Solution Dynamics

Annual Report 2016

Simplifying Business

ANNUAL SHAREHOLDERS MEETING

will be held at

10.30am

Thursday 3 November 2016

in the

Jupiter Meeting Room

Solution Dynamics Limited

18 Canaveral Drive

Albany

Auckland

2016 KEY POINTS

- Net Profit after Tax up 26% to $1.016 million
- Pre-tax earnings up 74% to $1,439,000
- Dividend per share of 5.25 cents
- Cash from operations up 39% to $1,362,000
- Net cash on hand $1.422 million
- UK sales lift 303% to $1,428,000

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MANAGEMENT DISCUSSION AND ANALYSIS

FY2016 Result Overview

Solution Dynamics Limited and its subsidiaries ("SDL" or "The Group") has produced an unaudited net profit after tax of $1.016 million for FY2016. This represents 26.0% year-on-year growth although the prior financial year had only a modest tax expense versus SDL moving into a full tax paying position in FY2016.

- Growth for FY2016 at the net profit before tax level was 74.2%.
- The Group finished the year with net cash on hand of $1.412 million.
- The Directors have declared a final dividend of 2.25 cents per share, taking the total dividend for FY2016 to 5.25 cents per share (FY2015: 1.50 cents).

Business Overview

SDL operates in the Customer Communications market (essential mail, interactive marketing communications and on-demand communications). The Group's products and services are represented by two revenue streams:

- Services (itself separated into digital print & document handling services and outsourced services).
- Software & Technology.

Services includes digital print and mail house processing for mail items such as invoices, statements and promotional material. These are then distributed predominantly though NZ Post's mail delivery system. A number of the components included in this service, such as envelopes and postage, form part of outsourced service revenues. This service differs from traditional printing in that each document printed is typically personalised and unique.

Software & Technology, develops and markets SDL's own software products related to a) multi-channel marketing communications, which includes digital asset management, communication templates and campaign management, b) document archiving, c) document composition and d) desktop mail solutions. A range of further technology services are offered relating to SDL's own software and the management of client data around the formatting, electronic output and archiving of customer communications.

Despite the ongoing erosion of transactional mail volumes, the Directors believe that SDL's key point of difference is in offering integrated solutions incorporating both physical print and digital technology. Some communications are better suited to print and will likely remain so for the foreseeable future. In other cases, use of software technology such as DéjarMail (SDL's desktop mail solution) can improve the handling efficiency, management and cost of physical mail. The Group's integrated range of print and software technologies means it is able to offer a holistic and distribution channel/platform-agnostic approach to managing its customer's communications needs.

The Group operates from leased premises in Albany, Auckland.

Description and Review of Revenue Streams

SDL Services

SDL Services predominantly provides mail house operations to high-volume postal mail users, mainly those in the business-to-customer sector. DéjarMail has expanded the market for SDL's print and post service down to the SME (small to medium enterprise) sector although the Group does not sell directly to SMEs but reaches this market through channel partners.

SDL Services operates leased, high-speed digital colour and monochrome printers. In addition to digital printing, Services also provides the usual ancillary document handling operations such as automated envelope inserting and flowrap. Early FY2016 saw a high-speed, continuous-sheet laser printer installed into an expanded print room under an agreement which saw SDL become an accredited Document Management Solutions ("DMS") partner to Fuji Xerox New Zealand Limited ("FXNZ"). The first major client under this agreement is expected to commence print operations around mid-FY2017. The sales cycles for the types of high-volume print customers targeted by DMS is typically long and DMS revenue growth is therefore likely to be both sporadic and lumpy.

SDL has also recently agreed to take over the physical print operations (under a sub-contract arrangement) of an existing print and software business and this should fully commence in early FY2017.

Services revenue also includes a variety of outsourced functions or components such as postage, offset printing, scanning, freight, paper and envelopes. The Group has an access agreement with NZ Post which provides bulk mail discounts off NZ Post's retail rates, subject to SDL meeting minimum volumes requirements over a twelve month period. SDL continues to exceed NZ Post's minimum volumes under this agreement. The profit margins on many of these outsourced components, especially postage, are very slim.

In spite of the ongoing general mail volume market decline, SDL's FY2016 mail volumes grew 3.0% and digital print volumes increased 4.6%, as a result of increased volumes from existing clients and new business wins. These increases are partly driven by our technology-based approach to customer communication solutions, as well as a strong customer service ethos. SDL continues to increase its share of a declining market. Note that the growth in Outsourced Services in the following table is a combination of both very low margin postage and the outsourced printing for DéjarMail volumes in the UK.

SDL Services Revenue Breakdown (all figures $000)	**FY2016**	**FY2015**	**Percentage Change**
Digital Printing and Document Handling	6,120	5,888	3.9%
Outsourced Services	5,754	3,724	54.5%
Total Services Revenue	**11,874**	**9,612**	**23.5%**

SDL Software & Technology

SDL Software owns, sells and supports four products:

Déjar

Déjar is a digital archival system that provides the ability to efficiently store and retrieve electronic documents created from most formatting tools. Déjar allows users to exactly reproduce the original document and access these via a browser over the local network or via the Internet. The reproduced image can be printed, faxed or emailed and Déjar's security and history features ensure every image creation and subsequent access event is recorded by User ID and date/time stamp.

Bremy

Bremy is an integrated, multi-channel publishing and distribution solution for businesses across a broad spectrum of industries. It manages the work flow of digital assets, through document creation and revision, to final email or print-ready files and distribution through multiple channels, including print, email, web, digital signage and mobile. It helps streamline and provides integrity to document proofing and integrates with data sources to produce complex documents such as online or physical catalogues.

Composer

Composer is SDL's electronic document creation software. It is flexible and allows customised documents to be built on the fly, based on information retrieved from databases. It automatically creates templates, documents and letters with predefined, customised content, formatted to each customer's requirements. Composer allows companies to easily standardise corporate documentation formats for all users, including regional and legal variations. Templates, documents, emails, letters and newsletters created by Composer are automated, ready to archive, print, publish online, or electronically distribute to customers in one step.

DéjarMail

DéjarMail is a web browser-based desktop mail management solution which allows customers to route mail correspondence to SDL or any other service provider for printing and delivery via post or any other medium. This delivers costs savings for smaller businesses and for larger companies' ad hoc mail.

Software & Technology revenue is earned from four sources.

The first is licence sales, where customers pay an upfront fee to acquire a licence to utilise SDL's software and then pay subsequent annual maintenance fees to receive support and the right to future upgrades. Licence revenue can be material to SDL Software's performance, but is also volatile from year to year.

The second is an alternative to licencing, where, rather than pay an upfront fee, customers opt to run SDL's software on a SaaS (Software as a Service) basis. This sees them use a pay-as-you-go model, typically by way of a per-document or per-electronic transaction charge. Under this model, SDL will usually host the software (using third party hosting infrastructure) and related data on behalf of the client. While SDL forgoes the benefit of any large up-front revenue, the SaaS approach does build an annuity revenue base that generates value over a longer term. The trend in recent years has been for customers to prefer SaaS rather than acquiring a software licence.

Thirdly, the Group offers bespoke software development services where this is related to a customer using its software. An example is a customer requiring a front end, web-based access portal to allow its clients to access the underlying data being stored or managed by SDL's software.

The fourth is the provision of programming, consulting, business analysis and design services that help clients to manage essential and marketing communications both by mail and electronic transfer.

Software encompasses all international software revenue and all revenue from all of our software products and services. It also includes Déjar revenue in New Zealand for digital document archival and management for SDL Services' customers. Note that a significant part of the revenue from DéjarMail is generated in SDL Services from the printing and postage component of the service.

In addition to New Zealand and Australia, both Déjar and Composer are sold internationally, mainly in the UK and Europe. Bremy is predominantly a New Zealand product, with several Australian and UK customers. DéjarMail's initial revenue came from Australasian clients, however, this has changed materially during FY2016 following its adoption in the UK by a software company operating in the dental practice sector. This saw an initial period of very rapid growth as an existing user base of practices was transitioned from an incumbent supplier and SDL believes this market has several years of solid growth available as the share of practices using DéjarMail continues to increase. Bremy is in the early days of being rolled out to UK dental practices, allowing them to run their individual marketing campaigns and this should also add to growth for several years, although as with DéjarMail, take-up rates and eventual penetration levels are difficult to assess.

Additionally, SDL has developed (using a third party developer) a print procurement module which was completed during the second half of the financial year. It is being utilised by a major print equipment supplier at one of its larger customers, a major bank, and may be rolled out further during FY2017.

Software & Technology generated revenue of $4.45 million in FY2016, an increase of 26.9% on the prior year's revenue of $3.51 million, largely the result of DéjarMail growth in the UK. As in the prior year, FY2016 saw no large, one-off licence revenues achieved although several smaller licences were sold, some software development work was undertaken and SaaS revenues continue to build.

Financial Performance

Revenue growth in FY2016 was largely from Outsourced Services, predominantly the effect of printing for DéjarMail volumes in the UK, although additional volumes from new and existing clients saw a modest 3.9% increase in print and document handling revenue, a good result in a declining market. Postage remains very low margin and this is unlikely to change as the wholesale rates and hence margin that NZ Post is able to offer is regulated by the Postal Network Access Committee. The standout revenue growth was Software & Technology, up 26.9%, largely on the back of technology component of DéjarMail growth (Software & Technology growth accelerated over the year with 1H growth of 14.2% and 2H growth of 40.0%).

Summary Financial Performance (all figures $000)	FY2016	FY2015	Percentage Change
Total Revenue	16,322	13,117	24.4%
Less: Cost of Goods Sold	9,239	7,323	26.2%
Gross Margin	**7,083**	**5,794**	**22.2%**
Gross Margin (%)	43.4%	44.2%	-1.8%
Less: Selling, General & Admin	5,388	4,680	15.1%
EBITDA	**1,695**	**1,114**	**52.1%**
EBITDA margin (%)	10.4%	8.5%	
Depreciation	252	202	24.8%
Amortisation	14	96	-85.4%
EBIT	**1,429**	**816**	**75.1%**
Net Interest	(10)	(10)	n.m.
Income Tax	423	19	n.m.
Net Profit after Tax	**1,016**	**807**	**25.9%**

SDL produced a very strong financial performance in FY2016 with ongoing gains in revenue (albeit partly from low margin revenue sources) and underlying profitability. The Directors were particularly pleased to report a sizeable increase in Net Profit after Tax despite SDL moving to a near-full tax paying position in FY2016 after only incurring a very modest tax liability in FY2015.

The second half remains the seasonally quieter half of the year, especially in New Zealand, although growth in software revenue should begin to smooth this somewhat.

The FY2016 result includes a benefit of $0.08 million from the Group's market development agreement with NZ Trade and Enterprise ("NZTE"). NZTE assists by funding 40% of certain market development costs incurred in expanding the Group's software revenues in the UK (the agreement is over a three year period, with a maximum reimbursement of $0.428 million).)

The following table highlights first and second half performance for the last two financial years.

SDL Half Financial Years (all figures $000)	2H FY2016	2H FY2015	Percent Change	1H FY2016	1H FY2015	Percent Change
Total Revenue	8,562	6,415	33.5%	7,760	6,702	15.8%
EBITDA	764	418	82.8%	931	696	33.8%
EBITDA margin	8.9%	6.5%		12.0%	10.4%	
Tax rate	32.4%	6.4%		27.0%	0.2%	

The change in mix of revenue towards a greater component of low margin, outsourced services is seeing SDL's percentage Gross Margin compress despite significant growth in the dollar Gross Margin. This trend is likely to continue as DéjarMail's offshore revenue grows at a faster rate than the rest of the Group's business. Nevertheless, continued focus on cost control saw the Group's EBITDA margin expand from 8.5% to 10.4%.

Balance Sheet, Liquidity and Debt

FY2016 saw moderate improvement to SDL's net financial position. Further improvements in financial performance were partly offset by selective capital expenditure to de-bottleneck operations, development of the print procurement module and dividend payments.

The Group's net cash (i.e. cash net of interest bearing debt) position improved slightly from $1.34 million to $1.41 million over the year. This modest gain in net cash was mainly the result of SDL beginning to pay dividends at a payout ratio target of 70-75%, completion of the dedicated print room to house the high-speed laser installed under the DMS agreement, and the cost of developing SDL's print procurement module.

At balance date the Group's sole remaining bank facility was an unused overdraft arrangement from ANZ Bank with a $200,000 limit.

Selected Balance Sheet and Cashflow Figures

(all figures $000)	FY2016	FY2015	Change
Net Bank Cash/(Debt & Borrowings)	1,412	1,343	69
Non-Current Assets	2,065	1,647	418
Net Other Liabilities	(497)	(461)	(36)
Net Assets	**2,980**	**2,529**	**451**
Cashflow from Trading	1,394	1,039	355
Movement in Working Capital	(32)	(59)	27
Cash Inflow from Operations	**1,362**	**980**	**382**
Cash dividends paid	**633**	**0**	**633**

The bulk of the increase in Non-Current Assets of $418,000 is accounted for by capital expenditure for finalisation of the print room for the DMS-related high speed laser, the purchase of some document handling equipment, plus the capitalised cost of developing the print procurement module.

Net Assets includes goodwill related to the original purchases of the software products Déjar and Bremy. Bremy accounts for around three quarters of the $938,000 carrying value of goodwill. An impairment test is conducted against the carrying value of these assets each year and the Directors believe the current value of these products is in excess of their carrying values.

While SDL's statement of financial position continues to show a net-cash position, the Group is also carrying leases on its premises and much of its printing and document handling equipment. The annual cost of these leases was around $0.76 million in FY2016 ($1.15 million in FY2015) and represents off balance sheet leverage. The FY2016 result saw a modest full year benefit from the prior year's lease renewal on its premises at Canaveral Drive, Albany, reducing both the amount of space leased and annual rental cost.

Taxation and Dividends

In FY2015 the Group utilised the balance of its New Zealand tax losses and commenced paying tax late that financial year. As a result, FY2016 saw SDL move to a full tax paying position for the entire year. The Group has approximately $123,000 of tax losses available within its UK subsidiary and these are expected to be steadily utilised over the next few years, subject to maintaining UK profitability.

SDL only intends to pay dividends to the extent that it can fully impute them and also subject to SDL not experiencing any one-off requirements for abnormal capital expenditure or acquisition. While the Group's previous policy was to maintain a dividend payout ratio of at least 75% of earnings, this was amended following the agreement that saw NZTE agree to contribute towards SDL's market development costs for software in the UK. NZTE required SDL to ensure the UK growth opportunities were adequately funding from internal cash flow, and consequently required the Group to cap the dividend payout ratio at 75% for the duration of the agreement.

Earnings and Dividends per Share	FY16	FY15	Growth Y/Y ($)
Shares on Issue ('000)	14,059	14,059	n.m
Earnings per share (cents)	7.23	5.74	25.9%
Dividend per share (cents)	5.25	1.50	250.0%
Dividend proportion Imputed	100.0%	100.0%	
Dividend Payout ratio	72.6%	26.1%	

Operational Performance

Despite the industry-wide decline in general mail volumes, SDL's mail volumes grew 3.0% and digital print volumes increased 4.6% on last year, supported by the new business wins (both new customers and new projects within existing customers). SDL's current print and related document handling equipment is now capable of significantly increased utilisation, notably with the early FY2016 addition of the high-speed, continuous printer under the DMS agreement with FXNZ. Any material continuous print volume under the DMS agreement would likely require a modest increase in the level of production staff.

New Zealand Postal Market

The domestic postal services market continues to evolve. NZ Post has amended its Deed of Understanding with the government. From July 2015, NZ Post commenced the process of reducing the number of delivery days per week for standard letter mail in major towns and cities to three days, although it is continuing to provide six-day-per-week delivery for premium mail.

These changes at NZ Post may create opportunities for SDL as it may force some customers to accelerate moves towards greater use of digital communications solutions. The Group tracks how its major customers utilise print versus electronic delivery for transactional mail and the steady switch to new technology is progressing largely as expected. SDL is well positioned to capitalise on this, given its breadth of technology offerings. SDL has proven solutions for digitally communicating with and servicing customers, and these can also deliver significant communications and document creation cost savings. Nevertheless, the Group's customers opted to more rapidly switch towards greater electronic communications, SDL may suffer short run lower utilisation of its printing assets and any gains from SDL Software & Technology may be insufficient to offset this decline.

Risk Factors

The physical mail market will inevitably continue to decline in volume. This has several industry-wide implications. First, the mail house physical print sector will remain plagued by excess printing capacity. Secondly, the likelihood of heightened competition implies ongoing pricing and margin pressure, requiring SDL to continue to manage costs closely. The risk is partly mitigated by SDL's ability to add value through its technology offerings although excessive price discounting of printing services would affect profitability across the entire industry and SDL would not be immune to this threat. Additionally, pressure on marginal print operators is likely to cause industry rationalisation, although SDL may benefit from being able to acquire distressed print volumes (without buying the associated print assets).

SDL's top five customers provided 39.8% of the Group's revenue in FY2016. Loss of one or more of those customers could cause financial results to differ materially from those outlined in the FY2017 Outlook section below. This risk is partly mitigated by having a number of these clients under contract, as well as the offset of expecting revenue growth outside these clients, particularly from DéjarMail.

The Group's software provides critical document management and storage functions for its clients. SDL needs to ensure it continues to maintain adequate levels of software quality control.

The Group relies on several third party distributors to market and support its software products, especially in international markets. There is no certainty that these arrangements will be successful in meeting revenue expectations and SDL may be required to devote more time and funds to support its existing international distribution structures.

Technology Innovation

SDL operates in both the old economy print/mail house business and the new economy document management business. While there are many areas where printed mail is continuing to decline, some elements of print and mail remain reasonably resilient. Nevertheless, SDL is continuing to innovate and develop its software offerings to ensure the Group is agnostic in the communication channels it is able to offer its clients to communicate with their customers.

Bremy, SDL's digital asset and multi-channel communications system, has had its capabilities expanded through the addition of a Procurement function (for print initially, although the functionality is reasonably generic), with phase one of the development completed in the second half of FY2016.

FY2017 Outlook

After a strong result in FY2016, the Group expects that several contracts in place should provide the basis for ongoing revenue and earnings growth. This outlook is subject to the usual risks that the print and mail house market remain extremely competitive and in slow decline.

The Fuji Xerox DMS agreement is expected to provide some contribution to profitability in the coming financial year as the first client is likely to commence operations around mid-FY2017.

The initial contract to embed DéjarMail within a third party software solution to the dental sector ramped up significantly during the second half of FY2016. In FY2017 the combination of a full year's revenue from those practices plus increasing penetration of the dental practice market should see ongoing growth. Additionally, a customised version of Bremy is now being offered to dental practices to facilitate their marketing efforts and we expect this to progressively gain traction during FY2017.

SDL's budget outlook for FY2017 is for further improvement with growth [in excess of 30%] expected for net profit after tax. This forecast does include some moderate growth in new business assumptions outside of the DéjarMail dental contract, as well as the expected DMS contribution eventuating.

Yours sincerely

John McMahon
Director (Chairman)

Nelson Siva
Director (CEO)

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.

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.

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.

Board of Directors

The Group's constitution requires a minimum of three Directors, of whom two must be ordinarily resident in New Zealand. The maximum number of Directors is seven.

At least one third of Directors shall retire from office each year at the annual general meeting, but shall be eligible for re-election. The retiring Directors must be those Directors who have been longest serving since they were last elected.

Directors who are appointed by the Board rather than by ordinary resolution by shareholders must retire at the next annual general meeting, but will be eligible for re-election.

The Board currently comprises five Directors, being a non-executive chairman, three non-executive Directors and the Chief Executive.

The Directors have a wide range of skills and expertise that they use to the benefit of the Group.

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.

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 2016 are disclosed in Note 12 of the Notes to the Financial Statements.

Risk Management

The Board is responsible for the Group's system of internal controls. 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.

Internal Controls

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.

Committees

The Board operates no committees.

Audit Committee

The Board does not have an audit committee. The Board carries out reviews of the half-yearly and annual financial reports.

Attendance at meetings

During the period 1 July 2015 to 30 June 2016 attendance at meetings was:

	Board Meetings Held	Board Meetings Attended
John McMahon (Chairman)	9	9
Mike Smith	9	9
Julian Beavis	9	8
Nelson Siva (CEO)	9	9
Elmar Toime	2	2

Directors' Remuneration

Directors' remuneration during the year is disclosed in Note 30 of the Notes to the Financial Statements.

Executives' Remuneration

Executives' remuneration greater than $100,000 per annum received in their capacity as employees during the year is disclosed in Note 23 of the Notes to the Financial Statements.

Entries in the Interests Register

In addition to the interests and related party transactions disclosures in Note 12 of the Notes to the Financial Statements, there were no interests disclosed to the Board during the year.

Directors' Share Dealings and Shareholding

Directors' disclose the following relevant interests in shares in the Group at 30 June 2016 and transactions in relevant interests in shares during the financial year ended 30 June 2016.

Shareholder	Balance 30 June 2015	Additions	Disposals	Balance 30 June 2016
John McMahon	1,484,801	20,000	-	1,504,801
Nelson Siva	930,000	-	(100,000)	830,000
Mike Smith	80,000	-	-	80,000

Independent Auditor's Report

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To the Shareholders of Solution Dynamics Limited

Report on the financial statements

We have audited the accompanying consolidated financial statements on pages 15 to 45 of Solution Dynamics Limited (the "Group") which comprise the consolidated statement of financial position as at 30 June 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The Group comprises Solutions Dynamics Limited and the entities it controlled at 30 June 2016, or from time to time during the reporting period.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the consolidated financial statements.

Our firm carries out other assignments for Solution Dynamics Limited and the entities it controlled in the area of taxation advice. The firm has no other interest in Solution Dynamics Limited and the entities it controlled.

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

Opinion

In our opinion, the accompanying consolidated financial statements on pages 15 to 45 present fairly, in all material respects, the financial position of Solution Dynamics Limited and the entities it controlled as at 30 June 2016 and their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

Restriction on use of our report

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

Grant Thornton

Grant Thornton New Zealand Audit Partnership
Auckland, New Zealand
19 September 2016

Solution Dynamics Limited

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 30 June 2016

	NOTE	2016 $000	2015 $000
Operating revenue	4	16,185	12,989
Other income	4	137	128
Total income		**16,322**	**13,117**
Operating expenses	5	14,627	12003
Earnings before interest, tax, depreciation & amortisation (EBITDA)		**1,695**	**1,114**
Depreciation	18	252	202
Amortisation of intangible assets (software)	19	14	96
Net interest (income)/expense	7	(10)	(10)
Operating profit before income tax		1,439	826
Income tax	8	423	19
Net operating profit after income tax	**22**	**1,016**	**807**
		Cents	Cents
Basic earnings per share	9	7.2	5.7
Diluted earnings per share	9	6.9	5.5

Solution Dynamics Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2016

	2016 $000	2015 $000
Net operating profit after income tax	1,016	807
Less other comprehensive income:		
Exchange gain / loss on translation of foreign operations	(30)	30
Other comprehensive (income) / loss for the year, net of tax	(30)	30
Total comprehensive income for the year	**1,046**	**777**

The accompanying notes on pages 19 - 45 form part of the financial statements.

Solution Dynamics Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2016

	NOTE	2016 $000	2015 $000
Current Assets			
Cash and bank balances	10	1,422	1,373
Trade & other receivables	13	2,071	1,741
Inventories and work in progress	11	109	72
Prepayments		76	60
Total Current Assets		**3,678**	**3,246**
Current Liabilities			
Trade creditors		1,081	954
Other current liabilities	14	931	775
Other non-financial liabilities	15	357	261
Employee benefit liabilities	16	384	344
Borrowings	17	10	20
Total Current Liabilities		**2,763**	**2,354**
Working Capital		**915**	**892**
Non-Current Assets			
Deferred tax asset	8	85	71
Capital works in progress		62	67
Property, Plant & Equipment	18	702	559
Intangible assets	19	278	12
Goodwill	20	938	938
Total Non-Current Assets		**2,065**	**1,647**
Non-Current Liabilities			
Borrowings	17	-	10
Total Non-Current Liabilities		**-**	**10**
Net Assets		**2,980**	**2,529**
Equity			
Share capital	21	5,169	5,169
Employee share option plan		77	39
Foreign currency translation reserve		-	(30)
Accumulated losses	22	(2,266)	(2,649)
Total Equity		**2,980**	**2,529**

For and on behalf of the Board who approved these financial statements for issue on 19 September 2016.

John McMahon.

John McMahon – Director (Chairman)

Nelson Siva – Director (CEO)

The accompanying notes on pages 19 - 45 form part of the financial statements.

Solution Dynamics Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2016

	NOTE	SHARE CAPITAL $000	EMPLOYEE SHARE PLAN $000	CURRENCY TRANSLATION RESERVE $000	ACCUMULATED LOSSES $000	TOTAL EQUITY $000
Balance 1 July 2014		5,169	7	-	(3,456)	1,720
Issue of shares to employees		-	32	-	-	32
Transactions with owners		**-**	**32**	**-**	**-**	**32**
Profit for the year after tax	22	-		-	807	807
Other comprehensive loss		-	-	(30)	-	(30)
Total comprehensive Income		**-**	**-**	**(30)**	**807**	**777**
Balance 30 June 2015		**5,169**	**39**	**(30)**	**(2,649)**	**2,529**
Issue of shares to employees		-	38	-	-	38
Transactions with owners		**-**	**38**	**-**	**-**	**38**
Profit for the year after tax	22	-	-	-	1,016	1,016
Dividend paid		-	-	-	(633)	(633)
Other comprehensive income		-	-	30	-	30
Total comprehensive income		**-**	**-**	**30**	**383**	**413**
Balance 30 June 2016		**5,169**	**77**	**-**	**(2,266)**	**2,980**

The accompanying notes on pages 19 - 45 form part of the financial statements.

Solution Dynamics Limited

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2016

	NOTE	2016 $000	2015 $000
Cash Flow From Operating Activities			
Cash was provided from:			
Receipts from sales		18,283	14,567
Other income		76	1
		18,359	**14,568**
Cash was applied to:			
Payments to suppliers		10,444	7,749
Payments to employees		5,605	5,050
GST paid to Inland Revenue		948	789
		16,997	**13,588**
Net Cash Inflow From Operating Activities	**24**	**1,362**	**980**
Cash Flow From Investing Activities			
Cash was applied to:			
Purchase of property, plant and equipment & capital works in progress		390	394
Purchase of software		280	2
		670	**396**
Net Cash (Outflow) From Investing Activities		**(670)**	**(396)**
Cash Flow from Financing Activities			
Cash was provided from:			
Interest received		15	21
		15	**21**
Cash was applied to:			
Payment of dividends		633	-
Interest paid		5	11
Repayments for term loan & finance lease liabilities secured on equipment		20	227
		658	**238**
Net Cash (Outflow) From Financing Activities		**(643)**	**(217)**
Net change in cash and cash equivalents		49	367
Add cash and cash equivalents held at beginning of year		1,373	1,006
Cash and cash equivalents at end of year	**10**	**1,422**	**1,373**

The accompanying notes on pages 19 - 45 form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

1. CORPORATE INFORMATION

The consolidated financial statements of Solution Dynamics Limited (SDL or Company) and its subsidiaries, Solution Dynamics International Limited and Déjar International Limited (collectively the Group) for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of directors on 25 August 2016.

Solution Dynamics Limited is a public company incorporated and domiciled in New Zealand and is listed with the New Zealand Stock Exchange on the NZAX. 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).

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 financial statements have been prepared in compliance with generally accepted accounting practice in New Zealand (NZ GAAP), the Companies Act 1993, The financial Reporting Act 2013 and other authoritative pronouncements of the External Reporting Board (XRB). 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 terms 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.

2.2.3 Comparatives

The comparative financial period presented is 12-months. The presentation of comparatives has been reclassified from that reported in the 30 June 2015 financial statements where appropriate to ensure consistency with the presentation of the current year's position and performance. The net asset position and net profit reported in comparatives is consistent with previously authorised financial statements.

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.

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

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.4.2 Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined with reference to the contractual rates, labour hours and direct expenses as these are incurred.

2.4.3 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.

2.4.4 Government Grants

Government grants are recognised as income over the periods in which the expenses are incurred. Grants received in relation to assets are recognised as income over the expected useful life of the asset.

2.5 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.5.1 The Group as Lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. Leasing arrangements are on a month to month basis with no fixed future rental income.

2.5.2 The Group as Lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss directly to the Consolidated Statement of Profit or Loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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 31.

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 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%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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 3-4 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.

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, and bank overdrafts. Bank overdrafts are shown within finance facilities in current liabilities in the Consolidated Statement of Financial Position.

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 Assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

2.16.1 Loans and Receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

2.16.2 Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an impairment allowance account. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised as an expense in the Consolidated Statement of Profit or Loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to a change in estimate after the impairment was recognised, the previously recognised impairment loss is reversed through the Consolidated Statement of Profit or Loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised within the Consolidated Statement of Profit or Loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after each reporting date.

2.20 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.

2.21 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous reporting period, and no new or amended Standards since 1 July 2015 have affected these financial statements.

2.22 New IFRS standards and interpretations issued but not yet adopted

At the date of authorisation of these financial statements, certain new standards and interpretations to existing standards have been published but not yet effective, and have not been adopted early by the Group.

Management anticipates that all pronouncements will be adopted in the first accounting period beginning on or after the effective date of the new standard. Information on new standards, amendments and interpretations that are expected to be relevant to the Group financial statements is provided below. Certain other new standards and interpretations issued but not yet effective, that are not expected to have a material impact on the Group financial statements have not been disclosed.

(a) NZ IFRS 16 – Leases (effective date from 1 January 2019)
In February 2016 the New Zealand Accounting Standards Board approved the issue of NZ IFRS 16 Leases.

The new lease accounting standard provides much-improved transparency and comparability of companies' lease assets and lease liabilities for investors and other users of general purpose financial statements.

The Standard eliminates the classification of leases as either operating leases or finance leases. Instead, there is a single lessee model which requires a lessee to recognise on the statement of financial position assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Other matters to note about this replacement standard is that it:
- changes the definition of a lease
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods
- provides exemptions for short-term leases and leases of low value assets
- changes the accounting for sale and leaseback arrangements, and
- requires more detailed disclosures, and
- a range of transition options exists

NZ IFRS 16 will not have any effect on the total amount of cash flows reported but it is expected to have an effect on the presentation of cash flows. This is because, applying NZ IAS 17 Leases, cash flows relating to operating leases are presented as cash flows from operating activities while applying NZ IFRS 16 will result in the presentation within financial activities of cash flows relating to the repayment of principal on lease liabilities.

The accounting requirements for lessors are substantially the same as those in NZ IAS 17. A lessor, therefore, continues to classify its leases as operating leases or finance leases, and continues to account for those two types of leases differently.

NZ IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted but only if an entity applies NZ IFRS 15 Revenue from Contracts with Customers at the same time.

Management has yet to assess the impact of the adopting this financial statements on the Group financial statements.

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 $938,000 (2015: $938,000).

The recoverable amount of goodwill has been determined based on the budget, approved by the Directors covering the reporting period to 30 June 2016, and forecast sales based on assessments of the current market opportunities through existing distribution channels net of forecast costs, through to the end of 2019, at a post-tax discount rate of 5.6% (2015: 15.1%). Cash flows beyond 2019 have not been taken into account and no terminal value was determined.

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% (2015: 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.

3.2 Useful lives of Property, Plant & Equipment

As described at 2.10, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. In assessing the useful lives of property, plant & equipment the Group makes reference to tax rates and these are used where they approximate estimates of useful lives. The carrying amount as at 30 June 2016 was $702,000 (2015: $559,000).

3.3 Bad and Doubtful Debts

Management regularly reviews the trade receivables ledger and makes specific allowances against those balances that management believes are not collectable. Management does not deem it necessary to make any collective allowance given the assessment of specific risks performed on the receivable ledger.

4. OPERATING REVENUE & INCOME

	2016 $000	2015 $000
Sales income	16,185	12,989
Operating Revenue	**16,185**	**12,989**
Government grant income	76	6
Rent	61	122
Other Operating Income	**137**	**128**

5. OPERATING EXPENSES

	Note	2016 $000	2015 $000
Auditor's remuneration	6	73	52
Freight, postage & external print		4,112	2,910
Directors remuneration - directors fees	30	605	430
Loss / (gain) on foreign exchange		68	(41)
Rental and operating lease expenses		739	1,148
Redundancy costs		20	5
Research & development		330	309
Salaries		4,539	4,306
Superannuation (KiwiSaver)		128	94
Employee entitlements – share based payments		38	32
Donations		1	3
Other expenses		3,974	2,755
Total Operating Expenses		**14,627**	**12,003**

6. AUDITOR'S REMUNERATION

	2016 $000	2015 $000
Audit fees – statutory audit	50	42
Tax compliance and advisory services	23	10
Total auditors' remuneration	**73**	**52**

7. INTEREST

	2016 $000	2015 $000
Interest received	(15)	(21)
Interest on borrowings under finance facilities	5	4
Interest on borrowings	-	7
Net interest	**(10)**	**(10)**

8. INCOME TAX EXPENSE

8.1 Income Tax Recognised in Profit or Loss

	2016 $000	2015 $000
Income tax expense comprises:		
Current tax expense	437	90
Deferred tax expense relating to the origination and reversal of temporary differences	(14)	(71)
Total tax expense	**423**	**19**

The total charge for the reporting period can be reconciled to the accounting profit as follows:

Net operating profit before income tax	1,439	826
Income tax at company tax rate [(1)]	403	231
Non-deductible expenses	13	3
Temporary timing differences	(18)	(38)
Temporary differences not recognised	-	-
Other	25	14
Other tax losses not previously recognised	-	(191)
Income tax expense	**423**	**19**

[(1)] The Group tax rate of 28% (2015: 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 2016 there are imputation credits available of $136,000 (2015: $86,000) for use in subsequent reporting periods.

8.2 Deferred Tax Balances

	2016 $000	2015 $000
Temporary differences		
Depreciable and amortisable assets	(21)	(15)
Accruals and provisions	106	86
	85	**71**
Net deferred tax asset not recognised	-	-
Deferred tax recognised	**85**	**71**

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.

A deferred tax asset has also not been recognised by the Group in respect of unused tax losses of $115,000 by HM Revenue & Customs (2015: $115,000). The losses are subject to confirmation by HM Revenue & Customs.

9. EARNINGS PER SHARE (EPS)

	2016 $000	2015 $000
Net operating profit for the year attributable to ordinary shareholders	1,016	807
Basic		
Weighted average number of ordinary shares (000's)	14,060	14,060
	Cents	**Cents**
Basic earnings per share	7.2	5.7

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

Diluted		
Weighted average number of ordinary shares (000's)	14,060	14,060
Adjustment for share options	580	497
Weighted average	14,640	14,557
	Cents	**Cents**
Diluted earnings per share	6.9	5.5

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 AND CASH EQUIVALENTS

	2016 $000	2015 $000
Cash on hand	1,422	1,373
Drawn down finance facility	-	-
Total Finance Facility and Cash	**1,422**	**1,373**

Solution Dynamics has a finance facility in place with the ANZ Bank at an interest rate of 5.7% p.a. (2015: 6.5%). This facility 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.

The ANZ Bank facility, as is normal banking practice, imposes a number of covenants including an interest cover covenant that is calculated on a rolling 12 month period. During the 2016 financial year the Group has been in compliance with all financial covenants, including the interest cover covenant. The Group maintains a $200,000 overdraft facility that was unused at the reporting date 2015: $200,000). The Group now holds a net cash position with no bank debt (2015: $Nil).

At the end of the reporting period the Bank provided commercial guarantees totalling $65,000 (2015: $65,000) to the Group's suppliers.

11. INVENTORIES AND WORK IN PROGRESS

	2016 $000	2015 $000
Work in Progress	61	28
Inventory	48	44
Total Inventories and Work in Progress	**109**	**72**

12. RELATED PARTIES TRANSACTIONS

Transactions between related parties include transactions with subsidiaries, shareholders, directors and their companies and senior executives. All transactions are at arm's length. 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 2015 to 30 June 2016 were as follows:

- Key management were paid $933,872 (as employees of Solution Dynamics Limited and including the calculated benefit of the employee share option plan) during the year (2015: $762,692) and were owed $64,805, including annual leave, at 30 June 2016 (2015: $58,621).
- During the year ended 30 June 2016 there were sales of $147,995 (2015: $205,562) between Solution Dynamics Limited and its wholly owned UK subsidiary Solution Dynamics International Limited. Solution Dynamics International traded at a (loss) / profit of ($3,322) (2015: $30,323). At the reporting date there was a receivable of $164,938 (2015: $249,670) due to the Company.

13. TRADE & OTHER RECEIVABLES

	2016 $000	2015 $000
Trade receivables	1,966	1,711
Allowance for doubtful debts	-	-
	1,966	**1,711**
Allowance for credit notes	(5)	-
Total trade receivables	**1,961**	**1,711**
Sundry debtors	110	30
Total Trade & Other Receivables	**2,071**	**1,741**

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 $229,000 (2015: $217,000) for which an allowance of $Nil (2015: $Nil) was made. 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.

	2016 $000	2015 $000
30 – 60 days	192	119
60 – 90 days	37	18
90 – 120 days	-	80
Total overdue trade receivables	**229**	**217**

Movement in allowance for doubtful debts

	2016 $000	2015 $000
Balance at the beginning of the year	-	-
Accounts written off as uncollectable	-	-
Total allowance for doubtful debts	**-**	**-**

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 21% (2015: 14%) of the gross trade receivable balance, 98% of the outstanding balance is less than 60 days old (2015: 94%). Accordingly, the directors believe that no further adjustments for credit are required in excess of the allowance for doubtful debts.

For the reporting period there are no provisions against third parties (2015: $Nil).

14. OTHER CURRENT LIABILITIES

	2016 $000	2015 $000
Sundry creditors	155	121
Payroll accruals	201	266
Provision for tax	207	54
Provision for deferred income	333	294
Audit fees accrued	35	40
Total Other Current Liabilities	**931**	**775**

Where income is invoiced to the client in advance of the services being delivered, the invoiced amount is held in deferred income and released as the economic benefit is earned. Deferred income at the reporting date included a software development project valued at $230,000 (2015: $130,000) that was 4% completed. A profit of $4,000 (2015: $8,000) has been recognised against the completed portion of the project.

15. OTHER NON-FINANCIAL LIABILITIES

	2016 $000	2015 $000
PAYE	105	79
GST	252	182
Total Non-Financial Liabilities	**357**	**261**

16. EMPLOYEE BENEFIT LIABILITIES

	2016 $000	2015 $000
Provision for sick pay	3	4
Provision for long service leave	63	45
Provision for holiday pay	318	295
Total Employee Benefit Liabilities	**384**	**344**

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%.

17. BORROWINGS[1]

	Minimum future lease payments		Present value of minimum future payments	
	2016 $000	2015 $000	2016 $000	2015 $000
Not later than one year	11	23	-	20
Later than one year and not later than five years	-	10	10	10
Minimum future lease payments	**11**	**33**	**10**	**30**
Less future finance charges	(1)	(3)	-	-
Present value of future lease payments	**10**	**30**	**10**	**30**
Total borrowings	**10**	**30**	**10**	**30**
Included in the financial statements as:				
Current borrowings			10	20
Non-current borrowings			-	10
Total			**10**	**30**

[1] All Borrowings are held by Solution Dynamics Limited

Finance leases have a fixed interest rate of 9.3% (2015: 9.3%). The finance leases are secured against the asset for which the finance was obtained (Note 18).

The carrying value of finance leases approximates fair value, being the discounted future lease payments.

18. PROPERTY, PLANT AND EQUIPMENT

	Plant & Machinery	Finance Leased Plant & Machinery	Furniture & Fittings	Leasehold Improve-ments	Total
	$000	$000	$000	$000	$000
Cost					
Balance 1 July 2014	1,842	101	136	227	2,306
Transfers attributable to settlement of leases	46	(46)	-	-	-
Additions	361	-	-	36	397
Disposals	(303)	-	-	-	(303)
Balance 30 June 2015	**1,946**	**55**	**136**	**263**	**2,400**
Additions	107	-	5	280	392
Disposals	-	-	-	(6)	(6)
Balance 30 June 2016	**2,053**	**55**	**141**	**537**	**2,786**
Accumulated depreciation					
Balance 1 July 2014	1,634	46	125	137	1,942
Transfers attributable to settlement of leases	46	(46)	-	-	-
Depreciation expense	143	21	5	33	202
Disposals	(303)	-	-	-	(303)
Balance 30 June 2015	**1,520**	**21**	**130**	**170**	**1,841**
Depreciation expense	157	14	1	80	252
Disposals	-	-	-	(9)	(9)
Balance 30 June 2016	**1,677**	**35**	**131**	**241**	**2,084**
Carrying amount					
Balance 1 July 2014	208	55	11	90	364
Balance 30 June 2015	426	34	6	93	559
Balance 30 June 2016	**376**	**20**	**10**	**296**	**702**

As at 30 June 2016 assets with a total value of $20,000 (2015: $37,000) were held as security against finance leases with a net present value at 30 June 2016 of $10,000 (2015: $30,000).

19. IDENTIFIABLE INTANGIBLES, FINITE LIFE

	Software Déjar	Software Bremy	Software	Finance Leased Software	Total
	$000	$000	$000	$000	$000
Cost					
Balance 1 July 2014	2,090	110	716	7	2,923
Additions - purchased	-	-	2	-	2
Disposals	-	-	-	-	-
Balance 30 June 2015	**2,090**	**110**	**718**	**7**	**2,925**
Additions - purchased	-	-	280	-	280
Balance 30 June 2016	**2,090**	**110**	**998**	**7**	**3,205**
Accumulated amortisation					
Balance 1 July 2014	2,051	110	655	1	2,817
Amortisation expense	37	-	57	2	96
Balance 30 June 2015	**2,088**	**110**	**712**	**3**	**2,913**
Amortisation expense	-	-	12	2	14
Balance 30 June 2016	**2,088**	**110**	**724**	**5**	**2,927**
Carrying amount					
Balance 1 July 2014	39	-	61	6	106
Balance 30 June 2015	2	-	6	4	12
Balance 30 June 2016	**2**	**-**	**274**	**2**	**278**

Déjar software (intellectual property) includes software costs of $1,400,000 purchased from Efactor and Déjar Holdings. This intellectual property was amortised on a straight line basis over a period of 10 years, terminating at 30 June 2012.

The cost value of assets represents the fair value of those assets purchased at acquisition date.

20. GOODWILL

	Déjar $000	Bremy $000	Total $000
Balance at beginning of year	215	723	938
Additions	-	-	-
Net carrying amount	**215**	**723**	**938**

Goodwill has arisen on the acquisition of a business previously controlled by Déjar Holdings Limited and Bremy Limited. 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 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 2017 year followed by management forecasts over a further three-year period. Cash flows after 2020 have not been taken into account. Management has projected growth in sales for the Déjar and Bremy products at 2.5% per annum for the 2018-2020 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 24.5% (2015: 39.0%). The equivalent post-tax nominal rate for the forecast cash flows is 5.6% (2015: 15.1%). 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 (2015: $Nil).

20.1 Sensitivity to Changes in Assumptions

As at 30 June 2016, the date of the Group's annual impairment test, the estimated recoverable amount of the indefinite life intangible assets exceeded their carrying amount by $2,445,000 (2015: $1,267,000).

If the following variables used in the annual impairment testing were to change as indicated, the following change in the estimated recoverable amount of the indefinite life intangible assets would result:

• Increase in sales growth from 2.5% to 5% per annum	$157,000
• Decrease in sales growth from 2.5% to 0%	($152,000)
• Increase in cost of capital rate from 5.6% to 8.4%	($168,000)
• Decrease in the cost of capital rate from 5.6% to 3.7%	$124,000
• Improving the gross margin by 5%	$746,000
• Reducing the gross margin by 5%	($777,000)

21. SHARE CAPITAL

	2016 $000	2015 $000
Ordinary Shares		
Balance at beginning of year	5,169	5,169
Shares issued	-	-
Share Capital at End of Year	**5,169**	**5,169**

The Company had 14,059,810 (2015: 14,059,810) ordinary shares on issue as at 30 June 2016. 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 LOSSES

	2016 $000	2015 $000
Balance at beginning of year	(2,649)	(3,456)
Net operating profit after income tax	1,016	807
Payment of dividends	(633)	-
Accumulated Losses at end of year	**(2,266)**	**(2,649)**

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:

	2016 $000	2015 $000
$110,000 to $119,999	2	1
$120,000 to $129,999	1	2
$140,000 to $149,999	1	-
$150,000 to $159,999	-	-
$160,000 to $169,999	-	1
$170,000 to $179,999	1	-
$180,000 to $189,999	1	1
$210,000 to $219,999	1	-
$220,000 - $229,000	-	1
$230,000 to $239,999	1	1
$350,000 to $359,999	-	1
$510,000 to $519,999	1	-
Total staff with remuneration exceeding $100,000	**9**	**8**

24. RECONCILIATION OF NET PROFIT AFTER INCOME TAX FOR YEAR WITH NET CASH INFLOW FROM OPERATING ACTIVITIES

	2016 $000	2015 $000
Net operating profit after income tax	1,016	807
Adjustments:		
Depreciation and amortisation of assets	266	298
Loss / (gain) on foreign exchange	68	(41)
Interest expense (reclassified as financing activity)	5	11
Interest income (reclassified as financing activity)	(15)	(21)
Other non-cash items	54	(15)
Cash flow from trading	**1,394**	**1,039**

24. RECONCILIATION OF NET PROFIT AFTER INCOME TAX FOR YEAR WITH NET CASH INFLOW FROM OPERATING ACTIVITIES (CONTINUED FROM PRIOR PAGE)

	2016 $000	2015 $000
Add movements in working capital:		
(Increase) in trade & other receivables	(330)	(537)
(Increase) in inventories and work in progress	(37)	(24)
(Increase) in prepayments	(16)	(12)
Increase in other current liabilities	154	181
Increase in other non-financial liabilities	96	51
Increase in trade creditors	127	188
Increase / (decrease) in employee benefit liabilities	(26)	94
	(32)	**(59)**
Net Cash Flows From Operating Activities	**1,362**	**980**

25. OPERATING LEASE COMMITMENTS

Operating leases include the property at 18 Canaveral Drive and other equipment. Operating leases have remaining lease terms of 1- 7 years. The initial term of the 18 Canaveral Drive lease has been varied and now terminates in September 2022 with a right, subject to penalty, to terminate from September 2020. The Canaveral Drive lease has a biennial inflationary rent review clause. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

At each reporting date the Group had the following operating lease commitments:

	2016 $000	2015 $000
Less than 1 year	827	741
1 to 2 years	815	530
2 to 5 years	2,236	1,532
More than 5 years	708	1,083
Total Operating Lease Commitments	**4,586**	**3,886**

At the end of the 2016 financial year the Canaveral Drive lease was renegotiated. An element of these negotiations required the release of a portion of the premises which had been sub-leased on month to month terms. This has resulted in a reduction in rental income. Rental income during the 2016 year totalled $60,693 (2015: $122,311) associated with these rental agreements. The current full year rental on the Canaveral Drive property is $511,827 (2015: 681,769).

26. 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 four 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 three 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.

  In addition to owning the intellectual property for the above products, Solution Dynamics provides programming, consulting and design services that help clients to distribute marketing and essential communications by mail and electronically. The provision of these services is covered under this category.
- **Digital Printing & Document Handling Services**, the printing of client's information digitally using high speed laser printers followed by the lodgement and distribution of those documents using a variety of machine and other processes.
- **Outsourced Services**, not all components of Solution Dynamics' solutions are produced internally. External elements such as post, freight, paper and envelopes are sourced from external suppliers and included in this service stream. Solution Dynamics has long term arrangements with a number of key suppliers such as NZ Post for the provision of these services.

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

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

Segment Consolidated Statement of Profit or Loss

	2016 $000	%	2015 $000	%
Software & Technology	4,448	27%	3,505	27%
Digital Printing & Document Handling Services	6,120	38%	5,888	45%
Outsourced services	5,754	35%	3,724	28%
Total revenue	**16,322**	**100%**	**13,117**	**100%**
Less cost of sales	9,239	57%	7,323	56%
Gross margin	**7,083**	**43%**	**5,794**	**44%**
Selling, general & administration	5,388	33%	4,680	35%
Earnings before interest, tax, depreciation & amortisation	**1,695**	**10%**	**1,114**	**9%**
Less:				
Depreciation	252	1%	202	2%
Amortisation	14	0%	96	1%
Interest	(10)	0%	(10)	0%
Tax	423	3%	19	0%
Net operating profit after tax	**1,016**	**6%**	**807**	**6%**

Segment Assets

Assets are not segmented between service streams.

Information about Major Customers

Included in revenues for the Group of $16.3 million (2015: $13.1 million) are services revenues of $1.6 million (2015: $1.6 million) which arose from sales to the Group's largest customer.

Geographical Information

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

	Revenue from External Customers		Non-current Assets	
	2016 $000	**2015** $000	**2016** $000	**2015** $000
New Zealand	14,427	12,249	2,065	1,626
Australia	467	514	-	-
Europe	1,428	354	-	-
Total	**16,322**	**13,117**	**2,065**	**1,626**

27. CONTINGENT LIABILITIES

There were no contingent liabilities at reporting date for the Group (2015: Nil).

28. CAPITAL COMMITMENTS

The Group had no capital commitments at the reporting date (2015: $69,577).

29. FINANCIAL INSTRUMENTS

29.1 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 13. 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 greater than A+. It does not expect the non-performance of any obligations that are not provided for at reporting date.

29.2 Categories of Financial Instruments

	2016 $000 Loans & Receivables	2016 $000 Financial Liabilities at Amortised Cost	2016 $000 Total	2015 $000 Financial Assets at Amortised Cost	2015 $000 Financial Liabilities at Amortised Cost	2015 $000 Total
Assets						
Cash & bank balances	1,422	-	1,422	1,373	-	1,373
Trade & other receivables (Note 13)	2,071	-	2,071	1,741	-	1,741
Total Financial Assets	**3,493**	**-**	**3,493**	**3,114**	**-**	**3,114**
Total non-financial assets			2,250			1,758
Total Assets			**5,743**			**4,872**
Liabilities						
Trade creditors	-	1,081	1,081	-	954	954
Other current liabilities	-	931	931	-	775	775
Borrowings (Note 17)	-	10	10	-	30	30
Total Financial Liabilities	**-**	**2,022**	**2,022**	**-**	**1,759**	**1,759**
Total non-financial liabilities			741			605
Total Liabilities			**2,763**			**2,364**

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

29.3 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
2016							
Non-interest bearing	n/a	663	1,090	259	-	2,012	2,012
Finance lease liability	9.3%	2	7	2	-	11	10
		665	**1,097**	**261**	**-**	**2,023**	**2,022**
2015							
Non-interest bearing	n/a	1,092	570	34	-	1,696	1,696
Finance lease liability	9.3%	2	6	16	9	33	30
		1,094	**576**	**50**	**9**	**1,729**	**1,726**

29.4 Interest Rates

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

	2016	2015
Financial Liabilities:		
Finance facility (floating rate)	5.7%	6.5%
Borrowings – finance lease liabilities (fixed rate)	9.3%	9.3%

29.5 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. For material individual transactions in foreign currencies the Group has a policy of taking forward exchange. At 30 June 2016 of total trade receivables of $1,966,000 (2015: $1,711,000) a total of $125,000 (2015: $119,000) was in foreign currencies. $70,000 (2015: $78,000) of the foreign currency receivables were denominated in European currencies with the remainder of the balance in AUD $. At 30 June 2016, the reporting date no forward exchange contracts were held (2015: $Nil). The Directors believe that any sensitivity to foreign exchange risk is not material.

In addition to the trade receivables of $70,000 (2015: $78,000) held in foreign currencies at the end of the reporting period a further $90,000 (2015: $81,000) in cash was also held in foreign currencies, a total of $160,000 (2015: $159,000). A movement in the exchange rate of 10% would give rise to an exchange fluctuation of $15,900.

The foreign exchange gains or losses disclosed in Note 5 relate to trade and other receivables.

29.6 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.

29.7 Interest Rate Sensitivity Analysis

Interest on finance leases is on fixed rates with no exposure to fluctuations in interest rates. There are no borrowings associated with the finance facility, which was repaid in October 2015.

At year end the interest rate on future borrowings associated with the finance facility was 5.7% (2015: 6.5%). With a net cash position of $1.412 million (2015: $1.343 million) at the end of the reporting period and low finance rate a material change in the interest expense is not expected.

29.8 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.

Operating performance in the Group has again improved on the prior year. The Group is now in a net cash position with an improvement of $69,000 on the prior year net cash of $1,343,000. The strengthened cash position is as a result of ongoing strong free cash flows (cash flow from operations net of cash flow from investing). There was an operating profit of $1,016,000 in the current year (2015: $807,000) and further improvements are forecast for the 2017 year.

	2016 $000	2015 $000
Borrowings (Note 17)	(10)	(30)
Cash & Finance facility (Note 10)	1,422	1,373
Net cash (debt)	**1,412**	**1,343**
Equity (all capital and reserves)	2,980	2,529
Net (cash) debt to equity ratio	(47%)	(53%)

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

30. DIRECTORS' REMUNERATION

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

	2016 $000	2015 $000
John McMahon (Chairman)[1]	44	40
Nelson Siva (CEO)	503	350
Mike Smith	23	20
Julian Beavis	23	20
Elmar Toime	12	-
Total Directors' Remuneration	**605**	**430**

[1]Fees paid to John McMahon are paid to Meta Capital Ltd.

31. EMPLOYEE OPTIONS

On 17 February 2015 the Board of Solution Dynamics Limited announced the introduction of an 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.

	2016 Number of Shares $000	2015 Number of Shares $000
Unvested shares at 1 July	580	415
Granted	-	220
Forfeited	-	(55)
Unvested shares at 30 June – allocated to employees	**580**	**580**
Percentage of total ordinary shares	4.1%	4.1%

The fair value of the options granted during the reporting period was $Nil (2015: $56,500). This cost is recognised over the vesting period. The weighted average fair value of options granted during the reporting period, determined using the Black-Scholes valuation model, was $0.26 per option.

Grant Date	Options Issued	Share Price at Grant Date	Exercise Price	Options Expire	Option Value $
March 2015	500,000	$0.450	$0.375	Sept 2018	$107,660
November 2015	80,000	$0.800	$0.700	May 2019	$26,682

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 50%. This is based on an analysis of share price movements over the 12-months prior to the issue of the options.
- Dividend yield of 0%.
- Annual risk free rate of 4.08%.

32. SHAREHOLDERS AND SUBSTANTIAL SECURITY HOLDERS

32.1 The 20 largest shareholders as at 25 July 2016 were:

Shareholder	% of Total	Shares
New Zealand Permanent Trustees Limited	11.5%	1,620,000
ASB Nominees Limited	10.7%	1,504,801
Philip Hadfield Hardie Boys	8.8%	1,241,330
Indrajit Nelson Sivasubramaniam & Tracey Lee Sivasubramaniam	5.9%	830,000
Michael Charles Hare	5.0%	703,000
Accident Compensation Corporation	5.0%	696,000
John Scott Stewart Richardson	4.6%	652,000
Colin Glenn Giffney	3.9%	550,000
Christopher Veale & Penny Veale	3.7%	517,520
Jillian Bernadette Winstanley	2.3%	320,000
Custodial Services Limited	2.1%	292,630
Don Nominees Limited	1.7%	234,944
Roger Dixon Armstrong	1.6%	231,665
Investment Custodial Services Limited	1.6%	227,881
Deirdre Elizabeth Tallott	1.5%	214,444
Custodial Services Limited	1.5%	206,000
Investment Custodial Services Limited	1.4%	200,000
FNZ Custodians Limited	1.4%	198,296
FNZ Custodians Limited - Drp NZ A/C	1.3%	183,543
Custodial Services Limited	1.3%	182,341
Grand Total	**76.9%**	**10,806,395**

A total of 14,059,810 shares were on issue (2015: 14,059,810).

32.1 Size of Shareholding as at 25 July 2016

Holdings	Shareholders	Shares Held	% of Total
1-999	63	7,005	0.0%
1,000-4,999	45	94,834	0.7%
5,000-9,999	30	186,548	1.3%
10,000-49,999	44	854,345	6.1%
50,000-99,999	12	744,240	5.3%
100,000 and over	30	12,172,838	86.6%
TOTAL	**224**	**14,059,810**	**100.0%**

32.2 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 25 July 2016:

Shareholder	% of Total	Shares
New Zealand Permanent Trustees Limited (The Aspiring Fund)	11.5%	1,620,000
Meta Capital Limited (John McMahon)	10.7%	1,504,801
Philip Hadfield Hardie Boys (P & K Hardie Boys Family A/C)	8.8%	1,241,330
Indrajit Nelson Sivasubramaniam & Tracey Lee Sivasubramaniam	5.9%	830,000
Michael Charles Hare	5.0%	703,000

33. EVENTS AFTER THE REPORTING DATE

On 9 August 2016, the directors approved the payment of a fully imputed final dividend of 2.25 cents per share amounting to $316,346 to be paid on 2 September 2016.

Mr. Mike Smith has advised the board of his resignation as a director effective at the conclusion of the upcoming annual meeting.

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 – Chairman
Michael Jean Smith
Julian Beavis
Elmar Toime
Indrajit Nelson Sivasubramaniam (Nelson Siva) – Chief Executive Officer

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

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

Solicitors
Russell McVeagh
Vero Centre, 48 Shortland Street
AUCKLAND

Share Registry
Computershare Investor Services
Level 2, 159 Hurstmere Rd
Takapuna
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