



SIMPLIFYING BUSINESS

ANNUAL REPORT

20
22





Annual Shareholders Meeting

The Annual Meeting of shareholders will be held at 10:30am on Thursday, 27th October 2022, as an in-person meeting in the Jupiter Meeting Room Solution Dynamics Limited, 18 Canaveral Drive, Albany, AUCKLAND, and as an online meeting with details to be provided when the Company provides the Notice of Meeting to shareholders.

2022 Highlights

- > Record net profit after tax, up 26% to \$2.56 million
- > Earnings per share 17.4 cents (prior year 13.9 cents)
- > Dividends per share of 13.0 cents (prior year 11.0 cents)
- > International revenue grows 30% to 67% of total revenue
- > Revenue up 13% to \$40.1 million
- > EBITDA up 7% to \$4.5 million
- > Net cash on hand \$5.0 million
- > FY2023 earnings outlook flat on FY2022; muted by economic conditions and investment in sales and marketing

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Chairman's and Chief Executive Officer's Report

FY2022 Result Overview

Solution Dynamics Limited ("SDL" or "Company") recorded a net profit after tax of \$2.56 million for FY2022, a 26.0% gain on the profit of \$2.03 million the prior financial year. FY2022 earnings per share was 17.4 cents (on closing issued share), up 25.2% from 13.9 cents the prior year. This is a record result for the Company in what was a disrupted and difficult year.

The Company's revenue also recorded a record result at \$40.13 million (up 13.2%). COVID modestly constrained revenue growth in both the domestic mail house and for some international customers. SDL's Software & Technology platforms continue to expand with revenue growth of 30% in FY2022, from a combination of new customers and expansion of activity amongst existing customers. Earnings before interest, tax, depreciation and amortisation ("EBITDA") increased 7.2% to \$4.52 million.

Cash flow from operations was \$2.98 million (FY2021 \$2.61 million) and the net cash position at year end was \$5.01 million (FY2021 \$4.71 million). Historically, the year-end cash position has included an element of customer prepayment of postage (around \$1.25 million in FY2021) however, this was repaid to customers during the second half of FY2022.

The directors have declared a final cash dividend of 4.0 cents per share (FY2021 4.0 cents), bringing total cash dividends for FY2022 of 13.0 cents per share (FY2021 11.0 cents). All dividends are fully imputed.

FY2022 Business Performance

FY2022 was a year of significant disruption for SDL, with the passing in November 2021 of long-term CEO, Nelson Siva, after a period of illness. The Company appointed the head of North America and international operations, Patrick Brand, based in New York, to succeed Nelson. Sincere and deep thanks are due to SDL's staff for operating through what was a difficult period around Nelson's illness and passing, and then assisting Pat, who was unable to travel to New Zealand for the first six months of his tenure as CEO.

The second half of FY2022 saw a refreshed focus on new business activity, especially in New Zealand following staff changes and a restructure of the sales team. This began to have a positive effect late in the financial year, although most of the benefit will begin to flow progressively over FY2023. Activity levels were further assisted by some new business following the closure of magazine and catalogue printer, Ovato. The Company has a strong prospect pipeline in New Zealand and is targeting growth in several key vertical market sectors internationally.

International volumes were broadly up, with strong gains in the cyber breach notice sector partly offset by significant weakness in US mortgage-related communications as interest rates rose significantly and depressed housing finance activity. Volumes in the UK rose as expected, up around 40% as that economy emerged from COVID constraints, although they remain well below pre-COVID levels.

The headwind from physical communications converting to digital continues. This is being exacerbated by postal organisations globally introducing significant increases in postage rates to offset the revenue erosion they are suffering from falling volumes. SDL expects this trend to continue and expects ongoing sizeable increases in postage rates in the markets the Company operates in, including New Zealand.

SDL is maintaining most of its COVID monitoring and safety policies, aimed at ensuring the Company's staff remain safe. Although some staff have been infected, COVID has not affected operations to date. Some partial return to working back in the office has commenced although the extent varies by function.

The main COVID effects were on volumes in the UK along with some impact from Omicron-related lockdowns in New Zealand. The hidden effect on SDL has been from an increase in the length of sales cycles due to the inability to travel for much of the year, constraining meeting sales prospects face-to-face. The Company's best estimate is that COVID reduced FY2022 revenues by – very approximately – around 5%.

Travel costs remained low, although the re-opening of New Zealand's borders in the fourth quarter of FY2022 allowed SDL's CEO, Pat Brand, to visit Auckland in June. COVID remains a factor in the shortage of skills across the technology sector, exacerbating staff cost pressures. Supply chain disruptions, along with a weaker NZ dollar, are affecting the cost (and timely availability) of paper and envelopes although for the most part these are pass-through costs (sometimes with a lag) and SDL has some forward orders in place to mitigate the cost pressure.

Given the operational issues, CEO change process, and increasingly difficult macroeconomic environment over the year, the Company was pleased to generate a record performance for the year.

Business Description

SDL operates in the global Customer Communications market (essential mail, interactive marketing communications and on-demand communications) across both the old economy print/mail house business and the new economy digital document management business. The Company's products and services are represented by two revenue streams:

- Services (split into Digital Print & Document Handling, and Outsourced Services); and
- Software & Technology.

Services operates solely in New Zealand. Digital Print & Document Handling revenues are generated from digital printing and mail house processing for two categories of mail items: transactional mail, such as invoices and statements; and direct marketing mail such as promotional material. These are then distributed through New Zealand Post's ("NZ Post") mail delivery system. A number of the components included in this service, such as envelopes and postage, form part of Outsourced Services revenues (these are typically very low margin activities). Digital printing differs from traditional printing in that each document printed is typically personalised and unique. Revenue from the Company's scanning operation is included in Services (for New Zealand scanning operations), while offshore consulting and software revenues that are related to SDL's software technology are included in the Software & Technology revenue stream.

Software & Technology develops and markets SDL's own software products which include:

- digital asset management, with communication templates and campaign management;
- document archival;
- document composition;
- desktop digital mail centre solution for "print on demand";
- consulting and software revenue from scanning and scanning workflow; and,
- international cross-border print on demand management software.

Note that SDL has several different business models for international clients. For some, SDL only provides software or related consulting services, but for others it also arranges third party printing and logistics on which it will typically earn a modest margin. For these latter clients, the software charge and print/logistics margins are typically aggregated into an overall charge to the customer. This means Software & Technology revenues are a mix of pure software and software consulting revenues for some clients, while others include third party printing and logistics revenues that are generated from SDL's software.

Transactional mail volumes in New Zealand and internationally are continuing to decline, although anecdotal evidence suggests direct marketing mail is seeing minimal erosion. Some types of communications remain better suited or are legally required to be printed, and the usage level of printed versus electronic communications varies significantly across industries, applications and countries. Technology such as Digital Mail Centre (DMC – SDL's print-on-demand desktop mail solution) can improve the handling efficiency, management and cost of physical mail. The Company's integrated range of print and software technologies enable the digital transformation of customer communications.

International Operations

Historically, SDL was predominantly a New Zealand digital print and mail house business with some international software revenue. That position first changed in FY2020, when SDL's international revenue surpassed its New Zealand revenue for the first time. Total Software & Technology revenue (some of which is revenue billed from New Zealand) as a proportion of total revenue is around 74% and expected to increase in FY2023.

Software development and support has mainly been based in New Zealand to date with some customer-facing employees in the UK and the US. Increasingly our customers based in the UK and the US require SDL to improve local market knowledge and response times by providing increased in-country technical support. Therefore, SDL expects to increase the number of technical support, testing, implementation, and DevOps staff in the northern hemisphere. This "globalisation of operations" process has been occurring for some time but has yet to reach maturity. The step change of moving from a New Zealand business that supports customers globally, to an in-time-zone, self-supporting international operation is challenging from a talent acquisition, management, and cultural perspective, along with a commensurate step change in cost structure.

Description and Review of Revenue Streams

Services

Services is the Company's New Zealand print and mail house operation that predominantly provides mail house operations to high-volume postal mail users in the business-to-consumer sector. Services operates leased, high-speed digital colour and monochrome printers. In addition to digital printing, Services also provides the ancillary document handling operations such as automated envelope inserting and flow-wrap.

Services revenue also includes Outsourced Services, which encompasses a variety of outsourced functions or components such as postage, third party offset printing, freight, paper and envelopes. The Company has an access agreement with NZ Post which provides wholesale rates and bulk mail discounts off NZ Post's retail rates. The gross profit margins on many of these outsourced components, especially postage, are low.

The Company's general mail volumes continue to decline albeit at what SDL estimates is a lower rate than the overall market fall; SDL's FY2022 mail lodgement volumes declined around 8%. The Company's digital print volumes also fell, declining around 7%. SDL believes consolidation of mail house capacity is inevitable and is confident it holds a strong, competitive cost position in the market.

On the digital communications side, SDL's volume of customer emails rose about 8%.

SDL Services Revenue Breakdown (all figures \$000)	FY2022	FY2021	Percentage Change
Digital Printing and Document Handling	3,812	4,161	-8.4%
Outsourced Services	6,512	6,649	-2.1%
Total Services Revenue	10,324	10,810	-4.5%

SDL renewed the lease contract on its print equipment in FY2021 and mail house facility in FY2022. The Company believes it now has highly competitive rates for its continuous digital printing equipment. One of SDL's major New Zealand customers re-tendered its business during FY2021 and the Company re-secured the business for a further three-plus-two year term, albeit at lower gross margins.

The refocus on New Zealand sales, along with changes to the sales team, and the current strong pipeline provides the basis for a more positive outlook for FY2023, despite the overall domestic postal market remaining in decline.

SDL Software & Technology

Software & Technology generated revenue of \$29.8 million in FY2022, an increase of 21% on the prior year's revenue of \$24.6 million. Growth was from several sources including expansion from a leading global charities organisation that SDL secured in 2020, plus a large US-based multinational corporation continuing to roll-out SDL's Digital Mail Centre (DMC) platform globally. Mid-sized clients in the cyber breach notice sector contributed strongly to US growth, offset by weakness in financial services volumes, while the UK began to see a rebound from COVID-constrained volumes.

Software & Technology revenue is partly platform based, typically under SaaS (software as a service) arrangements, which can be priced as a monthly subscription, tiered on volume, or on a per document basis. It also includes revenue where SDL manages the total communications solution, based on the Company's software platforms, but including document printing and distribution for the customer. The printing and distribution component forms the larger part of Software & Technology's revenue and is generally lower margin.

In FY2022, we made substantial progress in "productising" our global customer communications platform, DMC. DMC simplifies onboarding of customers, and sending and tracking of documents, through physical and digital channels. DMC integrates with our document composition platform, Composer, along with our automation tool, Autoprod, to enable customers to create highly personalised communications at scale. DMC integrates with our print partner network through SDL's distributed print platform, Jupiter, to manage and provide real time status updates on job completion and mailing. Our expertise in global postage management delivers significant cost savings by leveraging DMC to optimise production and delivery logistics. Our objective is to grow SaaS platform revenue at a faster rate than print services.

As the speed of business increases, customer communications are increasingly moving to an "on-demand" model. This is especially true in marketing and regulatory notice applications. Global supply chain logistics issues have made it more difficult and more expensive to send physical "on-demand" content as well as introducing logistics

delays in international mail. Additionally, availability and cost of envelopes and paper has been challenging. SDL's software and network of service providers ensures that "on-demand" communications can be produced and delivered on time and this functionality is enabling SDL to win business.

Communication channels are no longer "one size fits all"; customers now receive increasingly personalised messaging through multi-media channels. SDL's software platforms enable one-to-one personalisation of each form of communication – whether a customer email, an invoice or account statement, or a piece of marketing collateral – as a means to enrich and deepen the relationships that our customers have with their customers.

The Company is leveraging its position as a leader in global, "on-demand" communications to overcome supply-chain driven disruptions. One key area of focus in FY2023 is to better leverage SDL's marquee customers in the global charities and cyber security breach notice space as reference points for sales activity. This requires a ramp up of investment in sales and marketing, along with DevOps and customer support, in our key US and UK markets. Our DMC roadmap will continue to prioritise standardisation and integration, to support scalability, with much of this development expected to complete during FY2023.

For a more detailed view of SDL's software solutions, refer to the Company's website at: <https://solutiondynamics.com/solutions/>.

In FY2021, SDL was assisted in its American growth initiative by a market development grant from NZ Trade and Enterprise ("NZTE") that contributed towards the costs of expansion. The NZTE grant was fully utilised during FY2021 and there was no NZTE contribution in FY2022. SDL appreciates the financial and market assistance it has received from NZTE and is exploring possible further growth initiative support for FY2023.

In summary, enabling organisations to drive down cost of customer communications while improving client engagement is what we do at SDL. Leading brands rely on the Company's software to simplify sending of complex global customer communications through print and digital channels. SDL's global network of mail service providers delivers significant savings in print and postage costs as well as assurance against pandemic/supply chain driven business interruptions. As the secular decline in mail continues, SDL's software platforms provide an omni-channel bridge to digital transformation.

Financial Performance

SDL's growth in revenue and earnings over FY2022 resulted from ongoing expansion of its international business, predominantly in the US. The New Zealand business continued to feel pressure from the ongoing structural decline in volumes and pricing pressure resulting from excess industry capacity, but it nevertheless remains sustainably profitable. As previously noted, a refocus on New Zealand sales activity in early 2022 has already seen improvements to revenue and this is expected to continue into FY2023 although the print and mail house market remains very competitive.

Cost pressures, lower margins from a large New Zealand customer, along with change in revenue mix (lower FX gains and grant income) partially offset the solid revenue growth and held Gross Profit to a 3.3% gain on the prior year. SG&A costs were well controlled given inflationary pressures in some parts of the business, rising 1.6% on the prior year. EBITDA grew 7.2% to \$4.52 million.

Summary Financial Performance (all figures \$'000)	FY2022	FY2021	Percentage Change
Total Revenue	40,127	35,445	13.2%
Less: Cost of Goods Sold	26,186	21,954	19.3%
Gross Profit	13,941	13,491	3.3%
Gross Margin (%)	34.7%	38.1%	
Less: Selling, General & Admin (SG&A)	9,422	9,277	1.6%
EBITDA	4,519	4,214	7.2%
EBITDA margin (%)	11.3%	12.8%	
Depreciation	885	1,156	-23.4%
Amortisation	168	283	-40.6%
EBIT	3,466	2,775	24.9%
Net Interest	59	70	-15.7%
Income Tax	844	671	25.8%
Net Profit after Tax	2,563	2,034	26.0%
Tax rate	24.8%	24.8%	

The “quality” of SDL’s earnings improved in FY2022 versus the prior FY2021 earnings result which contained two one-off items (realised foreign exchange gain and NZ Trade & Enterprise market development grant assistance) totalling \$1.14 million pre-tax. Neither of these one-off gains recurred in FY2022.

The following table highlights first and second half performance for the last two financial years. The timing of a small number of particularly large customer jobs during the year can materially alter the split of first and second half earnings.

SDL Half Financial Years (all figures \$'000)	2H FY2022	2H FY2021	Percentage Change	1H FY2022	1H FY2021	Percentage Change
Total Revenue	16,409	16,923	-3.0%	23,718	18,522	28.1%
EBITDA	898	1,369	-34.4%	3,621	2,845	27.3%
EBITDA margin	5.5%	8.1%		15.3%	15.4%	
Net Profit after Tax	531	585	-9.3%	2,032	1,449	40.3%

Balance Sheet, Liquidity and Debt

SDL closed the year with net cash (i.e. cash less interest-bearing debt) on hand at \$5.01 million (FY2021 \$4.72 million). This net cash figure excludes debt liabilities relating to Right to Use Liabilities arising from the Lease Accounting standard; these liabilities are approximately offset by Right to Use Assets. The net cash balance in FY2021 included approximately \$1.25 million that was customer prepayment of postage; this was repaid during the second half of FY2022.

The Directors intend to maintain a prudent approach to balance sheet management and are conscious that a period of more difficult economic times may provide acquisition opportunities.

The Company maintains an overdraft arrangement from ANZ Bank with a \$200,000 limit. This was unused during FY2022.

Selected Balance Sheet and Cashflow Figures (all figures \$'000)	FY2022	FY2021	Change
Net Cash/(Debt & Borrowings)	5,009	4,713	296
Non-Current Assets	1,541	1,816	-275
Right of Use Assets	3,447	1,210	2,237
Net Other Assets/(Liabilities)	-602	-1,458	856
Right of Use Liabilities	-3,481	-1,346	-2,135
Net Assets	5,914	4,935	979
Cashflow from Trading	3,902	2,372	1,530
Movement in Working Capital	-923	236	-1,159
Cash Inflow from Operations	2,979	2,608	371
Cash dividends paid	1,904	1,903	1

Capital expenditure for the year was minimal at \$0.07 million. The Company does not capitalise any software development. Note that Right of Use assets and liabilities both increased in FY2022 as a result of SDL signing a renewal of the lease on its premises at Canaveral Drive, Auckland, commencing September 2022.

Net assets includes intangible assets of around \$1.15 million of which the bulk (\$1.06 million) is goodwill and subject to an annual impairment test. The balance of intangibles represents software and customer contracts from acquisitions which are now almost wholly amortised.

SDL operates with a largely neutral working capital balance, meaning growth typically does not require additional investment of capital, although international expansion and larger, "lumpier" contracts means month-to-month and intra-month cash flow movements have wider fluctuations.

Taxation and Dividends

SDL pays full New Zealand tax on locally generated earnings. In FY2022, the Company obtained some benefit from New Zealand's Research and Development Tax Incentive (RDTI) which provides a tax credit equal to 15% of eligible R&D expenditure. The RDTI tax credit benefit is the primary reason why the overall tax rate of 24.8% is below the statutory tax rate.

A portion of amortisation of acquired intangibles (relating to customer contracts and some of the acquired software) is not tax deductible, although only a small balance now remains to be amortised.

SDL intends to pay dividends only to the extent that it can fully impute them and also subject to the Company not experiencing any one-off requirements for abnormal capital expenditure or any significant acquisition or investment activity.

Earnings and Dividends per Share	FY2022	FY2021	Percentage Change
Closing Shares on Issue ('000)	14,720	14,640	0.5%
Reported Earnings per Share (cents)	17.41	13.89	25.3%
Dividend per Share (cents)	13.0	11.0	18.2%
Dividend Proportion Imputed	100.0%	100.0%	
Dividend Payout ratio	74.7%	79.2%	
Dividend Payout ratio on NPATA	71.3%	72.0%	

The final dividend for FY2022 of 4.0 cents per share will be fully imputed and paid on 30 September 2022. The full year FY2022 dividends total 13 cents per share, up 18.2% on the prior year and within the Company's usual 70-75% payout ratio.

The number of shares on issue increased by 0.5% the year after one staff member exercised employee share option plan (ESOP) rights which saw 80,000 new shares issued. At year end, the Company had outstanding ESOP rights to two key staff members in the plan (including the CEO) who collectively held rights to 373,000 shares. Further ESOP issuance is likely during FY2023.

Risk Factors

Physical mail volumes in New Zealand are continuing to show structural decline, especially for transactional mail. This has been exacerbated by COVID increasing the emphasis towards electronic communications and postal organisations globally, including NZ Post, significantly increasing postage rates. Direct mail/marketing volumes have been steadier and SDL estimates have shown modest-to-little decline in New Zealand. The Company has several key domestic contracts that, if lost, could place material pressure on local profitability although much of this is under medium-term contract (SDL renewed a major print and mail contract for a multi-year term during FY2021). While SDL expects that consolidation in the New Zealand print market is inevitable, and has held industry rationalisation discussions with other participants in the print sector, the Company will not participate unless there is clear value enhancement for shareholders.

SDL's largest five customers accounted for 64% of revenue in FY2022. Loss of one or more of those would cause financial results to differ materially from those outlined in the FY2023 Outlook section below.

The Company's software provides critical document management, distributed print, and storage functions for its clients. SDL needs to ensure it continues to maintain appropriate levels of software development quality control along with well-trained staff for software delivery and support. Cyber and data security is a known high-risk area. The Company regularly reviews its IT and data security arrangements, including through the use of external consultants.

The Company operates a single site facility for its New Zealand print and mail house production, with an offsite for data and server backup. The Directors are conscious of the operational risk a single site implies for digital imaging and mail house operations. SDL has a reciprocal disaster recovery ("DR") plan with another printer, as well as backup capability with a division of its major print equipment supplier.

The Company mainly relies on distribution channel partners to market its software products into the UK, Europe and the US. This means SDL has little or no contact with many of the end user customers of its products. While these channel partner arrangements are currently stable there is not guarantee these arrangements will continue. SDL aims to ensure its software meets channel partner requirements.

At present, the Company expects ongoing growth from existing customers and new contract wins as sufficient to support growth expectations. However, the global environment (both in health and macroeconomic terms) remains extremely uncertain and this could materially affect the Company.

FY2023 Outlook

SDL reconfirms prior FY2023 guidance provided in July 2022, for reported net profit of around \$2.5 million. In FY2023, a number of positive and negative influences are expected to affect earnings.

On the positive side, SDL is seeing strong new business activity in its NZ print and mail house, and expects underlying growth will occur in several key accounts and vertical markets internationally.

On the negative side, the Company is subject to increasing cost pressures, not all of which can be passed through to customers. Also, to further support and accelerate international growth, the Company intends to invest in additional sales and marketing capabilities, plus further in-market developer, support and DevOps personnel will be required in the northern hemisphere. SDL expects that the global trend of sizeable postage increases will persist and this will continue the push of certain types of communications towards digital channels. These cost and industry factors, coupled with macroeconomic headwinds from central bank interest rate increases, provide an offset to the Company's expected new business gains.

The net effect of the above positive and negative on FY2023 earnings is forecast to be broadly neutral. The Company cautions that significant volatility around this guidance is possible and some factors, such as global health and macroeconomic risks, are outside the Company's control.

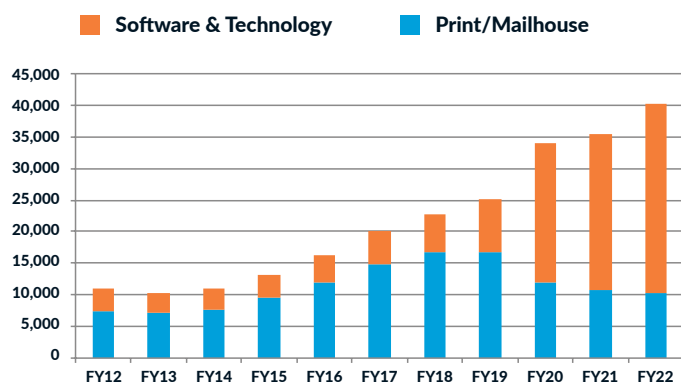
Key Financial Trend Metrics

Revenue (\$000)

Revenue CAGR (10 yr) 13.8%

Software CAGR (10 yr) 23.2%

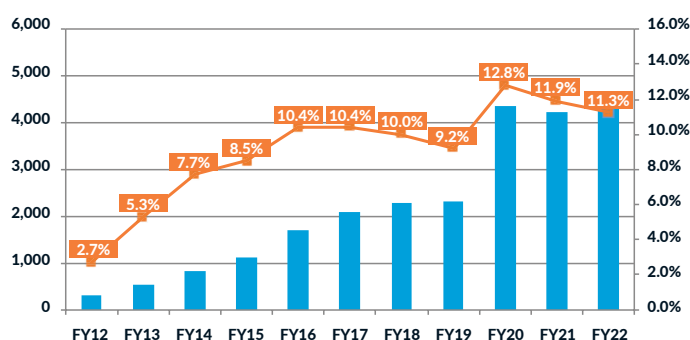
Print/Mail CAGR (10 yr) 3.5%



EBITDA (\$ 000)

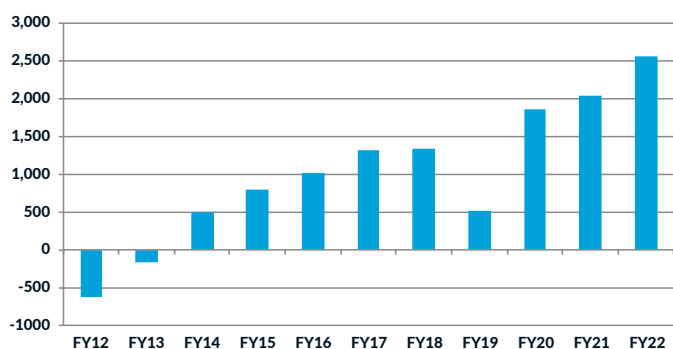
CAGR (10 year) 31.2%

EBITDA is as reported in financial statements, noting this is affected by the change of accounting standard to NZ IFRS 16 (accounting for leases) in FY2020 (increases reported EBITDA) so FY2020 onwards is not comparable with prior years.



Net Profit (\$000)

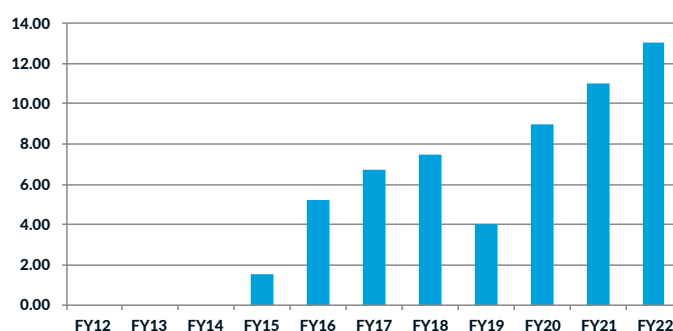
Reported net profit. Note that SDL paid no tax from FY2012 to FY2014.



Dividends

Cents per share (excludes imputation credits).

All dividends are fully imputed.





In Memoriam: Nelson Siva

In November 2021 our dear friend and colleague Nelson Siva passed away after an illness since early 2020.

Nelson was SDL's long-term CEO from 2006. He was instrumental in the significant growth in earnings over the last ten years and a key architect of the Company's successful technology and international expansion. He would have been especially proud of how the SDL team managed the transition process over to Pat, and the record result for FY2022.

As a number of staff and Board members noted, he would of course then have been asking how we were going to improve on that and deliver more in FY2023! He could not only "sell snow in the Arctic" and see the big strategy picture, but also sweat the detail and motivate the entire SDL team to deliver.

Most importantly, Nelson created SDL's culture; a "can do", strong customer service-oriented focus, which drives our ability to tackle complex customer communication problems. Development of the Company's communications technology platforms and capabilities to sustain future growth are testament to Nelson's strategic and tactical skills. And the development of SDL's internal management talent is testament to Nelson's positive approach and people skills.

The team at SDL deeply appreciate Nelson's contribution and legacy to the Company, and the strong foundation he has bequeathed us for future success.

Nelson was also a friend to the staff, some of whom had worked with him for more than 20 years and across multiple companies. He is deeply missed.

We offer our deepest condolences to Nelson's wife, Tracey, and family.

Rest in Peace, Nelson.

Independent Auditor's Report

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To the Shareholders of Solution Dynamics Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Solution Dynamics Limited and its subsidiaries (the Group) on pages 19 to 55 which comprise the consolidated statement of financial position as at 30 June 2022, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2022 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our firm carries out other assignments for the Group in the area of taxation advice and services. The firm has no other interest in the Group.

Key Audit Matters

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

<i>Key audit matters</i>	<i>Our procedures to address the key audit matter</i>
<p>Carrying Value of Goodwill</p> <p>The Group has significant goodwill of \$1,061,000 arising from historical acquisitions of businesses. Goodwill is allocated across the Groups software cash generating units. Any risk of downturn in the macroeconomic environment could result in an indicator of impairment to the goodwill balance. The inherent uncertainty involved in forecasting and discounting future cash flows is one of the key judgement areas that our audit concentrated on. The uncertainty is affected by several factors including general market trends, current environment and economic factors such as impact of the COVID19 global pandemic, the number of new customers and future demand for the software solutions. All which form the basis for assessment of the carrying value of the goodwill balance.</p>	<p>For this key audit matter our audit procedures included assessment of the Group's forecast and budgeting procedures used to form the basis for value in use calculations. We also compared the Group's historical budget to actual performance and its future projections compared to prior year actual results and tested the reasonableness of forecasting assumptions. In addition, we performed our own assessments in relation to key inputs such as projected revenue growth, cost and overhead inflation expectations and discount rates used and engaged Corporate Finance for peer review on the impairment.</p> <p>We further evaluated the reasonableness where changes to inputs, methodology or assumptions from the prior year have occurred. We also assessed whether the Group's disclosures about the sensitivity in key assumptions fairly reflected the risks inherent in the carrying value of the goodwill balance.</p>
<p>Accuracy of revenue</p> <p>The Group recognised revenue of \$40.2 million (2021: \$34.3 million) for the year ended 30 June 2022 comprising sale of goods and rendering of services under contract. The principal risk associated with revenue relates to recognition and recoverability. There are several factors that could affect revenue including:</p> <ul style="list-style-type: none"> • Delivery may not have occurred before year end resulting in recorded sales being recognised in the incorrect accounting period. • Revenues recognised from contract sales of products and services may be at a point in time or over time with reference to the various performance obligations existing with customers. • Revenue may include estimates and judgements that impact the amount of revenue recognised. 	<p>For the key audit matter our audit procedures included evaluating the Group's recognition of revenue by assessing the procedures and controls in place and ensuring appropriate revenue recognition policies have been applied. In relation to sales cut-off, we performed detailed substantive testing on sales recognised or adjusted either side of year end to substantiate the appropriate terms of the relevant contracts had been satisfied in line with contract performance obligations.</p> <p>Our audit work included assessing performance obligations of any significant projects or contracts including the delivery of the goods to ensure appropriate revenue recognition.</p> <p>For contracts recognised at a point in time we inspected a sample of delivery notes, invoices raised and cash receipts.</p> <p>For contracts recognised over time we reperformed the calculation of any material revenue to be recognised at year end and agreed the assumptions used in determining the various performance obligations to supporting documentation.</p>

Other Information

The Directors are responsible for all other information included in the Group's Annual Report. The other information comprises 2022 Highlights, Chairman's and Chief Executive Officer's Report, Statement of Corporate Governance and the Company Directory, included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Consolidated Financial Statements

The Directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards issued by the New Zealand Accounting Standards Board, and for such internal control as the Directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible on behalf of the Group 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 Consolidated 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) 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 consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the External Reporting Board's website at: <https://xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/>

Restriction on use of our report

This report is made solely to the Group's shareholders, as a body. Our audit work has been undertaken so that we might state to the Group's shareholders, as a body 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 Group and the Group's shareholders, as a body, for our audit work, for this report or for the opinion we have formed.

Grant Thornton New Zealand Audit Limited



V J Black
Auckland, New Zealand

25 August 2022



CONSOLIDATED FINANCIAL STATEMENTS



Consolidated Statement of Profit or Loss

For the year ended 30 June 2022

	Note	2022 \$000	2021 \$000
Revenue	4	40,152	34,302
Other income/(loss)	4	(25)	1,143
Total revenue		40,127	35,445
Expenses	5	35,608	31,231
Earnings before interest, tax, depreciation & amortisation (EBITDA)		4,519	4,214
Depreciation	17, 18	885	1,156
Amortisation of intangible assets (software)	19	168	283
Net interest	7	59	70
Profit before income tax		3,407	2,705
Income tax	8	844	671
Net profit after income tax		2,563	2,034
		Cents	Cents
Basic earnings per share	9	17.5	13.9
Diluted earnings per share	9	17.1	13.6

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2022

	2022 \$000	2021 \$000
Net profit after income tax	2,563	2,034
<i>Items that may be reclassified subsequently to profit and loss:</i>		
Exchange gain (loss) on translation of foreign operations	125	(91)
Other comprehensive income/(loss) net of tax	125	(91)
Total comprehensive income for the year	2,688	1,943

The accompanying notes on pages 23 – 55 form part of the consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 June 2022

	Note	2022 \$'000	2021 \$'000
Current Assets			
Cash and cash equivalents	10	5,009	4,713
Trade & other receivables	12	4,002	5,574
Inventories and work in progress	11	234	164
Deferred tax benefit	8	207	161
Prepayments		419	853
Total Current Assets		9,871	11,465
Current Liabilities			
Trade creditors		2,046	3,183
Other current liabilities	13	2,417	4,138
Other non-financial liabilities	14	178	81
Lease liability	16	666	863
Employee benefit liabilities	15	823	808
Total Current Liabilities		6,130	9,073
Working Capital		3,741	2,392
Non-Current Assets			
Capital works in progress		206	195
Property, plant & equipment	17	189	307
Right of use assets	18	3,447	1,210
Intangible assets	19	85	253
Goodwill	20	1,061	1,061
Total Non-Current Assets		4,988	3,026
Non-Current Liabilities			
Lease liability	16	2,815	483
Total Non-Current Liabilities		2,815	483
Net Assets		5,914	4,935
Equity			
Share capital	21	5,574	5,413
Employee share option plan	31	65	31
Foreign currency translation reserve		(34)	(159)
Accumulated profit /(loss)	22	309	(350)
Total Equity		5,914	4,935

For and on behalf of the Board who approved these financial statements for issue on 25 August 2022.



John McMahon - Director
(Chairman)



Andy Preece - Director
(Chairman Audit & Risk Management Committee)

The accompanying notes on pages 23 - 55 form part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2022

	Share Capital \$000	Employee Share Plan \$000	Currency Translation Reserve \$000	Accum- ulated Profit/ (Loss \$000	Total Equity \$000
Balance 30 June 2021	5,413	29	(68)	(481)	4,893
Issue of shares to employees	-	2	-	-	2
Transactions with owners	-	2	-	-	2
Profit for the year after tax	-	-	-	2,034	2,034
Dividend paid	-	-	-	(1,903)	(1,903)
Other comprehensive (loss)	-	-	(91)	-	(91)
Total comprehensive income	-	-	(91)	131	40
Balance 30 June 2021	5,413	31	(159)	(350)	4,935
Issue of shares to employees	161	34	-	-	195
Transactions with owners	161	34	-	-	195
Profit for the year after tax	-	-	-	2,563	2,563
Dividend paid	-	-	-	(1,904)	(1,904)
Other comprehensive income	-	-	125	-	125
Total comprehensive income	-	-	125	659	784
Balance 30 June 2022	5,574	65	(34)	309	5,914

The accompanying notes on pages 23 – 55 form part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2022

	Note	2022 \$'000	2021 \$'000
Cash Flow from Operating Activities			
<i>Cash was provided from:</i>			
Receipts from sales		42,810	35,389
Other income (losses)		(25)	1,143
		42,785	36,532
<i>Cash was applied to:</i>			
Payments to suppliers		28,532	22,696
Payments to employees		11,229	10,594
GST paid to Inland Revenue		45	634
		39,806	33,924
Net Cash Inflow from Operating Activities	24	2,979	2,608
Cash Flow from Investing Activities			
<i>Cash was applied to:</i>			
Purchase of right-of-use assets		2,861	600
Purchase of property, plant and equipment & capital works in progress		154	149
		3,015	749
Net Cash Outflow from Investing Activities		(3,015)	(749)
Cash Flow from Financing Activities			
<i>Cash was provided from:</i>			
Issue of shares		161	-
Finance lease additions		2,950	600
		3,111	600
<i>Cash was applied to:</i>			
Payment of dividends		1,904	1,903
Interest paid		59	70
Finance lease liabilities		816	785
		2,779	2,758
Net Cash (Outflow) from Financing Activities		332	(2,158)
Net change in cash and cash equivalents		296	(299)
Add cash and cash equivalents held at beginning of year		4,713	5,012
Cash and cash equivalents at end of year	10	5,009	4,713

Notes to the Consolidated Financial Statements

For the year ended 30 June 2022

1. Corporate Information

The consolidated financial statements of Solution Dynamics Limited (SDL or Company) and its subsidiaries, Solution Dynamics International Limited, Solution Dynamics Incorporated and Déjar International Limited (collectively the Group) for the year ended 30 June 2022 were authorised for issue in accordance with a resolution of directors on 25 August 2022.

Solution Dynamics Limited is a public company incorporated and domiciled in New Zealand and is listed on the NZX. The registered office is located at 18 Canaveral Drive, Albany in Auckland.

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

2. Summary of Significant Accounting Policies

2.1 Statement of Compliance

The consolidated financial statements of the Group comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS) as appropriate for a profit orientated entity.

2.2 Basis of Preparation

2.2.1 Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis but modified, where applicable, by the measurement of fair value of selected financial assets and financial liabilities. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The principal accounting policies are set out below.

2.2.2 Basis of Consolidation

The consolidated financial statements have been prepared in compliance with generally accepted accounting practice in New Zealand (NZ GAAP), the requirements set out in Part 7 of the Financial Markets Conduct Act 2013 as a reporting entity, the Main Board Listing Rules of the NZX, the Companies Act 1993, and other authoritative pronouncements issued by the New Zealand Accounting Standards Board (NZ ASB). For the purposes of complying with NZ GAAP the Group is a for-profit entity that has followed the Tier 1 for – profit reporting requirements set out by the External Reporting Board, in its “Accounting Standards Framework.”

All subsidiaries have a 30 June reporting date and consistent accounting policies are applied.

The acquisition method is used to prepare the consolidated financial statements, which involves adding together like items of assets, liabilities, income and expenses on a line-by-line basis. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies.

The consolidated financial statements have been prepared under the assumption that the Group operates as a going concern.

2.2.3 Rounding of Amounts

Amounts in the consolidated financial statements have been rounded off to the nearest \$000 unless otherwise specified.

2.2.4 Changes in Accounting Policies and Disclosures

Except as described below, the accounting policies and disclosures are consistent with those of the previous year.

Specific Accounting Policies

The following specific accounting policies, which significantly affect the measurement of financial performance, financial position and cash flows, have been applied.

2.3 Foreign Currency

2.3.1 Functional and Presentation Currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in New Zealand dollars, which is the Group's functional and presentational currency and expressed in \$000's.

2.3.2 Transaction and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Profit or Loss.

For consolidation purposes, the subsidiaries SDIL and SD Inc. is translated into the Group's presentation currency of New Zealand Dollars. Assets and liabilities are translated using the exchange rate prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rate for the relevant period. Translation differences are recognised in other comprehensive income (loss) and are accumulated within equity in the currency translation reserve.

2.4 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

2.4.1 Sale of Goods

To determine whether to recognise revenue at a point in time or over time, an assessment has been undertaken using the 5-step process set out in NZ IFRS 15:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when and as its performance obligation(s) are satisfied.

The Group often enters into transactions involving a range of the Group's products and services, for example the delivery of mailing services involves a blend of physical material (paper stock and envelopes) along with the provision of data and other services to process and deliver the finished job for lodgement to NZ Post. In all cases, the total transaction price for a contract is allocated amongst the various stages of

the project based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties. However, these constitute one performance obligation due to them being highly integrated and non-distinct.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

To depict the progress by which SDL transfers control of the products and services to the customer, and to establish when and to what extent revenue can be recognised, SDL measures its progress towards complete satisfaction of the performance obligation by measuring outputs completed to date. This basis provides the most faithful depiction of the transfer of goods and services to each customer due to SDL's ability to accurately measure the units produced and delivered to the customer.

Items where revenue is recognised as arising at the time of delivery include the sale of goods, usually envelopes and paper, and the sale of right to use licences. In both cases title and the risks and rewards of ownership have been transferred to the customer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or where there is continuing management involvement with the goods when the performance obligation has been satisfied. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or where there is continuing management involvement with the goods when the performance obligation has been satisfied.

2.4.2 Interest Revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

2.4.3 Government Grants

Government grants are recognised as revenue when the conditions attached to the grant have been met. Where there are unfilled conditions attaching to the grant, the amount relating to the unfilled condition is recognised as a liability and released to revenue as the conditions are met.

2.5 Leases

The Group considers whether a contract is or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use.

The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs

to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term. The Group currently has no short-term or low value leases.

On the statement of financial position, right-of-use assets have been included in a separate asset class.

2.6 Employment Benefits

The Group recognises liabilities for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required, and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12-months of each reporting date are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12-months of each reporting date are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

2.7 Share-based Payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding equity settled share-based transactions is set out in note 30.

The fair value determined at the grant date of the equity settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest.

The impact of the revision of the original estimates, if any, is recognised in the Consolidated Statement of Profit or Loss over the remaining period, with a corresponding adjustment to the equity-settled employee benefits reserve.

2.8 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

2.8.1 Current Tax

The tax currently payable is based on the taxable profit for each reporting period. The taxable income or loss differs from the amount as reported in the Consolidated Statement of Profit or Loss because it excludes items of income or expense that are taxable or deductible or is attributable to the NZ Government's research and development incentive (15% of qualifying R&D expenditure in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the financial year end, and any adjustment to tax payable in respect of previous years.

2.8.2 Deferred Tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at each reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.8.3 Current and Deferred Tax for Each Reporting Period

Current and deferred tax are recognised as income or an expense within the Consolidated Statement of Profit or Loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

2.9 Goods and Services Tax (GST)

Revenue, expenses, assets and liabilities are recognised net of the amount of goods and service tax (GST), except:

- where the amount of GST incurred is not recovered from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of receivables or payables.

2.10 Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes all expenditure that is directly attributable to the acquisition of the asset. Software that is integral to the functionality of the related equipment is capitalised as part of the asset.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The principal depreciation rates used in the reporting periods are:

- Leasehold Improvements 6.5 – 7.8%
- Furniture and Fittings 8.5 – 39.6%
- Plant and Machinery 7.0 - 30.0%
- Computer Equipment 20.0 – 36.0%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Consolidated Statement of Profit or Loss.

2.11 Intangible Assets

2.11.1 Intangible Assets Acquired with a Finite Life

Intangible assets with a finite life, acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

2.11.2 Internally Generated Intangible Assets with a Finite Life

Expenditure on research activities is recognised as an expense in the Consolidated Statement of Profit or Loss in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged as an expense to the Consolidated Statement of Profit or Loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Amortisation is charged on a straight-line basis over the estimated useful lives of internally generated intangible assets. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

2.11.3 Subsequent Measurement

All intangible assets, including capitalised internally developed software, are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in Note 2.13. The following useful lives are applied:

- Software 3-5 years.

2.11.4 Intangible Assets Acquired in Business Combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset, are identifiable and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

- Customer contracts 3–4 years.

2.12 Goodwill

Goodwill arising on the acquisition of a “business” as defined in NZ IFRS 3 Business Combinations represents the excess of the cost of acquisition over the Group’s interest in the net fair value of the identifiable assets and liabilities of the business recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

2.13 Impairment of Assets

At each reporting date, the Group reviews the carrying amounts of its tangible and finite life intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives, goodwill and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense within the consolidated statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. Any impairment loss associated with goodwill will not be reversed in a subsequent reporting period.

2.14 Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly-liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.16 Financial Instruments

2.16.1 Recognition and Derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

2.16.2 Classification and Initial Measurement of Financial Assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with NZ IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the corporation does not have any financial assets categorised as FVOCI and FVTPL.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

2.16.3 Subsequent Measurement of Financial Assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds.

2.16.4 Classification and Measurement of Financial Liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

2.16.5 Impairment of Financial Assets

NZ IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under NZ IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss. For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognise a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

2.17 Share Capital

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

2.18 Trade Payables and Other Current Liabilities

These amounts represent liabilities for goods and services provided to the Group prior to the end of the annual reporting period which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. These are measured initially at fair value net of transaction costs, subsequently at amortised cost using the effective interest rate method.

2.19 Statement of Cash Flows

The following terms are used in the statement of cash flows:

Operating activities: are the principal revenue producing activities of the Group and other activities that are not investing or financing activities.

Investing activities: are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities: are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Non-cash financing and investing activities: There were no transactions which have had a material effect on assets and liabilities that did not involve cash flows and are disclosed in the statement of cash flows.

2.20 New IFRS standards and interpretations issued but not yet adopted

At the date of authorisation of these financial statements, several new, but not yet effective interpretations to existing standards had been published by the IASB and XRB. None of these amendments to existing Standards have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

2.21 New IFRS standards adopted

There were no new standards adopted during the year.

3. Critical Accounting Judgements And Key Sources Of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3.1 Annual Goodwill Impairment Testing

Determining whether goodwill is impaired requires an estimation of the value in use of the Electronic Content Management cash-generating unit which is also known as SDL Software. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from this cash generating unit and a suitable discount rate in order to calculate present value.

The carrying value of goodwill at each reporting date was \$1,061,000 (2021: \$1,061,000).

The recoverable amount of \$938,000 of goodwill associated with the acquisition of the Déjar and Bremy businesses has been determined based on a value in use model applying the budget, approved by the Directors covering the reporting period to 30 June 2022, and forecast sales based on assessments of the current market opportunities through existing distribution channels net of forecast costs, through to the end of 2026, at a post-tax discount rate of 12.1% (2021: 10.2%). Cash flows beyond 2027 have been taken into account by the calculation of a terminal value.

The revenue assumptions used for the forecast period are based on management expectations supported by existing prospects for the budget period and allow for growth of 2.5% (2021: 2.5%) per annum over the balance of the forecast period. The assumptions are subject to fundamental uncertainties, particularly those surrounding future license sales which comprise a substantial portion of projected revenues and hence only inflationary growth rates have been applied. Gross margin is forecast to be consistent through the budget and forecast period.

In determining whether there was any impairment of goodwill associated with the SDL Software operations, forecasts were prepared based on estimates for all the products sold in each market.

Goodwill of \$123,000 is associated with the acquisition of the Scantech and DTP business (2021: \$123,000). This has similarly been tested for impairment through a review of revenue and earnings forecasts for the financial year ended 30 June 2022. Refer to note 20 for Directors' judgements and estimates.

3.2 Right-of-use assets

At inception of a contract, SDL uses judgement in assessing whether a contract is, or contains, a lease. 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. To assess whether a contract conveys the right to control the use of an identified asset, SDL assesses whether:

- The contract involves the use of an identified asset;
- SDL has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- SDL has the right to direct the use of the asset.

At inception or on reassessment of a contract that contains a lease component, SDL allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. SDL recognises a right-of-use asset at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

In assessing the lease liability an incremental borrowing rate is applied to lease liabilities recognised under NZ IFRS 16. This is 4.5% (2021: 4.5%) for property and 8.5% (2021: 8.5%) on plant & equipment.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically assessed for impairment losses and adjusted for certain remeasurements of the lease liability.

4. Revenue & Other Income

	2022 \$000	2021 \$000
Revenue recognised over time	37,642	32,079
Revenue recognised at a point in time	2,510	2,223
Revenue	40,152	34,302
Government grant revenue	-	486
Gain (loss) on foreign exchange – realised	(25)	657
Other Income (losses)	(25)	1,143

5. Expenses

	Note	2022 \$000	2021 \$000
Auditor's remuneration	6	87	82
Credit loss		95	-
Freight, postage & external print		5,334	5,420
Directors' remuneration	29	414	793
Research		788	1,415
Salaries		9,284	7,673
Superannuation (KiwiSaver)		396	547
Employee entitlements – share based payments		34	2
Donations		76	48
Other expenses		19,100	15,251
Total Operating Expenses		35,608	31,231

6. Auditor's Remuneration

	2022 \$000	2021 \$000
Audit fees – statutory audit	65	64
Tax compliance and advisory services	22	18
Total auditors' remuneration	87	82

7. Interest

	2022 \$000	2021 \$000
Interest on financing of right of use assets	59	70
Net interest paid	59	70

8. Income Tax Expense

8.1 Current Tax

	2022 \$000	2021 \$000
Income tax expense comprises:		
Current tax expense	890	1,061
Deferred tax movement relating to the origination and reversal of temporary differences	(46)	(390)
Total tax expense	844	671
The total charge for the reporting period can be reconciled to the accounting profit as follows:		
Net profit before income tax	3,407	2,705
Income tax at company tax rate ⁽¹⁾	954	757
Permanent differences	15	6
Over/(under) provision in prior years	(116)	96
Other	(9)	(122)
Utilisation of previously unrecognised tax losses	-	(66)
Income tax expense	844	671

(1) The Group tax rate of 28% (2021: 28%) has been used. This is the tax rate applicable to the territory where Solution Dynamics Limited, the primary tax paying entity, is domiciled.

At 30 June 2022 there are imputation credits available of \$451,770 (2021: \$727,026) for use in subsequent reporting periods.

8.2 Deferred Tax Asset

	2022 \$000	2021 \$000
Temporary differences		
Depreciable and amortisable assets	(13)	(60)
Accruals and provisions	220	221
Deferred tax asset recognised	207	161

Deferred tax assets arising from deductible temporary differences are only recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

	2022 \$'000	2021 \$'000
Deferred tax liability (asset) movement		
Balance at beginning of period	161	(229)
Current year movement through profit or loss	46	390
Balance at end of period	207	161

9. Earnings Per Share (EPS)

	2022 \$'000	2021 \$'000
Net profit for the year attributable to ordinary shareholders	2,563	2,034
Basic		
Weighted average number of ordinary shares (000's)	14,660	14,640
	Cents	Cents
Basic earnings per share	17.5	13.9

Basic earnings per share is calculated by dividing the net profit after tax attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for bonus elements in ordinary shares issued during the reporting period.

	2022 \$'000	2021 \$'000
Diluted		
Weighted average number of ordinary shares (000's)	14,660	14,640
Adjustment for share options	359	360
Weighted average	15,019	15,000
	Cents	Cents
Diluted earnings per share	17.1	13.6

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. Options are convertible into the Company's shares and are therefore considered dilutive securities for diluted earnings per share.

10. Cash & Cash Equivalents

	2022 \$000	2021 \$000
Cash & cash equivalents	5,009	4,713
Total	5,009	4,713

Solution Dynamics has a \$200,000 overdraft facility in place with the ANZ Bank at an interest rate of 8.45% p.a. (2021: 6.95%). This facility, which was unused at the reporting date, is to support the operational requirements of the Group, is interest only and is secured by 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 Group holds a net cash position with no bank debt (2021: \$Nil).

At the end of the reporting period the Bank provided commercial guarantees totaling \$65,000 (2021: \$65,000) to the Group's suppliers.

11. Inventories & Work in Progress

	2022 \$000	2021 \$000
Work in Progress	147	106
Inventory	87	58
Total Inventories & Work in Progress	234	164

12. Trade & Other Receivables

	2022 \$000	2021 \$000
Trade receivables	4,091	5,252
Credit loss allowance	(94)	(5)
	3,997	5,247
Allowance for credit notes	(32)	(6)
Total trade receivables	3,965	5,241
Sundry debtors	37	333
Total Trade & Other Receivables	4,002	5,574

Trading terms & aging of past due trade receivables

The Group's trading terms require settlement by the 20th of the month following the date of invoice. At the reporting date the Group had past due debtors of \$441,000 (2021: \$880,000) for which an allowance of \$94,301 (2021: \$5,250) was made. With overage receivables at 10.8% of total receivables (2021: 16.8%) there has not been a significant change in credit quality, therefore the amounts are considered recoverable. The Group does not hold any collateral over these balances.

	2022 \$000	2021 \$000
30 – 60 days	279	138
60 – 90 days	59	246
90 – 120 days	103	496
Total overdue trade receivables	441	880

Movement in allowance for credit losses

	2022 \$000	2021 \$000
Balance at the beginning of the reporting period	5	40
Accounts written off as uncollectable or (recovered)	(5)	(35)
Credit loss	94	-
Total allowance for credit losses	94	5

In assessing the recoverability of trade receivables, the Group considers any change in the quality of the trade receivables from the date that the credit was initially granted up to the reporting date. The concentration of credit risk is limited with the largest customer comprising 36.9% (2021: 31%) of the gross trade receivable balance, of which all was current. 96.0% of the outstanding balance is less than 60 days old (2021: 86%). Accordingly, the directors believe that no further adjustments for credit are required in excess of the allowance for credit losses.

The directors do not consider there to be any expected credit loss in addition to the credit losses recorded above.

13. Other Current Liabilities

	2022 \$000	2021 \$000
Sundry creditors	1,268	1,249
Payroll accruals	35	349
Provision for tax	528	676
Provision for deferred income	522	1,789
Audit fees accrued	64	75
Total Other Current Liabilities	2,417	4,138

14. Other Non-Financial Liabilities

	2022 \$000	2021 \$000
PAYE	157	161
GST	21	(80)
Total Non-Financial Liabilities	178	81

15. Employee Benefit Liabilities

	2022 \$000	2021 \$000
Provision for sick pay	2	2
Provision for long service leave	144	139
Provision for holiday pay	677	667
Total Employee Benefit Liabilities	823	808

Provisions for sick and long service leave are based on the Group's estimate of the present value of future costs assuming payroll inflation rate of 2.0% (2021: 2%).

16. Leases

	2022 \$000	2021 \$000
Current	666	863
Non-current	2,815	483
	3,481	1,346

The Group has property leases for its Canaveral Drive office and production facility, an IT infrastructure disaster recovery site also in Auckland and a sales office in North America. In February 2022 a new lease was signed for the Canaveral Drive site that expires in September 2027. In addition to property leases the Group has two leases for its production imaging equipment in Auckland.

The table below describes the nature of the Groups leasing activities by right of use asset type recognised in the statement of financial position.

Right of use (ROU) assets	No of ROU assets leased	Range of remaining term	Average remaining term
Property	3	2 months - 5 years	5 years
Plant & equipment	1	1 - 2 years	1 year

No agreements have a right to purchase or have extension options.

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 30 June 2022 were as follows:

Right of use (ROU) assets	Within 1-year \$000	1 - 2 years \$000	2 - 5 years \$000	After 5 years \$000	Total \$000
30 June 2022					
Lease payments	158	402	2,960	189	3,709
Finance charges	6	23	173	26	228
Net present values	152	379	2,787	163	3,481
30 June 2021					
Lease payments	863	420	152	-	1,435
Finance charges	61	23	5	-	89
Net present values	802	397	147	-	1,346

There are no short-term leases (leases with a term of 12-months or less) or leases of low value assets that the Group has not recognised as right of use assets.

At 30 June 2022 the Group has committed to a new Lease commencing in September 2022. The term of the lease is five years with the option to renew for a further two years.

17. Property, Plant and Equipment

	Plant & machinery \$000	Furniture & fittings \$000	Leasehold improvements \$000	Total \$000
Cost				
Balance 1 July 2021	2,729	159	658	3,546
Additions	47	-	7	54
Disposals	-	-	-	-
Balance 30 June 2021	2,776	159	665	3,600
Additions	35	1	14	50
Disposals	-	-	-	-
Balance 30 June 2022	2,811	160	679	3,650
Accumulated depreciation				
Balance 1 July 2020	2,336	147	538	3,021
Depreciation expense	196	4	72	272
Disposals	-	-	-	-
Balance 30 June 2021	2,532	151	610	3,293
Depreciation expense	128	4	36	168
Disposals	-	-	-	-
Balance 30 June 2022	2,660	155	646	3,461
Carrying amount				
Balance 1 July 2020	393	12	120	525
Balance 30 June 2021	244	8	55	307
Balance 30 June 2022	151	5	33	189

18. Right of Use Assets

	Right of Use Assets. Property \$000	Right of Use Assets. Plant \$000	Total \$000
Cost			
Balance 1 July 2020	2,438	807	3,245
Additions	-	600	600
Disposals	(102)	(653)	(755)
Balance 30 June 2021	2,336	754	3,090
Additions	2,950	-	2,950
Disposals	(67)	-	(67)
Adjustment	-	(22)	(22)
Balance 30 June 2022	5,219	732	5,951
Accumulated depreciation			
Balance 1 July 2020	1,233	606	1,839
Depreciation expense	585	299	884
Disposal	(102)	(653)	(755)
Adjustment ⁽¹⁾	(8)	(80)	(88)
Balance 30 June 2021	1,708	172	1,880
Depreciation expense	500	211	711
Disposal	(67)	-	(67)
Adjustment ⁽¹⁾	(14)	(6)	(20)
Balance 30 June 2022	2,127	377	2,504
Carrying amount			
Balance 1 July 2020	1,205	201	1,406
Balance 30 June 2021	628	582	1,210
Balance 30 June 2022	3,092	355	3,447

Note (1) Adjustments arise from variations in lease term

19. Identifiable Intangibles, Finite life

	Software - Déjar \$000	Software - Bremy \$000	Software \$000	Customer Contracts \$000	Total \$000
Cost					
Balance 1 July 2020	2,090	110	1,738	441	4,379
Transfers	-	-	-	-	-
Additions - purchased	-	-	-	-	-
Balance 30 June 2021	2,090	110	1,738	441	4,379
Transfers	-	-	-	-	-
Additions - purchased	-	-	-	-	-
Balance 30 June 2022	2,090	110	1,738	441	4,379
Accumulated amortisation					
Balance 1 July 2020	2,090	110	1,371	272	3,843
Transfers	-	-	-	-	-
Amortisation expense	-	-	168	115	283
Balance 30 June 2021	2,090	110	1,539	387	4,126
Transfers	-	-	-	-	-
Amortisation expense	-	-	114	54	168
Balance 30 June 2022	2,090	110	1,653	441	4,294
Carrying amount					
Balance 1 July 2020	-	-	367	169	536
Balance 30 June 2021	-	-	199	54	253
Balance 30 June 2022	-	-	85	-	85

20. Goodwill

	Scantech \$000	DTP \$000	Déjar \$000	Bremy \$000	Total \$000
Balance at beginning of year	66	57	215	723	1,061
Net carrying amount	66	57	215	723	1,061

Goodwill has arisen on the acquisition of businesses previously controlled by Déjar Holdings Limited, Bremy Limited, Scantech Limited and DigitalToPrint. For impairment testing purposes, goodwill is determined to be associated with the SDL Software cash generating unit.

No accumulated impairment losses have been recognised against the goodwill.

The carrying value of goodwill relating to the Déjar and Bremy acquisitions is tested on an annual basis through assessment of the value-in-use of the SDL Software cash generating unit. The cash flows used in the value-in-use calculations are based firstly on the management budget for the 2023 year followed by management forecasts over a further four-year period. Cash flows after 2027 have been taken into account through a terminal value calculation. Management has projected growth in sales for the Déjar and Bremy products at 2.5% per annum for the 2024-2027 forecast period because it reflects inflation. Growth above inflation has not been projected due to there being uncertainty around this.

The pre-tax discount rate used in the impairment calculation is 15.4% (2021: 13.2%). The equivalent post-tax nominal rate for the forecast cash flows is 12.1% (2021: 10.2%). In the Directors' view this represents the rate that the market would expect on an investment of equivalent risk. There has been no impairment in the reporting period (2021: \$Nil).

Goodwill of \$123,000 has arisen from deferred tax on business combinations associated with the Scantech Limited and DigitalToPrint acquisitions. Following a review of forecast cash flows for the 2023 budget period the Directors' judgement is that there are no indicators of impairment at reporting date.

20.1 Sensitivity to Changes in Assumptions

As at 30 June 2022, the date of the Group's annual impairment test, the estimated recoverable amount of the Déjar and Bremy indefinite life intangible assets exceeded their carrying amount by \$17,908,000 (2021: \$17,701,000).

It is the judgement of Directors that reasonable changes in the foreseeable future to growth rates and discount rates (sensitivity analysis) does not result in an impairment loss for these assets.

21. Share Capital

	2022 \$000	2021 \$000
Ordinary Shares		
Balance at beginning of year	5,413	5,413
Exercise of employee share options	161	-
Share Capital at End of Year	5,574	5,413

The Company had 14,719,810 (2021: 14,639,810) ordinary shares on issue as at 30 June 2022. All ordinary shares ranked equally with one vote attached to each fully paid ordinary share and share equally in dividends and surplus on winding up.

22. Accumulated profit/(loss)

	2022 \$000	2021 \$000
Balance at beginning of reporting period	(350)	(481)
Net operating profit/(losses) after income tax	2,563	2,034
Payment of dividends	(1,904)	(1,903)
Accumulated profit/(losses) at end of reporting period	309	(350)

23. Employee Remuneration

Remuneration includes salaries, bonuses and other benefits including non-cash benefits. The number of employees with total remuneration exceeding \$100,000 in each of the following bands was:

	2022 \$000	2021 \$000
\$100,000 to \$109,999	3	2
\$110,000 to \$119,999	5	5
\$120,000 to \$129,999	3	1
\$130,000 to \$139,999	2	3
\$140,000 to \$149,999	0	1
\$170,000 to \$179,999	1	1
\$180,000 to \$189,999	0	1
\$200,000 to \$209,999	1	2
\$210,000 to \$219,999	1	1
\$220,000 to \$229,999	1	1
\$250,000 to \$259,999	1	-
\$260,000 to \$269,999	2	-
\$270,000 to \$279,999	1	1
\$340,000 to \$349,999	1	1
\$350,000 to \$359,999	1	1
\$540,000 to \$549,999	1	1
\$670,000 to \$679,999	1	1
Total staff with remuneration exceeding \$100,000	25	23

24. Reconciliation of net profit after income tax for year with net cash inflow from operating activities

	2022 \$000	2021 \$000
Net profit after income tax	2,563	2,034
Adjustments:		
Depreciation and amortisation of assets	1,053	1,439
Loss (Gain) on foreign exchange	25	(657)
Bad and doubtful debts	89	(35)
Interest expense (reclassified as financing activity)	59	70
Other non-cash items	113	(479)
Cash flow from trading	3,902	2,372
Add movements in working capital:		
Decrease / increase in trade & other receivables	1,483	(717)
Decrease / increase in inventories and work in progress	(69)	52
Increase / decrease in prepayments	434	(586)
Increase / decrease in other current liabilities	(1,399)	997
Increase / decrease in other non-financial liabilities	98	9
Increase / decrease in trade creditors	(1,137)	672
Decrease / increase in employee benefit liabilities	(333)	(191)
Net movement in working capital	(923)	236
Net Cash Flows from Operating Activities	2,979	2,608

25. Segment Information

The Group operates in one business segment, the supply of customer communication solutions. These include a range of integrated document management products and services separated into three streams; outsource services, technology & development services, intelligent imaging and output services. Specific elements of these streams are as follows:

- **Software & Technology**, Solution Dynamics owns the intellectual property in five 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.
- » Digital Mail Centre, is a cloud application that enables any organisation to send and track omnichannel customer communications through a simple and intuitive desktop user interface.
- » Jupiter is a hybrid mail application that was acquired through the purchase of the DigitalToPrint business. The application routes data received from clients for international distribution of communications to the destination country for print production and lodgement as local mail.

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.

Grant income (NZTE / R&D) and foreign exchange gains / (losses) are related to the software business segment and included in this revenue group.

- **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.
- **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, the CEO Patrick Brand, being compiled using the same standards and accounting policies as those used to prepare the financial statements.

Segment Consolidated Statement of Profit or Loss

	2022 \$000	%	2021 \$000	%
Software & Technology	29,803	74%	24,635	70%
Digital Printing & Document Handling Services	3,812	9%	4,161	12%
Outsourced services	6,512	16%	6,649	18%
Total revenue	40,127	100%	35,445	100%
Less cost of sales	26,186	65%	21,954	62%
Gross margin	13,941	35%	13,491	38%
Selling, general & administration	9,422	23%	9,277	26%
Earnings before interest, tax, depreciation & amortisation	4,519	11%	4,214	12%
Less:				
Depreciation	885	0%	1,156	3%

	2022 \$000	%	2021 \$000	%
Amortisation	168	3%	283	1%
Interest	59	0%	70	0%
Tax	844	2%	671	2%
Operating profit	2,563	5%	2,034	6%

Segment Assets

Assets are not segmented between service streams.

Information about Top Five Customers

Included in revenues for the Group of \$40.13 million (2021: \$35.45 million) are revenues of \$25.6 million (2021: \$18.02 million) which arose from sales of the top five customers in the Group.

Geographical Information

The Group has customers in New Zealand, Australia, United States of America and Europe.

	Revenue from external customers		Non-current assets	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000
New Zealand	13,131	14,667	4,975	2,999
Australia	438	426	-	-
United States of America	23,628	18,291	5	15
Europe	2,930	2,061	8	12
Total	40,127	35,445	4,988	3,026

26. Contingent Liabilities

There were no contingent liabilities at reporting date for the Group (2021: \$Nil).

27. Capital Commitments

The Group had no capital commitments at the reporting date (2021: \$Nil).

28. Financial Instruments

28.1 Credit Risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of trade & other receivables. The maximum credit risk is the carrying value of these financial instruments; however, the Group does not consider the risk of non-recovery of these accounts to be material.

In the normal course of its business the Group incurs credit risk from trade receivables and transactions with financial institutions. The Group has a credit policy, which is used to manage this exposure to credit risk. As part of this policy, credit evaluations are performed on all customers requiring credit. The Group does not have any significant concentrations of credit risk, excluding the single largest customer referred to in Note 12. This customer is not viewed as a credit risk due to trading and payment history. The Group does not require any collateral or security to support financial instruments as it only deposits with, or loans to banks and other financial institutions with credit ratings of no less than AA-. It does not expect the non-performance of any obligations that are not provided for at reporting date.

28.2 Categories of Financial Instruments

	2022 \$000	2021 \$000
	Financial Assets & liabilities at amortised cost	Financial Assets & liabilities at amortised cost
Assets		
Cash & cash equivalents (Note 10)	5,009	4,713
Trade & other receivables (Note 12)	4,002	5,574
Total Financial Assets	9,011	10,287
Total non-financial assets	5,848	4,043
Total Assets	14,859	14,330
Finance Liabilities		
Trade creditors	2,046	3,183
Other current liabilities (Note 13)	2,417	4,138
Total Financial Liabilities	4,463	7,321
Lease liability – right of use assets	3,481	1,346
Total non-financial liabilities	1,001	728
Total Liabilities	8,945	9,395

The carrying values of the financial instruments above are equivalent to their fair values.

28.3 Maturity Date of Financial Instruments

	Weighted average effective interest rate	Less than 1-month \$000	1-3 months \$000	3-months to 1-year \$000	1-5 years \$000	Gross Nominal outflow \$000	Carrying Value \$000
2022							
Non-interest bearing	n/a	3,387	1,138	-	-	4,525	4,525
		3,387	1,138	-	-	4,525	4,525

	Weighted average effective interest rate	Less than 1-month \$000	1-3 months \$000	3-months to 1-year \$000	1-5 years \$000	Gross Nominal outflow \$000	Carrying Value \$000
2021							
Non-interest bearing	n/a	4,623	2,698	-	-	7,321	7,321
		4,623	2,698	-	-	7,321	7,321

28.4 Interest Rates

The following table details the Group's weighted average effective interest rates for financial liabilities at reporting date.

	2022	2021
Financial Liabilities:		
Finance facility (overdraft rate)	8.45%	6.95%

28.5 Foreign Currency Risk Management

Hosting and license sales linked to SDL Software operations are denominated in foreign currency and sold under standard terms and conditions. Any variation in exchange rate between the date of sale and the date cash is received is accounted for as a foreign exchange gain/loss in the period in which it occurs. At 30 June 2022 of total trade receivables of \$4,091,262 (2021: \$5,252,000) a total of \$2,694,529 (2021: \$3,776,000) was in foreign currencies. \$291,193 (2021: \$150,000) of the foreign currency receivables were denominated in European currencies, \$2,276,902 (2021: \$3,526,000) in USD with the remainder of the balance in AUD.

In addition to the trade receivables of \$2,694,529 (2021: \$3,776,000) held in foreign currencies at the end of the reporting period, a further \$1,784,311 (2021: \$4,057,000) in cash was also held in foreign currencies, a total of \$4,478,840 (2021: \$7,883,000). Adjusted for offsetting payables balances of \$2,913,642 (2021: \$4,078,840), a movement in the exchange rate of 10% would give rise to an exchange fluctuation of \$156,250 (2021: \$294,000).

Trading operations for the UK and Europe are largely undertaken through SDL's UK subsidiary Solution Dynamics International Limited (SDIL). For North America operations are undertaken through Solution Dynamics Incorporated. At period end the net assets for SDIL and SD Inc., comprising largely working capital, was a credit balance of NZ \$1,993,000 (2021: NZ\$872,000) with cash and receivable balances as noted above.

At 30 June 2022, the reporting date \$Nil forward exchange contracts were held (2021: \$Nil), on which an unrealised gain of \$Nil (2021: \$Nil) is recognised at the reporting date.

28.6 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously

monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. With positive cash inflows the Group's liquidity risk is considered by the Directors to be low.

28.7 Interest Rate Sensitivity Analysis

At 30 June 2022 the interest rate on the overdraft facility was 8.45% (2021: 6.95%). With a net cash position of \$5.01 million (2021: \$4.71 million) at the end of the reporting period a material change in the interest expense is not expected.

28.8 Capital Management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances.

Earnings in the Group has improved on the prior year. The Group is in a net cash position of \$5.01 million (2021: \$4.71 million) and a net cash inflow from operations of \$2.98 million (2021: \$2.61 million). There was an operating profit of \$2.56 million in the current year (2021: \$2.03 million). The Group has no externally imposed covenants to manage, the only debt on the balance sheet relates to right of use assets.

	2022 \$000	2021 \$000
Borrowings – Liability right of use assets	(3,481)	(1,346)
Cash (Note 10)	5,009	4,713
Net cash (debt)	1,528	3,367
Equity (all capital and reserves)	5,914	4,935
Net (cash) debt to equity ratio	(29%)	(68%)

During the year the finance facility was subject to certain conditions which are disclosed in Note 10.

29. Related Parties Transactions and Directors' Remuneration

Transactions between related parties include transactions with subsidiaries, shareholders, directors and their companies and senior executives. Transactions with SDL's subsidiary Solution Dynamics International Limited are completed under a supplier agreement on similar terms to those previously struck with third party channel partners.

Related party transactions from 1 July 2021 to 30 June 2022 were as follows:

Key management were paid \$1,825,396 (as employees of Solution Dynamics Limited or its subsidiaries and including the calculated benefit of the employee share option plan) during the reporting period (2021: \$2,108,021) and were owed \$119,358, including annual leave, at 30 June 2022 (2021: \$153,744).

The following fees and salaries were paid to Directors during the reporting period:

	2022 \$000	2021 \$000
John McMahon (Chairman)	60	60
Nelson Siva (CEO)	185	541
Julian Beavis	40	40

	2022 \$000	2021 \$000
Elmar Toime	40	64
Lee Eglinton	40	40
Andy Preece (Chairman Audit & Risk Management Committee)	49	48
Total Directors' Remuneration	414	793

There was also a total of \$3,209 (2021: nil) income received during the year from entities related to one of the directors. At 30th June, payables to other related entities amounted to \$14,340 (2021: nil). During the year, the Group also had purchases of \$14,340 (2021: nil) from one of the entities related to another director.

30. Employee Options

On 17 February 2014 the board of Solution Dynamics Limited announced the introduction of an equity settled employee share option plan. The general principles of the scheme were:

- The maximum aggregate number of share options to be granted pursuant to the plan is 5% of the total number of shares on issue.
- Options of no more than 1% of the total number of SDL's shares on issue can be granted to an individual staff member.
- The exercise price will be determined by the Board based on the market price at the time of issue.
- The options may be exercised by the participant (in whole or part) after three years from the date that they are granted. The key employees have 18-months from the date of eligibility and must be employed by SDL at the date the option is exercised.

All options from the initial tranches of the scheme were exercised by March 2021. Effective 14 December 2018 the board issued 80,000 share options each to two staff who are key senior members of the Company's IT team (with an exercise price of \$1.70), one of whom remains as an employee and whose entitlement exercised in March 2022 and April 2022. The issue of a further 240,000 share options was approved to three key members in October 2021 (with an exercise price of \$2.60), two of whom remain as employees at 30 June 2022. In February 2022 the board issued a further 172,796 share options at an exercise price of \$2.90 to Pat Brand (CEO), bringing his total of share options to 292,796.

	2022 Number of shares 000	2021 Number of shares 000
Unvested shares at 1 July	360	160
Granted	173	360
Lapsed (on resignation of staff member)	(80)	(160)
Vested	(80)	-
Unvested shares at 30 June	373	360
Percentage of total ordinary shares	2.5%	2.5%

The net fair value of the options granted during the reporting period was \$56,404 (2021: \$122,190). This cost is recognised over the vesting period.

Grant Date	Options Issued	Share price at Grant Date	Exercise Price	Options Expire	Option Value \$
March 2021	200,000	\$2.60	\$2.60	September 2025	\$152,732
February 2022	172,796	\$2.65	\$2.90	August 2026	\$56,404

The fair value was determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the dividend yield and the risk-free interest rate for the term of the option.

In addition to the factors as noted in the table above further inputs for the model included:

- Standard deviation of stock returns 30%. This is based on an analysis of share price movements over the 12-months prior to the issue of the options.
- Average dividend yield of 4.34%.
- Average annual risk-free rate of 1.44%.

31. Shareholders and Substantial Security Holders

31.1 The 20 largest shareholders as at 8 July 2022 were:

	% of total	Shares
ASB NOMINEES LIMITED <574233 A/C>	10.87%	1,600,658
PHILIP HADFIELD HARDIE BOYS <P & K HARDIE BOYS FAMILY A/C>	7.13%	1,050,000
PUBLIC TRUST - NZCSD <THE ASPIRING FUND>	6.24%	918,943
INDRAJIT NELSON SIVASUBRAMANIAM + TRACEY LEE SIVASUBRAMANIAM + COMAC TRUSTEES LIMITED	6.05%	890,000
CUSTODIAL SERVICES LIMITED <A/C 4>	5.38%	792,084
HOBSON WEALTH CUSTODIAN LIMITED <RESIDENT CASH ACCOUNT>	5.16%	759,182
ACCIDENT COMPENSATION CORPORATION - NZCSD <ACCI40>	4.74%	698,234
JBWERE (NZ) NOMINEES LIMITED <NZ RESIDENT A/C>	4.27%	628,266
MICHAEL CHARLES HARE	3.90%	573,938
COLIN GLENN GIFFNEY	3.53%	520,000
KIRSTEN ROBERTS	3.09%	455,000
STEPHEN CHRISTOPHER MONTGOMERY	2.72%	400,000
DEIRDRE ELIZABETH TALLOTT	2.72%	400,000
JILLIAN BERNADETTE WINSTANLEY	2.21%	325,000
ROGER DIXON ARMSTRONG	2.05%	301,665

	% of total	Shares
FNZ CUSTODIANS LIMITED <DRP NZ A/C>	2.03%	298,215
CHRISTOPHER VEALE + PENNY VEALE	1.81%	265,704
DON NOMINEES LIMITED	1.60%	234,944
NEW ZEALAND DEPOSITORY NOMINEE LIMITED <A/C 1 CASH ACCOUNT>	1.37%	201,766
ACE FINANCE LIMITED	1.22%	180,000
GRAND TOTAL	78.09%	11,493,599

A total of 14,719,810 shares were on issue (2021: 14,639,810).

31.2 Size of Shareholding as at 8 July 2022

Holdings	Shareholders	Shares held	% of total
1-999	112	28,023	0.19%
1,000-4,999	106	217,737	1.48%
5,000-9,999	35	221,853	1.51%
10,000-49,999	47	820,989	5.58%
50,000-99,999	14	994,876	6.76%
100,000 and over	28	12,436,332	84.48%
Total	342	14,719,810	100.0%

31.3 Substantial Security Holders

According to notices given under the Financial Markets Conduct Act 2013, the following persons were substantial shareholders in Solution Dynamics Limited as at 8 July 2022:

Shareholder	% of total	Shares
Meta Capital Limited (John McMahon)	10.87%	1,600,658
Philip Hadfield Hardie Boys (P & K Hardie Boys Family A/C)	7.13%	1,050,000
Public Trust - NZCSD (The Aspiring Fund)	6.24%	918,943
Indrajit Nelson Sivasubramaniam & Tracey Lee Sivasubramaniam & Comac Trustees Limited	6.05%	890,000

32. Events after the reporting date

On 25 August 2022, the directors approved the payment of a fully imputed dividend of 4.00 cents per share amounting to \$589,000 to be paid on 30 September 2022 (2021: The directors approved the payment of a fully imputed dividend of 4.00 cents per share, amounting to \$586,000).

Statement of Corporate Governance

The corporate governance processes set out in this statement do not materially differ from the principles set out in the New Zealand Stock Exchange Corporate Governance Best Practice Code issued on May 2017. The information in this report is current as at 25 August 2022 and has been approved by the Board.

SDL is listed on the NZX and is subject to regulatory control and monitoring by both the NZX and the Financial Markets Authority (FMA).

The Board Charters and key policies are available on the Company's website: <https://solutiondynamics.com/investor-centre/>.

Principle 1 – Code of Ethical Behaviour

Directors should set high standards of ethical behaviour, model this behaviour and hold management to account for adherence to these standards throughout the organisation.

The Board recognises that high ethical standards and behaviours are central to good corporate governance and it is committed to the observance of a Code of Business Conduct and Ethics throughout the Group.

The Code of Business Conduct and Ethics, which was approved by the Board as part of the process of migrating to the NZX Main Board, provides a framework of standards by which the directors, employees and contractors to SDL and its related companies are expected to conduct themselves. It is intended to facilitate actions and decision-making that is consistent with SDL's values, business goals and legal obligations and, thereby, enhance performance outcomes.

Employees are expected to report any breaches of the Code in line with the processes outlined in the Code of Business Conduct and Ethics.

A copy of the Code of Business Conduct and Ethics was made available to all employees and is given to all new employees when they join the Group. Any future changes to the Code of Business Conduct and Ethics will be communicated to staff.

SDL has a Share Trading Policy to mitigate the risk of insider trading in SDL's securities by employees and Directors. A copy of this Policy can also be found with the other policies on the Company website. The Policy was updated in May 2019 as a part of the process of migrating to the NZX Main Board. Additional share trading restrictions apply to Restricted Persons including Directors and certain employees.

Directors' Share Dealings and Shareholding

Directors disclose the following relevant interests in shares in the Group at 30 June 2022 and transactions in relevant interests in shares during the financial year ended 30 June 2022.

Shareholder	Balance 30 June 2021	Additions	Disposals	Balance 30 June 2022
John McMahon	1,600,658	-	-	1,600,658
Nelson Siva ⁽¹⁾	890,000	-	-	890,000
Andy Preece	53,000	-	-	53,000
Lee Eglinton	18,000	-	-	18,000

(1) Nelson Siva retired as CEO and director in November 2021.

Entries in the Interests Register

In addition to the interests and related party transactions disclosures in Note 29 and the director remuneration disclosed under principle 5 below, the following interests were disclosed to the Board and noted in the interests register during the financial year ended 30 June 2022:

- Indemnification of officers and directors: The Company indemnifies directors and executive officers of the Group against all liabilities which arise out of the performance of their normal duties as director or executive officer.
- Directors' & Officers' insurance: In parallel with the indemnity coverage, the Group has Directors & Officers' liability insurance. The total cost of this insurance expensed during the year ended 30 June 2022 was \$55,060 (2021 - \$54,242).

Conflicts of Interest and Related Parties

All directors must disclose any general and specific interests that could be in conflict with their obligations to the Group. Transactions with related parties and balances outstanding relating to the year ended 30 June 2022 are disclosed in Note 29 of the Notes to the Financial Statements.

Principle 2 – Board Composition & Performance

To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.

The primary responsibilities of the Board include:

- to establish the vision of the Group
- to establish the long-term goals and strategies of the Group
- to approve annual and half-year financial reports
- to approve annual budgets
- to approve corporate policies
- to ensure the Group has good internal controls and keeps adequate records
- to ensure legislative compliance
- to monitor executive management
- to ensure appropriate communication to stakeholders

Board procedures are governed by the Constitution.

The Board is responsible for setting the strategic direction of the Company, overseeing the financial and operational controls of the business, putting in place appropriate risk management strategies and policies and enhancing its value for shareholders in accordance with good corporate governance principles.

In addition to the Code of Business Conduct and Ethics, the Board also operates under a written Board Charter which sets out the structure of the Board, role and responsibilities of directors, procedures for the nomination, resignation and removal of directors; and identifies procedures to ensure that the Board meets regularly, conducts its meetings in an efficient and effective manner and that each Director is fully empowered to perform his or her duties as a director of the Company and to fully participate in Board meetings.

The day-to-day management of SDL's business is undertaken by SDL's senior management team under the leadership of the chief executive officer, through a set of delegated authorities which are reviewed annually.

In order to discharge their duties, directors have direct access to and may rely on financial and other management information, and advice provided by SDL's senior management as well as professional advice provided by external advisers. Directors have the right, with the approval of the chairman or by resolution of the Board, to seek independent legal or financial advice at the Company's expense for the proper performance of their duties.

Board Composition and Appointment

The number of elected directors and the procedure for their retirement and re-election at Annual Shareholder Meetings is set out in the Company's constitution.

SDL considers that the nomination process for new director appointments is the responsibility of the whole Board and it does not have a separate Nomination Committee.

The Board takes into consideration tenure, capability, diversity and skills when reviewing Board composition and new appointments.

At each Annual Meeting, one-third of the current directors retire by rotation and are eligible for re-election. Any directors appointed since the previous Annual Meeting must also retire and are eligible for election.

When a new director is appointed, SDL will enter into a written appointment letter setting out the terms of their appointment.

The Board supports the separation of the roles of chairman and CEO. The chair of SDL as at 25 August 2022 is non-executive director, John McMahon, who has (through a related party) a 10.87% shareholding in SDL and is therefore not considered independent under the NZX Main Board Listing Rules. The Board believes that John's shareholding aligns his interests well with those of Solution Dynamics' shareholders' interests. The Directors consider that John's broad analytical and commercial experience, including as a director of other NZX-listed companies, along with his understanding of the Company's products, markets and strategy, mean that he is the right person to lead the Board.

The Board currently comprises five directors (2021: six directors, Nelson Siva retired as CEO and as a director in November 2021), being a non-executive chairman (non-independent, see note above) and four non-executive directors (independent). They are all elected based on the value they bring to the Board.

In order for a director to be independent, the Board has determined that he or she must not be an executive of SDL and must have no 'Disqualifying Relationships'. In this regard, the Board follows the requirements of the NZX Listing Rules (and NZX guidance on the application of those requirements). Information on each director can be found at <http://www.solutiondynamics.com/our-team/>. Director's interests are disclosed on Note 29 of the 2022 Annual Report.

The Company encourages all directors to undertake appropriate training and education so that they may best perform their duties. This includes attending presentations on changes in governance, legal and regulatory frameworks; attending technical and professional development courses. In addition, directors can receive updates on relevant industry and Company issues, and briefings from key executives.

The Board aims to regularly consider individual and collective performance, together with the skillsets, training and development and succession planning required to govern the Group's business.

Diversity

SDL is committed to a culture that actively supports diversity and inclusiveness and prevents or eliminates discrimination in any form. As such, SDL firmly believes that diversity and inclusiveness enables SDL to better respond to the ever-changing environment in which we operate and better serve the diverse customer and stakeholder base to which we are accountable to.

The concept of diversity includes (but is not limited to) concepts of gender, race, ethnicity and cultural background as well as physical capability, age, sexual orientation, and religious or political beliefs.

SDL does not have formal diversity policy. Instead, SDL's Code of Business Conduct and Ethics notes that SDL values diversity and has a workforce consisting of many individuals with diverse skills, values, backgrounds, ethnicity and experience. We attract and retain a diverse workforce and this diversity brings a range of ideals, skills and innovation to SDL, which assists in achieving our objectives. At the date of this report, the Board is yet to consider whether it requires management to provide regular reporting and monitoring on diversity within SDL's workforce.

As at 30 June 2022, the gender balance of SDL's directors and people was as follows:

	30 June 2022	30 June 2021
Directors		
Females	1	1
Males	4	5
Management Team		
Females	1	1
Males	6	6
All Employees		
Females	38	38
Males	51	60

The Management team is defined as being the chief executive officer and senior leaders with reporting lines direct to the chief executive officer.

Board Meetings and Attendance

The Board has 11 scheduled meetings a year.

During the period 1 July 2021 to 30 June 2022 attendance at Board and Committee meetings was:

	Board Meetings ⁽¹⁾		Audit & Risk Committee ⁽²⁾	
	Held	Attended	Held	Attended
John McMahon (Chairman) ⁽¹⁾	11	11	2	2
Julian Beavis	11	10	n/a	n/a
Nelson Siva (CEO) ⁽²⁾	5	3	n/a	n/a
Elmar Toime	11	11	n/a	n/a
Andy Preece ⁽³⁾	11	11	2	2
Lee Eglinton	11	11	2	2

(1) John McMahon is the board chairman.

(2) Nelson Siva retired as CEO and director in November 2021.

(3) Andy Preece is the chairman of the Audit & Risk Management committee.

Principle 3 - Committees

The Board should use committees where this will enhance its effectiveness in key areas, while still retaining Board responsibility.

The Board has constituted one standing Committee being the Audit and Risk Committee. Due to the size of the Board, matters normally dealt with by remuneration and the nominations committees are dealt with by the full Board.

Committees allow issues requiring detailed consideration to be dealt with separately by members of the Board with specialist knowledge and experience, thereby enhancing the efficiency and effectiveness of the Board. However, the Board retains ultimate responsibility for the functions of its Committees and determines their responsibilities.

The Audit and Risk Committee meets as required and has terms of reference (a Charter). A copy of the Audit and Risk Committee Charter can be found on the Company website under the Board Governance section.

Minutes of each Committee meeting are forwarded to all members of the Board. The Audit and Risk Committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

The membership and performance of the Committee is reviewed annually.

From time to time, special purpose committees may be formed to review and monitor specific projects with senior management.

As the Board believes that matters of remuneration and nominations are the responsibility of the entire Board, SDL does not consider it necessary to comply with recommendations 3.3 and 3.11 of the NZX Corporate Governance Code and accordingly does not have a separate remuneration committee or nomination committee.

The Board will continue to monitor best practice in the governance area and update SDL's policies to ensure it maintains the most appropriate standards.

Audit and Risk Committee

The role of the Audit and Risk Committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 2013 regarding accountancy practices, policies and controls relative to the Company's financial position and make appropriate enquiry into the audits of the Company's financial statements. This responsibility includes providing the Board with additional assurance about the quality and reliability of the financial information issued publicly by the Company. All matters required to be addressed and for which the Committee has responsibility were addressed during the 2022 financial year.

A written charter outlines the Audit and Risk Committee's delegated authority, duties, responsibilities and relationship with the Board. The Charter is available on the Company's website.

The Committee must be comprised solely of Directors of SDL, have a minimum of three members, two of whom have a majority of independent Directors and have at least one director with an accounting or financial background. The makeup of the current members of the Committee complies with this recommendation. The chair of the Committee cannot be Chair of the Board.

Members as at 30 June 2022 were Andy Preece (Chairman), Lee Eglinton and John McMahon. It met twice during the financial year.

Management and employees may only attend meetings at the invitation of the committee and the Committee routinely has Committee only time with the external auditors without management present.

Takeovers

The Board has yet to establish protocols or procedures to be followed in the event of a takeover. Nonetheless, the Board understands that any such protocols or procedures would involve SDL forming an independent takeover committee to oversee disclosure and response and engage expert legal and financial advisors to provide advice on procedural matters affecting any such takeover.

Principle 4 – Reporting & Disclosure

The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

The Board is committed to keeping shareholders and the market informed of all material information about the Company and its performance and ensure compliance with legislative requirements and those of the NZX Listing Rules.

The release of material information is guided by the NZX Listing Rules (and the Listing Rules guidance provided by NZX).

In addition to all information required by law, SDL also seeks to provide sufficient meaningful information to ensure stakeholders and investors are well informed, including financial and non-financial information.

Financial Statements

It is the directors' responsibility to ensure preparation of financial statements that give a true and fair view of the financial position of the Group as at the end of the financial year and the results of operations and cash flows for the year. The external auditors are responsible for expressing an independent opinion on the financial statements.

The consolidated financial statements set out in this report have been prepared by management in accordance with generally accepted accounting practice in New Zealand. They are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable judgements and estimates.

For the financial year ended 30 June 2022, the directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of SDL and the Group and facilitate compliance of the financial statements with the Companies Act 1993 and the Financial Reporting Act 2013.

After reviewing internal management financial reports and budgets the directors believe that the Group will continue to be a going concern in the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The chief executive and chief financial officer have confirmed in writing to the Board that SDL's external financial reports present a true and fair view in all material aspects.

SDL's full and half year financial statements are available on the Company/s website at: <http://www.solutiondynamics.com/investor-centre/>

Non-financial information

The Board recognises the importance of non-financial disclosure. Given SDL's size the Board has elected not to comply with recommendation 4.3 of the NZX Corporate Governance Code and has not adopted a formal environmental, social and governance (ESG) framework.

SDL discusses its strategic objectives and its progress against these in the Management Discussion and Analysis section of this annual report and at the Annual Meeting.

SDL is committed to using its resources responsibly and is actively working with its supply chain partners to look for opportunities to reduce any negative environmental risk or impact from its business operations, products and services.

The Board encourages diversity and will not knowingly allow SDL to participate in business activities where SDL could be complicit in human rights and labour standard abuses.

Principle 5 – Remuneration

The remuneration of Directors and management should be transparent, fair and reasonable.

The Board promotes the alignment of the interests of the directors, the chief executive officer and management with the long-term interests of shareholders. Remuneration policies and structure are reviewed regularly to ensure remuneration of management and directors is fair and reasonable in a competitive market for the skills, knowledge and experience required by the Company.

The Board recognises that it is desirable that management (including that for any executive director) remuneration should include an element dependent upon the performance of both the Group and the individual, and should be clearly differentiated from non-executive director remuneration.

Details of directors and management remuneration and entitlements for the 2022 financial year are set out in Note 29 of the annual report.

SDL does not have a Remuneration Committee and matters relating to remuneration are dealt with by the full Board.

Directors’ Remuneration

The total remuneration pool available for directors is fixed by shareholders. The Board determines the level of remuneration paid to directors from the approved collective pool. Directors also receive reimbursement for reasonable travelling, accommodation and other expenses incurred in the course of performing their duties.

Directors are paid on a per director rate as follows:

Position	Approved Remuneration
Chairman	\$60,000
Non-executive Director	\$40,000
Audit & Risk Committee Chair	\$7,500
Hourly rates for abnormal/particularly time intensive projects or transactions outside the scope of typical board work	\$250 /hour

Directors’ remuneration during the year is disclosed in Note 29 of the Notes to the Financial Statements.

Executives' Remuneration

Executive remuneration consists of a fixed base salary, incentives and a Share Option Plan. Incentives are paid against targets agreed with members of the management team at the commencement of the year and are based on earnings and sales targets.

Executives' remuneration greater than \$100,000 per annum received in their capacity as employees during the year is disclosed in Note 29 of the Notes to the Consolidated Financial Statements.

Details of the SDL Share Option Plan are detailed in Note 30 to the 2022 Financial Statements.

Chief Executive Officer Remuneration

The review and approval of the chief executive officer's remuneration is the responsibility of the Board.

The Chief Executive Officer's remuneration comprises a fixed base salary and bonus paid annually.

The CEO's remuneration can be summarised as follows:

Description	(USD000's)
Base salary	250
Maximum incentive ⁽¹⁾	194
Total on target earnings	444

(1) This includes an assessed share option cost (refer note 30) and a performance incentive based on Company earnings paid annually in arrears

Principle 6 – Risk Management

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

SDL is committed to proactively managing risk. Whilst risk management, and the Group's system of internal controls, is the responsibility of the entire Board, the Audit and Risk Committee assists the Board and provides additional oversight with regard to the risk management framework and monitoring compliance with that framework.

The Board monitors the operational and financial aspects of the Group and considers recommendations from external auditors and advisors on the risks that the Group faces.

The Board ensures that recommendations made are assessed and appropriate action is taken where necessary to ensure risks are managed appropriately.

The Board's approach to risk management is incorporated into the Audit and Risk Committee Charter, which can be found under Board Governance on the Company's website.

The Board delegates day-to-day management of the risk to the chief executive officer. SDL's management team is required to regularly identify the major risks affecting SDL's business and develop structures, practices and processes to manage and monitor these risks.

It is the responsibility of the directors to ensure adequate accounting records are kept. Directors are also responsible for the Group's system of internal financial controls.

Internal financial controls have been implemented to minimize the possibility of material misstatement. They can provide only reasonable assurance and not absolute assurance against material misstatements or loss.

No major breakdowns of internal controls were identified during the year.

The Board is satisfied that SDL has in place a risk management process to effectively identify, manage and monitor SDL's principal risks.

SDL also maintains insurance policies that it considers adequate to meet its insurable risks.

Key financial and non-financial risks are included in Note 28 to the financial statements.

Health and Safety

The Board recognises that effective management of health and safety is essential for the operation of a successful business, and its intent is to prevent harm and promote wellbeing for SDL's employees and contractors. The Board is responsible for ensuring that the systems used to identify and manage health and safety risks are fit for purpose, being effectively implemented, regularly reviewed and continuously improved.

SDL has a Health and Safety Charter which is monitored by the management team. Health and Safety reports, including incident reports, for SDL's business are included in the compliance section of the Board papers.

Principle 7 –Auditors

The Board should ensure the quality and independence of the external audit process.

The Board's approach to the appointment and oversight of the external auditor are outlined in SDL's Audit and Risk Committee Charter, which can be found on the Company's website. Amongst other things, the Charter is designed to ensure that audit independence is maintained, both in fact and appearance, so that SDL's external financial reporting is viewed as being highly reliable and credible.

The Audit and Risk Committee provides additional oversight of the external auditor reviews the quality and cost of the audit undertaken by SDL's external auditors and provides a formal channel of communication between the Board, the management team and the external auditors. The Committee also assesses the auditor's independence on an annual basis. These requirements are detailed in the Audit and Risk Committee Charter.

For the financial year ended 30 June 2022, Grant Thornton continued in their appointment as the external auditor for SDL. Grant Thornton has occupied that role since 2009. The audit partner has been rotated in 2021 (the prior rotation was in 2016).

All audit work at SDL is fully separated from any non-audit services, to ensure that appropriate independence is maintained. The amount of fees paid to Grant Thornton for audit and other services is identified in Note 6 of this annual report.

Grant Thornton has provided the Board with written confirmation that, in their view, they were able to operate independently during the financial year.

Grant Thornton attends the Annual Meeting, and the lead audit partner is available to answer questions from shareholders at that meeting. In this capacity, Grant Thornton attended the 2021 annual meeting.

SDL has a number of internal controls overseen by Audit and Risk Committee, including controls for computerised information system, security, business continuity management, insurance, health and safety, conflicts of interest, and prevention and identification of fraud. SDL does not have a dedicated Group internal auditor role.

Principle 8 – Shareholder Rights & Relations

The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.

The Board is committed to open dialogue and to facilitating engagement with shareholders.

SDL has a calendar of communications for shareholders, including but not limited to:

- Annual and Half-Yearly Reports
- Market announcements
- Annual Meeting
- Access to information through the SDL website www.solutiondynamics.com

SDL Company maintains a comprehensive website which provides access to key corporate governance documents, copies of all major announcements and Company reports.

Shareholders are encouraged to attend the Annual Meeting and may raise matters for discussion at the meeting. In accordance with NZX Corporate Governance Code, the Board ensured that the notice of the Annual Meeting was posted to SDL's website as soon as possible and at least 20 working days prior to the meeting.

Shareholders have the ultimate control in corporate governance by voting Directors on or off the Board. Voting is by poll, upholding the 'one share, one vote' philosophy.

In accordance with the Companies Act 1993, SDL's constitution and the NZX Listing Rules, SDL refers major decisions which may change the nature of SDL's business to shareholders for approval.

All shareholders are given the option to elect to receive electronic communications from SDL. In addition to shareholders, SDL has a wide range of stakeholders and maintains open channels of communication for all audiences, including shareholders, brokers and the investing community, as well as our staff, suppliers and customers.

Company Directory

Nature of Business

Data management, electronic digital printing, document distribution, web presentment and archiving, fulfilment, print services, scanning, data entry and document management.

Directors

John McMahon – Non-independent Chairman
Elmar Toime – Independent
Julian Beavis - Independent
Andy Preece – Independent
Lee Eglinton - Independent

Auditors

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

Bankers

ANZ National Bank Limited
Level 20, ANZ Centre, 23-29 Albert Street
AUCKLAND

Legal Representative

Stephen Layburn
Commercial Barrister
Level 3, 175 Queen Street, AUCKLAND

Share Registry

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
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