team which has been reviewing SLI's two revenue streams being subscription based contract revenue and activity based revenue. To date, within SLI's two revenue streams, three performance obligations have been identified being the Learning Search (LS) suite, post contract support (PCS) and Site Champion. The LS Suite (including implementation) has been defined as a series of distinct services that are substantially the same and have the same pattern of transfer to the customer and therefore recognised over time. Site Champion is expected to be recognised over time as the benefits are consumed. There are expected to be some changes to the timing of revenue recognition under these methods, but these are still being quantified. To date, no significant variable consideration has been identified. Contract costs that are incremental costs to winning a contract will be capitalised and subsequently amortised over a period longer than the initial contract term. The impact of this is still to be quantified.

The disclosure requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are completely new and the project team has been working on ensuring systems are in place to capture the required information.

NZ IFRS 16

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The Group will apply this standard from 1 July 2019 and has yet to assess its full impact.

(g) 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 and other receivables	12
Contributed capital	13
Trade and other payables	14
Employee benefits	15
Leases	16
Equity settled share option plan	21
Financial assets and financial liabilities	23

3. Revenue and other income

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

	2018 $'000	2017 $'000
United States	17,896	17,906
United Kingdom	8,233	6,994
Australia	4,217	3,402
Brazil	1,176	1,272
New Zealand	1,262	1,190
Japan	624	267
Rest of the world	394	515
	33,802	**31,546**

Revenue by service type:

	2018 $'000	2017 $'000
Learning Search suite	27,212	26,513
Site Champion	6,590	5,033
	33,802	**31,546**

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, Sales Tax, rebates and discounts. Revenue is recognised as follows:

(i) ***Provision of services***

Subscription based contract revenue

Subscription based contract revenue applies to SLI's Learning Search suite and comprises recurring fees from customers for SLI's software services. The majority of customers are billed monthly or quarterly in advance.

Activity based revenue

Activity based revenue applies to SLI's Site Champion service and consists of fees based generally on the number of referrals. The majority of this revenue is billed quarterly in arrears.

*(ii) **Government grants***

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

4. Operating expenses

	2018 $'000	2017 $'000
Operating expenses include:		
Amortisation of intangible assets	55	65
Bad debts written off	306	429
Movement in provision for doubtful debts	107	(120)
Depreciation on property, plant and equipment	216	295
Directors' fees	237	221
Remuneration paid to auditors (Note 26)	136	104
Operating leases expenses	1,149	1,546
(Gain) / loss on foreign exchange transactions	(72)	(17)

5. Employee entitlements

	2018 $'000	2017 $'000
Wages and salaries	17,984	19,205
Share option and SARs expense	97	763
Employer contribution to defined contribution plans	305	295
Restructuring	172	279
Total employee entitlements	**18,558**	**20,542**

Employee benefit costs incurred on research activities are included within employee entitlements disclosed above. The cost of employee entitlements associated with research costs is $2,069,000 (30 June 2017 $1,127,000).

6. Taxation

(a) Income tax expense can be reconciled to accounting profit / (loss) as follows:	2018 $'000	2017 $'000
Accounting profit / (loss) before tax	4,106	(1,569)
Tax at the Group's NZ statutory income tax rate of 28%	1,150	(439)
Adjustments in respect of current income tax of previous years	2	(14)
Tax effect of non-deductible expenditure	84	283
Unrecognised current year tax losses	-	394
Tax losses brought forward utilised	(1,247)	-
Effect of tax rates applying in foreign jurisdictions	40	15
Adjustments in respect of deferred tax of previous years	55	45
Aggregate income tax expense	**84**	**284**
Comprising		
Current tax		
- Current year tax	88	88
- Prior year adjustment	2	(14)
Deferred tax	(6)	210
Income tax expense	**84**	**284**

(b) Recognised tax (liability) / asset	2018 $'000	2017 $'000
Opening balance	(51)	(34)
Charged to income	(88)	(88)
Tax paid	75	54
Prior year adjustment	(2)	15
Other	(2)	2
Closing balance	**(68)**	**(51)**

(c) Imputation credit balance

There is no imputation credit balance at 30 June 2018 (30 June 2017 nil).

7. Deferred taxation

Deferred tax asset / (liability):	2018 $'000	2017 $'000
Opening balance	451	662
Credited to income	61	(165)
Prior year adjustment	(55)	(45)
Other	(2)	(1)
Closing balance	**455**	**451**

Deferred income tax at 30 June relates to the following:	2018 $'000	2017 $'000
Deferred tax assets:		
Employee entitlements	265	232
Provisions	85	128
Doubtful debts	113	100
Other	13	8
Gross recognised deferred tax assets	**476**	**468**
Deferred tax liabilities:		
Property, plant and equipment	(21)	(17)
Gross recognised deferred tax liabilities	**(21)**	**(17)**
Net recognised deferred tax asset	**455**	**451**

As the Group continues to invest in development and marketing there is variability in trading performance. As such no deferred tax asset is recognised in relation to the carried forward tax losses as it is not assessed as probable the Group will generate sufficient assessable income in the foreseeable future. The Group has unrecognised New Zealand tax losses available to carry forward of $8,829,000 (30 June 2017 $12,547,000) subject to shareholder continuity being maintained as required by New Zealand tax legislation and subject to confirmation from the relevant tax authority.

US tax reform

On 22 December 2017, the US Government signed into law extensive changes to the US tax system. These changes were introduced by the 'Tax Cuts and Jobs Act' (the 2017 Act) and are known as the US tax reform. As at the date of signing these accounts the impact of the US tax reform on the financial statements has been determined as not material. A final assessment will be completed along with the lodgement of the US tax return.

Accounting policy: Income tax

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

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

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

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

8. Property, plant and equipment

	Computer Equipment $'000	Furniture, Equipment and Other $'000	Total $'000
Year ended 30 June 2018			
Cost			
Balance at 1 July 2017	1,402	1,808	3,210
Currency translation movement	17	27	44
Additions	84	123	207
Disposals	(420)	(196)	(616)
Balance at 30 June 2018	**1,083**	**1,762**	**2,845**
Depreciation			
Balance at 1 July 2017	(1,208)	(800)	(2,008)
Currency translation movement	(15)	(18)	(33)
Depreciation expense	(108)	(108)	(216)
Disposals	410	98	508
Balance at 30 June 2018	**(921)**	**(828)**	**(1,749)**
Net carrying amount	**162**	**934**	**1,096**

	Computer Equipment $'000	Furniture, Equipment and Other $'000	Total $'000
Year ended 30 June 2017			
Cost			
Balance at 1 July 2016	1,432	1,699	3,131
Currency translation movement	(12)	(11)	(23)
Additions	74	120	194
Disposals	(92)	-	(92)
Balance at 30 June 2017	**1,402**	**1,808**	**3,210**
Depreciation			
Balance at 1 July 2016	(1,143)	(672)	(1,815)
Currency translation movement	8	8	16
Depreciation expense	(159)	(136)	(295)
Disposals	86	-	86
Balance at 30 June 2017	**(1,208)**	**(800)**	**(2,008)**
Net carrying amount	**194**	**1,008**	**1,202**

The net carrying value at 30 June 2018 of property, plant and equipment held in New Zealand is $684,000 (30 June 2017 $763,000), within the United States $199,000 (30 June 2017 $261,000), within United Kingdom $191,000 (30 June 2017 $159,000), within Australia $19,000 (30 June 2017 $19,000) and within Japan $2,500 (30 June 2017 nil).

Accounting policy: Property, plant and equipment

All property, plant and equipment is 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 or the straight line method to expense the cost of the assets over their useful lives. The rates are as follows:

- Computer Equipment 30% - 67%
- Furniture, Equipment and Other 4% - 80%

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

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

9. Intangible assets

	Patents and Trademarks $'000	Software $'000	Total $'000
Year ended 30 June 2018			
Cost			
Balance at 1 July 2017	516	289	805
Additions	-	3	3
Balance at 30 June 2018	**516**	**292**	**808**
Amortisation			
Balance at 1 July 2017	(479)	(187)	(666)
Amortisation	(5)	(50)	(55)
Balance at 30 June 2018	**(484)**	**(237)**	**(721)**
Net carrying value	**32**	**55**	**87**

	Patents and Trademarks $'000	Software $'000	Total $'000
Year ended 30 June 2017			
Cost			
Balance at 1 July 2016	516	150	666
Additions	-	139	139
Balance at 30 June 2017	**516**	**289**	**805**
Amortisation			
Balance at 1 July 2016	(475)	(126)	(601)
Amortisation	(4)	(61)	(65)
Balance at 30 June 2017	**(479)**	**(187)**	**(666)**
Net carrying value	**37**	**102**	**139**

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.

Judgement is applied in distinguishing between the research and development phases of a project. The nature of the Software as a Service solutions is such that there is an insignificant period of time between the point where the software becomes technically feasible and can be released to the market. Due to the insignificance of any development activities these are not recognised as internally generated intangible assets.

All intangible assets have been purchased from third parties.

Research and development costs

The total amount attributable to research costs during the year is $2,996,000 (30 June 2017 $1,512,000). During the year there were no activities which met the definition of development expenditure.

Accounting policy: Intangible assets

(i) Research costs are expensed as incurred.

The cost associated with maintaining computer software programs is 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.

(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 for patents and trademarks and diminishing value method for software over the estimated useful life of the intangible asset, from the date it is available for use.

The estimated useful lives are:

- Patents and Trademarks 5% - 10%
- Software 48%

10. Cash and cash equivalents

	2018 $'000	2017 $'000
Cash at bank and on hand	4,771	3,660
Short-term bank deposits	4,375	1,986
	9,146	**5,646**

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

	2018 $'000	2017 $'000
US dollars	2,355	2,009
Great British pounds	1,034	1,067
Australian dollars	882	367
Japanese yen	266	42

Accounting policy: Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions for less than 90 days 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

	2018 $'000	2017 $'000
Gross trade receivables	5,918	4,398
Provision for impairment of receivables	(482)	(375)
Net trade receivables	**5,436**	**4,023**
Un-invoiced revenue	1,331	1,027
Prepayments and other receivables	748	1,291
Total trade and other receivables	**7,515**	**6,341**

12. Trade receivables provisioning

(a) Impaired receivables

As at 30 June 2018 trade receivables with a value of $482,000 (30 June 2017 $375,000) were impaired in respect of the Group. The ageing analysis of these trade receivables is as follows:

	2018 $'000	2017 $'000
0-60 days overdue	100	74
61-90 days overdue	105	123
91+ days overdue	277	178
Impaired receivables	**482**	**375**

(b) Past due but not impaired

As at 30 June 2018 trade receivables of the Group of $531,000 (30 June 2017 $233,000) 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:

	2018 $'000	2017 $'000
1-30 days overdue	283	153
Greater than 31 days overdue	248	80
	531	**233**

(c) Provision for impairment of receivables

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

	2018 $'000	2017 $'000
Opening balance	375	495
Additional amounts provided	107	-
Unused amounts written back	-	(120)
Closing balance	**482**	**375**

(d) As at balance date the amounts receivable (including un-invoiced revenue and prepayments and other receivables) in foreign currency were as follows, all values shown in NZ$:

	2018 $'000	2017 $'000
US dollars	3,554	3,263
Great British pounds	2,695	2,124
Australian dollars	760	473
Japanese yen	9	49

Accounting policy: Trade and other 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 statement of comprehensive income within 'operating expenses.' Subsequent recoveries of amounts previously written off are credited against 'operating expenses' in the statement of comprehensive income.

Un-invoiced revenue represents services that 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.

13. Contributed equity

(a) Ordinary share capital

	Number of Ordinary Shares 2018	2018 $'000	Number of Ordinary Shares 2017	2017 $'000
Opening balance	62,260,816	18,771	62,260,816	18,771
Share options exercised	-	-	-	-
Closing balance	**62,260,816**	**18,771**	**62,260,816**	**18,771**

The total number of ordinary shares on issue as at 30 June 2018 is 62,260,816 (30 June 2017 62,260,816) 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.

14. Trade and other payables

	2018 $'000	2017 $'000
Trade payables, other payables and accrued expenses	1,540	2,248
Revenue in advance	5,891	5,232
	7,431	**7,480**

As at balance date the amounts payable (including revenue in advance and employee benefits) in foreign currency were as follows, all values shown in NZ$:

	2018 $'000	2017 $'000
US dollars	4,721	5,114
Great British pounds	2,408	2,097
Australian dollars	900	785
Japanese yen	32	24

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.

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

15. Employee benefits

Current employee benefits	2018 $'000	2017 $'000
Liability for annual and long service leave	982	873
Other employee payables	906	739
	1,888	**1,612**

Non-current employee benefits

	2018 $'000	2017 $'000
Liability for long service leave	35	28
	35	**28**

Accounting policy: Employee benefits

Liabilities for wages and salaries, 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 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:	2018 $'000	2017 $'000
Less than one year	872	1,033
Between one and five years	817	1,172
More than five years	-	-
	1,689	**2,205**

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.

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 2018 (30 June 2017 nil).

18. Contingencies

There are no contingencies at 30 June 2018 (30 June 2017 nil).

19. Subsidiaries

Name	Country of Incorporation	Ownership 2018	Ownership 2017
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 and SARs are disclosed in Notes 21 and 22.

Marder Media Group, Inc. (of which Steven Marder is a director) is no longer a shareholder of Delivery Agent. Delivery Agent is a customer of S.L.I. Systems, Inc. Revenue recognised in the year while Marder Media Group, Inc. was a shareholder of Delivery Agent was nil (30 June 2017 $246,000).

Group Lark Pty Ltd (of which Andrew Lark is a director) provided consulting services to S.L.I. Systems, Inc. of $8,000 (30 June 2017 $6,000).

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 Officer, the management team and Directors.

The following table summarises remuneration paid to key management personnel:

	2018 $'000	2017 $'000
Directors' fees	237	221
Employee entitlements	2,933	3,639
Share options and SARs	74	738

21. Share options

Options to subscribe for shares have been issued to certain directors and employees.

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 monthly, 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; or ii) the last date for exercising the option following termination of the Optionee's Service; or iii) a date determined by the Board of Directors.

The functional and presentation currency of the financial statements is in New Zealand dollars (NZ$). However, as almost half of the options have an exercise price denominated in US dollars (US$) the tables below are presented in both NZ$ and US$.

Current Year ***Reconciliation of outstanding options***	Number of Options 2018	Weighted Average Exercise Price NZ$ 2018	Weighted Average Exercise Price US$ 2018
Balance at 1 July 2017	5,476,832	0.78	0.57
Expired / forfeited during the year	(1,149,703)	0.91	0.64
Exercised during the year	-	-	-
Issued during the year	810,000	0.31	0.22
Options issued from exercising or expiry of SARs	613,083	0.37	0.26
Balance at 30 June 2018	**5,750,212**	**0.66**	**0.45**
Exercisable at 30 June 2018	4,587,454	0.74	0.50

Prior Year *Reconciliation of outstanding options*	**Number of Options 2017**	**Weighted Average Exercise Price NZ$ 2017**	**Weighted Average Exercise Price US$ 2017**
Balance at 1 July 2016	4,601,944	0.93	0.66
Expired / forfeited during the year	(836,051)	1.41	1.01
Exercised during the year	-	-	-
Issued during the year	565,000	0.43	0.30
Options issued from exercising or expiry of SARs	1,145,939	0.85	0.60
Balance at 30 June 2017	**5,476,832**	**0.78**	**0.57**
Exercisable at 30 June 2017	4,627,248	0.79	0.58

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 30 Jun 2018 (years)**
300,000	US $0.29 - $0.33	1.9
1,635,829	US $0.3333	2.3
171,375	US $0.68	4.0
285,338	US $0.75	4.2
129,600	US $0.78	4.7
1,738,083	NZ $0.25 - $0.40	8.7
45,000	NZ $0.41 - $0.60	8.7
145,167	NZ $0.61 - $0.80	7.6
813,083	NZ $0.81 - $1.00	7.2
78,200	NZ $1.01 - $1.20	6.5
67,900	NZ $1.21 - $1.40	6.2
40,537	NZ $1.41 - $1.60	6.1
113,800	NZ $1.61 - $1.80	5.9
103,500	NZ $1.81 - $2.00	5.1
27,600	NZ $2.01 - $2.20	5.4
13,800	NZ $2.21 - $2.40	5.8
41,400	NZ $2.41 - $2.60	5.7

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 US$ options:

US$ options	**2018**	**2017**
Share price at grant date (weighted average US$)	0.40	0.41
Exercise price (weighted average US$)	0.42	0.43
Expected volatility (weighted average)	20% - 30%	20% - 30%
Expected life (weighted average)	4.0 years	4.0 years
Risk-free interest rate (weighted average)	3.1%	3.0%
Fair value at grant date (weighted average US$)	0.08	0.08

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

NZ$ options	2018	2017
Share price at grant date (weighted average NZ$)	0.62	0.80
Exercise price (weighted average NZ$)	0.69	0.97
Expected volatility (weighted average)	30% - 50%	30% - 40%
Expected life (weighted average)	4.0 years	4.0 years
Risk-free interest rate (weighted average)	2.8%	3.0%
Fair value at grant date (weighted average NZ$)	0.23	0.28

Directors

The following directors hold the following number of options as at 30 June 2018:

	Exercise price	
Christopher Brennan (issued in the current year)	NZ $0.37	613,083
Christopher Brennan	NZ $0.83	613,083
Shaun Ryan	NZ $0.94	200,000
Greg Cross	US $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. Any unvested options that expire are recycled through comprehensive income.

The options are accounted for as equity settled share based payments as the Company has no legal or constructive obligation to repurchase or settle the options in cash.

There is, for most option holders, a requirement to remain an employee of the Company in order to retain the options.

22. Share Appreciation Rights

SARs, a share based payment plan, were developed as a Long Term Incentive plan for key executives 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.

The terms and conditions, valuation basis and other required disclosures for these share based payments are set out below.

Conditional SARs

In the twelve months to 30 June 2018, SLI granted 1,038,000 SARs at a weighted average exercise price of NZ $0.25 cents. These conditional SARs are eligible to 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.

The SARs include non-market performance obligations that will determine whether the SARs 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 or some other date determined by the Board.

Unconditional SARs

SARs issued in previous periods vest to the extent of 1/4 of the SARs 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 SARs are fully vested on the fourth anniversary of the grant date unless otherwise determined by the Board. The SARs shall be available to exercise to the extent of 25% of the total number of SARs issued to the recipient at the one year anniversary of the grant date, then an additional 25% of the initially issued number of SARs will be able to be exercised on each of the second, third and fourth anniversaries of the base 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.

Upon exercise of all types of SARs, the recipient will be entitled to receive a payment equal to the increase in share price between the share price on exercise date, or such other value determined by the Board, and the exercise price of the SARs.

Such payment can be made either in cash or by the issue of SLI NZ ordinary shares, at market value, at the discretion of the Board of Directors.

On the date on which the SARs are either (i) exercised or (ii) terminated, additional fully vested share options will be issued subject to Board approval. The number of options issued will be equal to the number of exercised or terminated SARs. The exercise price of the share options will be the greater of the exercise price of the SARs and the share price on the day the share options are granted. The options will expire on the 10th anniversary of the grant date of the SARs.

The share based payment expense includes both the SARs and the options and is required to be recognised from the grant date of the SARs. Based on the choice of settlement and SLI's ability and the likelihood to settle in shares, the SARs and options are considered to be equity-settled share based payments.

Current Year ***Reconciliation of outstanding SARs***	**Number of SARs 2018**	**Weighted Average Exercise Price NZ$ 2018**
Balance at 1 July 2017	2,345,221	0.37
Expired / forfeited during the year	(550,972)	0.36
Expired during the year & share options issued	(613,083)	0.37
Exercised during the year	-	-
Issued during the year	1,138,000	0.25
Balance at 30 June 2018	**2,319,166**	**0.31**

Prior Year ***Reconciliation of outstanding SARs***	**Number of SARs 2017**	**Weighted Average Exercise Price NZ$ 2017**
Balance at 1 July 2016	4,583,757	0.85
Expired / forfeited during the year	(1,092,597)	0.76
Expired during the year & share options issued	(1,145,939)	0.85
Exercised during the year	-	-
Issued during the year	-	-
Balance at 30 June 2017	**2,345,221**	**0.37***

** 2,345,221 SARs were repriced in the 30 June 2017 year to NZ $0.37 cents, the weighted average price of these prior to repricing was NZ $0.89 cents.*

SARs outstanding at the end of the year have the following characteristics:

Number of SARs	**Exercise Price per Share**	**Weighted Average Contractual Life remaining at 30 Jun 2018 (years)**
100,000	NZ $0.20	2.1
993,000	NZ $0.25	0.3
1,226,166	NZ $0.37	0.9

Measurement of fair value

The fair values of the SARs and option grants are measured using the Black-Scholes pricing model. Expected volatility is estimated by considering historic average share price volatility for a group of SLI's NZX listed peers. A simulation model has been used to estimate the exercise price of options being the future share price at the time the associated SARs are exercised and the related options are granted. For the purposes of determining the fair value expense of the Conditional SARs non-market performance obligations are assumed to not be achieved.

The total fair value expense for the year including the impact of repricing is as follows for SARs and additional options:

Fair value SARs expense through the Statement of Comprehensive Income	2018 $'000	2017 $'000
Expensed during the year	21	234
Expensed during the year – due to repricing	7	92
	28	**326**
Fair value SARs expense recycled through Equity		
Expired / forfeited during the year	(166)	(231)

Fair value additional options expense through the Statement of Comprehensive Income	2018 $'000	2017 $'000
Expensed during the year	19	261
Expensed during the year – due to repricing	11	133
	30	**394**
Fair value options expense recycled through Equity		
Expired / forfeited during the year	(164)	-

The inputs used in the measurement of the fair values at grant date were as follows for SARs and additional options:

SARs	2018	2017
Expected volatility (weighted average)	30% - 50%	30%
Expected life (weighted average)	1.9 years	2.5 years
Risk-free interest rate (weighted average)	2.3%	2.7%
Fair value at grant date (weighted average NZ$)	0.12	0.19
Fair value impact of repricing (weighted average NZ$)	0.15	0.24

Options not yet granted	2018	2017
Expected volatility (weighted average)	30% - 50%	30%
Expected life (weighted average)	4.5 years	4.0 years
Risk-free interest rate (weighted average)	2.6%	2.7%
Fair value at grant date (weighted average NZ$)	0.15	0.20
Fair value impact of repricing (weighted average NZ$)	0.20	0.26

The SARs weighted average share price at grant date is NZ $0.55 cents and exercise price is NZ $0.31 cents.

Options in the table above have not yet been granted so have not been reported on the NZX but for Accounting standard IFRS 2 the related expense is recorded in current year financial statements.

Directors

The following directors hold the following number of SARs as at 30 June 2018:

	Exercise price	
Christopher Brennan (issued in the current year)	NZ $0.25	441,000
Christopher Brennan	NZ $0.37	1,226,166

23. 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.

For initial and subsequent measurement of the Group's loans and receivables, trade and other payables and employee benefits, refer to the relevant accounting policy note.

Accounting Policy: Financial assets

Loans and receivables are classified as financial assets. The classification depends on the purpose for which the assets were acquired. As at 30 June 2018 these total $16,661,000 (30 June 2017 $11,987,000).

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.

Accounting Policy: Financial liabilities

Trade and other payables are classified as financial liabilities. As at 30 June 2018 these total $7,431,000 (30 June 2017 $7,480,000).

Classification

Trade and other payables are non derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They are included in current liabilities.

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 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 $35,000 at 30 June 2018 for long service leave that will be settled after more than 12 months (30 June 2017 $28,000).

Credit risk

Where the Group has a receivable from another party, there is a credit risk in the event of non-performance by that other party. Financial instruments that potentially subject the Group to credit risk principally consist of bank balances and receivables. The Group manages its exposure to credit risk by monitoring the credit quality of the financial institutions that hold its cash balances. The credit risk associated with trade receivables is small because of the relatively 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 foreign currencies, being US dollars, Great British 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 year ended 30 June 2018 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:

	2018 $'000	2017 $'000
Appreciation of NZ$ against foreign currency (10%)		
(Decrease) in profit before tax	(349)	(137)
(Decrease) in equity after tax	(399)	(233)
Depreciation of NZ$ against foreign currency (10%)		
Increase in profit before tax	349	137
Increase in equity after tax	399	233

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.

24. 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 and SARs. There is no dilutive effect from the potential share options or SARs.

	2018	2017
Net profit / (loss) after tax	$4,022,000	($1,853,000)
Ordinary shares on issue	62,260,816	62,260,816
Weighted average number of shares on issue	62,260,816	62,260,816
Basic and diluted earnings per share	**0.065**	**(0.030)**

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

	2018 $'000	2017 $'000
Net profit / (loss) after tax	4,022	(1,853)
Adjustments		
Depreciation	216	295
Amortisation	55	65
Profit / (loss) on currency translation movement	139	(80)
Loss on disposal of assets	104	-
Share option and SARs expense	97	763
Changes in working capital items		
(Increase) in trade receivables and prepayments	(515)	(196)
(Decrease) in trade payables and accruals	(415)	(47)
(Increase) / Decrease in GST	(10)	33
Decrease in tax	13	228
Net cash inflow / (outflow) from operating activities	**3,706**	**(792)**

26. Remuneration of auditor

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

	2018 $'000	2017 $'000
Audit of financial statements		
Audit and review of financial statements (1)	128	97
Prior year audit fee under accrual	4	3
Other services		
Other services (2)	4	4
Total remuneration paid to auditor	**136**	**104**

1. The audit fee includes the fees for both annual audit of the Group and SLI Systems (UK) Limited financial statements the compliance assurance engagement on the Group interim financial statements and fee in relation to the costs of transitioning to new accounting standards.
2. Other services as at 30 June 2018 include professional services rendered in relation to research and development grant application review and presentation of generic professional ethics training.

27. Subsequent events

There have been no material subsequent events after 30 June 2018.