







HIGHLIGHTS FOR SIX MONTHS TO 31 DECEMBER 2017

-  Net profit after tax lifts 18% to \$832,000
-  Software & technology revenues grow 21% to \$2.9 million
-  EBITDA increases 23% to \$1.32 million
-  Cash flow from operations declines \$127,000 to \$827,000
-  Interim dividend of 4.0 cents per share (up 14.3% on last year)
-  Growth in DéjarMail continuing
-  Expected FY2018 net profit after tax growth of around 20%



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CHAIRMAN'S & CHIEF EXECUTIVE OFFICER'S REPORT

Result Overview

Solution Dynamics Limited (“SDL” or “Company”) produced an unaudited net profit after tax of \$0.832 million for the half year (1H FY17 \$0.704 million). This represents 18.2% year-on-year growth. Cash flow from operations was \$0.827 million (1H FY17 \$0.954 million) and the closing net cash position at 31 December was \$2.41 million (1H FY17 \$1.86 million). The Directors have declared an interim dividend of 4.0 cents per share (1H FY17 3.5 cents), fully imputed, a payout ratio of 69% of earnings per share.

Operational Commentary

Operating revenue grew 10.8% to \$11.3 million. Much of this was from gains in low margin postage revenue and subcontracted printing in the UK where SDL earns low margins. NZ domestic print revenue was under some pressure, falling fractionally year-on-year. The consequence of SDL's changing revenue mix – particularly the pressure on higher margin local print and mail volumes, more on that below – was a slight decline in the Company's gross margin percentage from 37.7% to 37.3% (dollar gross margin increased, up 9.7% to \$4.21 million). Costs continued to be well controlled, with Selling, General & Administration costs rising 4.6% with much of the increase coming from SDL adding additional resource, especially in the UK.

Software & Technology revenues showed a pleasing increase of 21.0% to \$2.93 million (1H FY17: \$2.42 million), as the Company's UK revenues in particular continue to build. SDL's UK channel partners are increasingly gaining sales traction. Furthermore, this first half revenue growth is despite some drag from the impact during the prior year of a major New Zealand customer no longer requiring Déjar to archive its invoices as it began to self store its documents.

SDL was pleased to be recently recognised for its growth in technology with the Financial Times rating the Company in the top 1,000 Asia-Pacific growth companies and allocating SDL to the technology sector.

In the traditional digital print and document handling services market, revenue declined 0.5% year-on-year to \$3.38 million (1H FY17: \$3.40 million). While this is a market which otherwise remains in overall decline, SDL has previously been able to grow print and mail revenues by picking up market share at a faster pace

than customers have been switching to electronic communications channels. A key feature of the Company's first half was a noticeable increase in the rate at which customers switched to electronic communications. Historically, SDL has observed the annual rate of switching at around 5-7%, but the first half saw this increase to a rate of around 15%. We largely put this increased switching rate to some of SDL's customers becoming more cost focussed, as the Company also noticed a drop off in the level of ad hoc print/mail and development work against historic levels. The dollar gross margins SDL earns on electronic communications are lower than print and consequently this increase in switching is acting as a drag on the Company's earnings.

Outside of the switch to electronic, the Company is seeing print and mail growth from a range of industry sectors including financial services, debt collection, retail, freight and distribution, and charities. SDL's web based, hybrid mail software offering – DéjarMail – has been instrumental in the capture of most of the new opportunities within our existing customers and securing a broadening range of new customers.

The Company is seeing increasing interest in its software technology in the UK and Europe, particularly DéjarMail. Mail resellers are attracted to DéjarMail as a means of capturing desktop mail volumes. SDL now has two large mail resellers in the UK and is seeing solidly growing volumes through these channels.

SDL has also recently extended its multi-channel communications offering and added SMS, text to voice (TTV) and e-fax to its Omni Channel Portal.

Financial Performance

Earnings before interest, tax, depreciation and amortisation (EBITDA) improved by \$0.25 million (+22.8%) to \$1.32 million (1H HY17: \$1.08 million) on sales revenue that rose 10.8%.

CHAIRMAN'S & CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

Summary Financial Performance (all figures \$000)	1H FY18	1H FY17	Yr-on-Yr \$ Change	Yr-on-Yr % Change
Total Revenue	11,292	10,187	1,105	10.8%
Cost of Goods Sold	7,080	6,348	732	11.5%
Gross Margin	4,212	3,839	373	9.7%
Gross Margin (%)	37.3%	37.7%		
Selling, General & Admin Costs	2,888	2,761	127	4.6%
EBITDA	1,324	1,078	246	22.8%
EBITDA Margin (%)	11.7%	10.6%		
Depreciation	102	107	(5)	-4.7%
Amortisation	53	32	21	65.6%
EBIT	1,169	939	230	24.5%
Net Interest	(2)	2	(4)	n.a.
Net Profit before Tax	1,171	937	234	25.0%
Taxation	339	233	106	45.5%
Net Profit after Tax	832	704	128	18.2%

The EBITDA result gain is partly the benefit of higher gross margin in Software & Technology, plus underlying Selling, General & Admin (SG&A) costs remaining well managed.

SDL's taxation rate in 1H FY2018 was 29.0% versus 24.9% in the prior period. This higher rate partly represents a one-off adjustment that lowered the taxation rate in 1H FY2017 taxation as well as the lack of UK tax losses which were fully utilised in FY2017. Going forward, the Company expects to be paying tax at the full rate on both New Zealand and UK earnings.

Revenue Analysis (all figures \$000)	1H FY18	1H FY17	Yr-on-Yr \$ Change	Yr-on-Yr % Change
Software & Technology	2,933	2,424	509	21.0%
Digital Print & Document Handling	3,381	3,398	(17)	-0.5%
Outsourced Services	4,978	4,365	613	14.0%
Total Revenue	11,292	10,187	1,105	10.8%

The 21.0% growth rate for Software & Technology revenue streams in the first half was ahead of expectations. SDL's pipeline of opportunities and sales efforts in the UK and European markets are likely to ensure Software & Technology has a number of years of revenue growth ahead. The Company is still overly reliant on direct sales efforts by a couple of key staff, and a small number of large customers in the UK. We reiterate previous comments that SDL's small size and geographic distance from what is presently our most important growth market continues to present ongoing difficulties but the Company is nevertheless pleased with the expansion being achieved.

Digital print growth in 1H FY2018 was problematic as a result of the increased rate of switching to electronic communications noted above. While this trend will continue, the variability in the rate of change is less certain and difficult to predict. The industry has excess digital print capacity and rationalisation will inevitably occur.

Balance Sheet, Liquidity and Debt

SDL closed the half year with net cash on hand of \$2.41 million. A bank overdraft facility of \$0.2 million remains in place but is unused. The main capital expenditure in the half was in upgrading some of SDL's production-related software.

Selected Balance Sheet and Cashflow Figures (all figures \$000)	1H FY18	1H FY17	Yr-on-Yr \$ Change	Yr-on-Yr % Change
Net Cash on Hand (net of debt)	2,408	1,858	550	29.6%
Non-current Assets	1,959	2,105	(146)	-6.9%
Net Other Liabilities	(398)	(570)	172	-30.2%
Net Assets	3,969	3,393	576	17.0%
Cashflow from Trading	968	893	75	8.4%
Movement in Working Capital	(141)	61	(202)	-331.1%
Cash Inflow from Operations	827	954	(127)	-13.3%

Book value (net assets) has increased by 17.0% to \$3.97 million. Working capital continues to be well managed. SDL made capital expenditure additions during the half of \$0.115 million, the majority of which, as noted above, was for software.

The seasonality in SDL's business, especially New Zealand print and mail, means sales and earnings are higher in 1H compared to 2H and accordingly the movement in working capital is negative in 1H, and positive in 2H. As SDL's software

CHAIRMAN'S & CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

revenue, especially in the northern hemisphere, continues to grow, the extent of this seasonality is beginning to reduce.

The Company examined (and is still examining in some cases) a number of potential acquisition opportunities during the first half but retains its cautious approach to acquisitions and strong preference for organic growth. Nevertheless there may be “bolt on” opportunities where removal of duplicated costs means the effective acquisition multiple is low, or product extension opportunities where the acquisition fills a gap in SDL's software portfolio plus SDL has the opportunity to sell its software into the acquired company's customer base.

In early 2014 SDL introduced an Employee Share Option Plan (“ESOP”). That ESOP has issued options over 580,000 shares and 500,000 of these options became exercisable in March 2017 (the remaining 80,000 become exercisable in March 2018). During the first half of FY2018, staff exercised options over 190,000 of these shares which increased SDL's shares on issue by 1.4% to 14.25 million shares.

Dividend

SDL is declaring an interim dividend of 4.0 cents per share, an increase of 0.5 cent per share or 14.3% on the prior year.

Earnings and Dividend per Share		Yr-on-Yr Change	Yr-on-Yr % Change	
	1H FY18	1H FY17		
Shares on issue (000)	14,249.8	14,059.8	190.0	1.4%
Earnings per share (cents)	5.84	5.01	0.83	16.6%
Dividend per share (cents)	4.00	3.50	0.50	14.3%
Dividend proportion Imputed	100.0%	100.0%	n.a.	n.a.
Payout ratio	68.5%	69.9%	n.a.	n.a.

The dividend is fully imputed and the amount represents a payout ratio of 69% of earnings per share. An arrangement with NZ Trade and Enterprise (“NZTE”) in relation to helping fund UK market development requires the Company to cap the dividend payout ratio at less than 75% for the duration of the agreement. The NZTE funding agreement expires at the end of the current financial year and SDL thanks NZTE for its assistance, which has been very beneficial in helping the Company produce strong, positive results from its UK growth initiatives.

FY 2018 Outlook

The two trends that affected the first half – increased rate in transition of domestic physical volumes to electronic, offset by better software growth in UK and Europe – are expected to continue through the second half. How the relative magnitude of these two trends play out over the remainder of the year is difficult to forecast at this stage, and the timing of software deals in Europe will also affect the full year profit outturn.

SDL continues to examine potential acquisition opportunities and has a strong pipeline of new customer opportunities in the UK and Europe. This includes expanding the Company's multi-channel distribution software to include SMS.

SDL has previously provided FY2018 guidance for earnings growth of around 15%. Following the first half result, and considering the strong software pipeline, the Directors are upgrading the full year earnings growth outlook to around 20%, with the caveat that some of the software pipeline may require additional upfront costs.



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CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017



	6 MONTHS ENDED 31 DEC 2017	6 MONTHS ENDED 31 DEC 2016	AUDITED YEAR ENDED 30 JUN 2017
(NZ\$ in thousands, except per share amounts)			
Operating revenue	11,095	10,110	19,788
Grant income	162	41	131
Property rental	35	36	72
Total income	11,292	10,187	19,991
Expenses			
Employee costs	2,711	2,547	5,226
Rental and operating lease expenses	352	341	692
Research & development	170	140	334
Directors fees & salaries	300	303	523
Print & other outsource expenses	4,469	3,548	6,892
Other expenses	1,966	2,230	4,237
Total Expenses	9,968	9,109	17,904
Earnings before interest, tax, depreciation & amortisation (EBITDA)	1,324	1,078	2,087
Depreciation	102	107	208
Amortisation of intangible assets (software)	53	32	78
Net Interest (income)	(2)	2	(1)
Profit before income tax	1,171	937	1,802
Income tax	339	233	492
Net profit after income tax	832	704	1,310
	Cents	Cents	Cents
Basic earnings per share	5.8	5.0	9.3
Diluted earnings per share	5.7	4.8	8.9

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)



FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	6 MONTHS ENDED 31 DEC 2017	6 MONTHS ENDED 31 DEC 2016	AUDITED YEAR ENDED 30 JUN 2017
(NZ\$ in thousands, except per share amounts)			
Net operating profit after income tax	832	704	1,310
Exchange differences on translation of foreign operations	(5)	7	1
Other comprehensive income for the period, net of tax	(5)	7	1
Total comprehensive income for the year	827	711	1,311

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY (UNAUDITED)



FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

(NZ\$ in thousands)	SHARE CAPITAL	EMPLOYEE SHARE PLAN	CURRENCY TRANSLATION RESERVE	ACCUM- ULATED LOSSES	TOTAL EQUITY
Balance 1 July 2016	5,169	77	-	(2,266)	2,980
Issue of shares to employees	-	18	-	-	18
Dividend	-	-	-	(316)	(316)
Transactions with owners	-	18	-	(316)	(298)
Profit for the year after tax	-	-	-	704	704
Other comprehensive income	-	-	7	-	7
Balance 31 December 2016	5,169	95	7	(1,878)	3,393
Issue of shares to employees	-	18	-	-	18
Dividends	-	-	-	(492)	(492)
Transactions with owners	-	18	-	(492)	(474)
Profit for the year after tax	-	-	-	606	606
Other comprehensive loss	-	-	(6)	-	(6)
Balance 30 June 2017 (Audited)	5,169	113	1	(1,764)	3,519
Issue of shares to employees	-	9	-	-	9
Exercise of employee options	71	(36)	-	36	71
Dividend	-	-	-	(457)	(457)
Transactions with owners	71	(27)	-	(421)	(377)
Profit for the year after tax	-	-	-	832	832
Other comprehensive income	-	-	(5)	-	(5)
Balance 31 December 2016	5,240	86	(4)	(1,353)	3,969

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)



AS AT 31 DECEMBER 2017

(NZ\$ in thousands)	AS AT 31 DEC 2017	AS AT 31 DEC 2016	AUDITED AS AT 30 JUN 2017
Current Assets			
Cash and bank balances	2,408	1,858	2,080
Trade & other receivables	2,214	1,841	2,366
Inventories and work in progress	156	149	152
Prepayments	182	120	96
Total Current Assets	4,960	3,968	4,694
Current Liabilities			
Trade creditors	1,517	1,398	1,428
Other current liabilities	625	539	903
Other non-financial liabilities	388	312	405
Employee benefit Liabilities	420	431	447
Borrowings	-	-	-
Total Current Liabilities	2,950	2,680	3,183
Working Capital	2,010	1,288	1,511
Non-Current Assets			
Deferred tax asset	99	76	108
Capital works in progress	4	152	73
Property, plant & equipment	603	681	595
Intangible assets	315	258	294
Goodwill	938	938	938
Total Non-Current Assets	1,959	2,105	2,008
Net Assets	3,969	3,393	3,519
Equity			
Share capital	5,240	5,169	5,169
Employee share option plan	86	95	113
Foreign currency translation reserve	(4)	7	1
Accumulated losses	(1,353)	(1,878)	(1,764)
Total Equity	3,969	3,393	3,519

For and on behalf of the Board who approved these financial statements for issue.

John McMahon

John McMahon – Director (Chairman)
Date: 3 April 2018

Nelson Siva – Director

CONSOLIDATED CASH FLOW STATEMENT

(UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017



(NZ\$ in thousands)	6 MONTHS TO 31 DEC 2017	6 MONTHS TO 31 DEC 2016	AUDITED YEAR TO 30 JUN 2017
Cash Flow from Operating Activities			
<i>Cash was provided from:</i>			
Receipts from sales	12,766	11,526	22,339
Other revenue	162	41	131
	12,928	11,567	22,470
<i>Cash was applied to:</i>			
Payments to suppliers	8,254	6,783	13,543
Payments to employees	3,212	3,192	6,091
GST paid to Inland Revenue	635	638	1,155
	12,101	10,613	20,789
Net Cash Inflow from Operating Activities	827	954	1,681
Cash Flow from Investing Activities			
<i>Cash was applied to:</i>			
Purchase of property, plant & equipment & capital works in progress	41	178	112
Purchase of software	74	12	94
	115	190	206
Net Cash (Outflow) from Investing Activities	(115)	(190)	(206)
Cash Flow from Financing Activities			
<i>Cash was provided from:</i>			
Interest received	2	-	6
Issue of shares through employee option plan	71	-	-
	73	-	6
<i>Cash was applied to:</i>			
Payment of dividends	457	316	808
Interest paid	-	2	5
Repayments for term loan & finance lease liabilities secured on equipment	-	10	10
	457	328	823
Net Cash (Outflow) from Financing Activities	(384)	(328)	(817)
Net change in cash and cash equivalents	328	436	658
Add cash & cash equivalents held at beginning of year	2,080	1,422	1,422
Finance Facility and Cash Balance at End of Year	2,408	1,858	2,080

CONSOLIDATED CASH FLOW STATEMENT CONTINUED (UNAUDITED)



FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

(NZ\$ in thousands)	6 MONTHS TO 31 DEC 2017	6 MONTHS TO 31 DEC 2016	AUDITED YEAR TO 30 JUN 2017
Reconciliation of net deficit after income tax or the year with net cash inflow/ (outflow) from operating activities			
Net (deficit)/surplus after income tax	832	704	1,310
Interest expense (reclassified as financing activity)	-	2	-
Interest income (reclassified as financing activity)	(2)	-	(1)
<i>Add non-cash items:</i>			
Depreciation & amortisation of assets	155	139	286
(Gain) / Loss on foreign exchange	(30)	14	(10)
Other non-cash items	13	34	14
Cash Flow from Trading	968	893	1,599
Add movements in Working Capital	(141)	61	82
Net Cash Inflow from Operating Activities	827	954	1,681



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2017

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The condensed interim consolidated financial statements (the interim financial statements) are for the six months ended 31 December 2017 and are presented in NZ\$, which is the functional currency of the parent company. They have been prepared in accordance with New Zealand generally accepted accounting practice and comply with New Zealand Equivalent to International Accounting Standard 34 (NZIAS34) and IAS 34 “Interim Financial Reporting” (IAS34). They do not include all of the information required in annual financial statements in accordance with IFRS’s, and should be read in conjunction with the consolidated financial statements for the year ended 30 June 2017.

Solution Dynamics Limited is the Group’s ultimate parent company. It is a limited liability public company incorporated and domiciled in New Zealand and is listed with the New Zealand Stock Exchange on the NZAX. The address of its registered office and principal place of business is 18 Canaveral Drive, Auckland, New Zealand.

The Group comprises Solution Dynamics Limited and its wholly owned subsidiaries Solution Dynamics (International) Limited, based in the United Kingdom and Déjar International Limited. Déjar International Limited was incorporated on 13 November 2012 and is non-trading.

The Group offers a range of integrated solutions encompassing data management, electronic digital printing, web presentment and archiving, fulfilment, traditional print services, scanning, data entry and document management.

The interim financial statements for the six months ended 31 December 2017 and the related comparative interim period, are unaudited. Due to seasonal variability financial information from the audited financial statements for the immediate preceding financial year ending 30 June 2017 have also been included.

2. SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements have been prepared in accordance with the accounting policies adopted in the Group’s most recent annual financial statements for the year ended 30 June 2017.

3. ESTIMATES

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2017. The only exception is the estimate of the provision for income taxes which is determined in the interim financial statements using the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

4. SEGMENT INFORMATION

The Group supplies customer communication solutions. These include a range of integrated document management products and services separated into three streams; software & technology services, digital printing & document handling services and outsourced services. Specific elements of these streams are as follows:

- **Software & Technology**, Solution Dynamics owns the intellectual property in four products;
 - » Déjar, an online digital archival and retrieval system sold stand-alone under licence agreements and also as a hosted service in New Zealand and Internationally.
 - » Bremy, Digital asset management, workflow and multichannel publishing software sold as a licenced product and also as a hosted service in New Zealand, Australia and the UK.
 - » Composer, “On-Demand” content creation software.
 - » DéjarMail, is a web browser-based desktop mail management solution which allows customers to route mail correspondence to SDL or any other service provider for printing and delivery.

In addition to owning the intellectual property for the above products, Solution Dynamics provides programming, consulting and design services that help clients to distribute marketing and essential communications by mail and electronically. The provision of these services is covered under this category.

- **Digital Printing & Document Handling Services**, the printing of client's information digitally using high speed laser printers followed by the lodgement and distribution of those documents using a variety of machine and other processes.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS CONTINUED (UNAUDITED)

For the six months ended 31 December 2017

4. SEGMENT INFORMATION (CONTINUED)

- **Outsourced Services**, not all components of Solution Dynamics' solutions are produced internally. External elements such as post, freight, paper and envelopes are sourced from external suppliers and included in this service stream. Solution Dynamics has long term arrangements with a number of key suppliers such as NZ Post for the provision of these services.

An overhead structure including sales, marketing and administration departments provides services for all of the above revenue streams.

There are no reconciling items in this note due to the management information provided to the Chief Operating Decision Maker being compiled using the same standards and accounting policies as those used to prepare the financial statements.

(NZ\$ in thousands)	6 months to December 2017		6 months to December 2016		Year to June 2017	
Software & Technology	2,933	26%	2,424	24%	5,066	25%
Digital Printing & Document Handling Services	3,381	30%	3,398	33%	6,712	34%
Outsourced services	4,978	44%	4,365	43%	8,213	41%
Total income	11,292	100%	10,187	100%	19,991	100%
Less cost of sales	7,080	63%	6,348	62%	12,274	61%
Gross margin	4,212	37%	3,839	38%	7,717	39%
Selling, general & administration	2,888	26%	2,761	27%	5,630	28%
Earnings before interest, tax, depreciation & amortisation	1,324	11%	1,078	11%	2,087	11%
Depreciation	102	1%	107	1%	208	1%
Amortisation	53	0%	32	0%	78	0%
Interest	(2)	0%	2	0%	(1)	0%
Income tax	339	3%	233	3%	492	3%
Operating Profit after income tax	832	7%	704	7%	1,310	7%



Segment Assets

Assets are not segmented between service streams

Information about Major Customers

Included in revenues for Solution Dynamics of \$11.292 million (2016: \$10.187 million) are services revenues of \$1.255 million (2016: \$0.981 million) which arose from sales to the Company's largest customer.

Geographical Information

The Group has customers in New Zealand, Australia and Europe.

(NZ\$ in thousands)	Revenue from external customers			Non-current assets		
	6 months to 31 Dec 2017	6 months to 31 Dec 2016	Year to 30 June 2017	As at 31 Dec 2017	As at 31 Dec 2016	As at 30 June 2017
New Zealand	9,331	8,747	16,658	1,959	2,105	2,008
Australia	218	183	380	-	-	-
Europe	1,743	1,257	2,953	-	-	-
Total	11,292	10,187	19,991	1,959	2,105	2,008

5. CASH & CASH EQUIVALENTS

(NZ\$ in thousands)	As at 31 Dec 2017	As at 31 Dec 2016	As at 30 Jun 2017
Cash and cash equivalents	2,408	1,858	2,080
Total Finance Facility and Cash	2,408	1,858	2,080

Solution Dynamics has a finance facility in place with the ANZ Bank. This facility is to support the operational requirements of the Group and includes an overdraft facility of \$200,000 that is unused at the reporting date. The Group now holds a net cash position with no bank debt (2015: \$Nil). The facilities are secured by a first ranking debenture over the assets of the Group.

At period end the ANZ Bank has imposed no financial covenants to secure the existing facilities. The Bank provides commercial guarantees totalling \$65,000 (2016: \$65,000) to the Group's suppliers.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS CONTINUED (UNAUDITED)

For the six months ended 31 December 2017

6. SHARE CAPITAL & SHARE-BASED PAYMENTS

Solution Dynamics Limited has 14,249,810 ordinary shares (2016 14,059,810 ordinary shares) each fully paid.

The Group operates equity-settled, share-based compensation plans, under which employees provide services in exchange for non-transferable options. The value of the employee services rendered for the grant of non-transferable options is recognised as an expense over the vesting period, and the amount is determined by reference to the fair value of the options granted.

Number of Shares (Shares in \$000's)	As at 31 Dec 2017	As at 31 Dec 2016	As at 30 Jun 2017
Shares Issued and Fully Paid:			
- Beginning of the Period	14,060	14,060	14,060
- Share Issue (exercise of options)	190	-	-
Shares Issued and Fully Paid	14,250	14,060	14,060
Employee Share Option Plan:			
- Beginning of the Period	580	580	580
- Options issued	-	-	-
- Options exercised	(190)	-	-
- Options forfeited	-	-	-
Shares Authorised for Share-based Payments	390	580	580
Total Shares Authorised at the end of the Period	14,640	14,640	14,640

The 390,000 options issued (2016: 580,000) were at a weighted average exercise price of \$0.44 (2016: \$0.42). 310,000 options are eligible to be exercised now with an expiry date of September 2018, the balance are eligible to be exercised from March 2018.



7. RELATED PARTIES

Transactions between related parties include payments to shareholders, directors and their companies and senior executives, also being shareholders.

Related party transactions from 1 July 2017 to 31 December 2017 were as follows:

- Key management were paid \$421,228 (as employees of Solution Dynamics Limited) during the period (2016: \$551,975) and were owed \$46,301, including annual leave, at 31 December 2017 (2016: \$113,060).
- Salaries paid to directors are disclosed in the Consolidated Statement of Comprehensive Income.

8. EVENTS AFTER THE BALANCE DATE

At the board meeting of 23 February 2018, the directors resolved to pay a fully imputed interim dividend of 4.0 cents per share, amounting to \$569,992 (2016: the directors approved the payment of a fully imputed interim dividend of 3.5 cents per share, amounting to \$492,093).

At a board meeting on 27 March 2018, the directors approved the acquisition of the business assets and intellectual property of Auckland-based scanning services and technology provider Scantech Limited. The acquisition has an initial cost of \$570,000, with additional earn out payments subject to achievement of sales targets over the twelve-months following acquisition. The target acquisition closing date is 2 April 2018.

There were no other significant events after balance date.



COMPANY DIRECTORY

Directors

John McMahon - Chairman
Julian Beavis
Elmar Toime
Indrajit Nelson Sivasubramaniam
(Nelson Siva)
– Chief Executive Officer

Auditors

Grant Thornton New Zealand Audit
Partnership
Grant Thornton House
152 Fanshawe Street
AUCKLAND

Bankers

ANZ National Bank Limited
9-11 Corinthian Drive
Albany
AUCKLAND 0632

Lawyer

Stephen Layburn
Commercial Barrister
Level 3, 175 Queen Street
AUCKLAND

Share Registrar

Computershare Investor Services
Level 2, 159 Hurstmere Rd
Takapuna
AUCKLAND

Private Bag 92119
Auckland Mail Centre
AUCKLAND 1142

Registered Office and address for service

18 Canaveral Drive
Albany
AUCKLAND
PO Box 301248
Albany
AUCKLAND 0752
Tel +64 9 970 7700

Solution Dynamics (International) Limited

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Borehamwood
Herts WD6 1BD
UNITED KINGDOM
Tel +44 (20) 8953-2835

Déjar International Limited

18 Canaveral Drive
Albany
AUCKLAND
PO Box 301248
Albany
AUCKLAND 0752

Stock Exchange

The Company's shares trade on the New Zealand Stock Exchange Alternative Market (NZAX).

NZAX Trading Code: SDL

SOLUTION DYNAMICS ON THE WEB

www.solutiondynamics.com

www.dejar.com

www.bremy.com



