

Simplifying Business



 **SOLUTION**  
DYNAMICS

Annual Report 2021



## Annual Shareholders Meeting

The Annual Meeting of shareholders will be held at 10:30am on Wednesday, 27th October 2021, as an in-person meeting in the Jupiter Meeting Room Solution Dynamics Limited, 18 Canaveral Drive, Albany, AUCKLAND, and as an online meeting with details to be provided when the Company provides the Notice of Meeting to shareholders.

## 2021 Key Points

- > Record net profit after tax up 9% to \$2.03 million
- > Earnings per share of 13.9 cents (prior year 12.7 cents)
- > Dividends per share of 11.0 cents (prior year 9.0 cents)
- > Revenue up 4% to \$35.4 million
- > EBITDA declined 3% to \$4.2 million
- > Net cash on hand \$4.7 million
- > Ongoing earnings growth expected in FY2022

# Contents

2021 Key Points .....	2
Management Discussion and Analysis .....	4
Independent Auditor's Report .....	14
Consolidated Financial Statements for the Year Ended 30 June 2021	
Consolidated Statement of Profit or Loss .....	17
Consolidated Statement of Comprehensive Income .....	17
Consolidated Statement of Financial Position .....	18
Consolidated Statement of Changes in Equity .....	19
Consolidated Statement of Cash Flows .....	20
Notes to the Consolidated Financial Statements .....	21
Statement of Corporate Governance .....	53
Company Directory .....	63

# Management Discussion and Analysis



## FY2021 Result Overview

Solution Dynamics Limited (“SDL” or “Company”) recorded a net profit after tax of \$2.03 million for FY2021, a 9.0% gain on \$1.87 million in the prior FY2020 year. As noted in the FY2020 Annual Report, the prior year profit included a net after tax gain of \$0.23 million that is one-off in nature, so the normalised prior period profit for comparative purposes is \$1.63 million, meaning the FY2021 gain in earnings on this adjusted basis is 24.5%. The trend of growth in international business from SDL’s Software & Technology platforms continues although FY2021 revenue growth was limited to 11.9% almost solely the result of COVID-19. COVID caused a full year slump in UK revenues in particular, with volumes in developing markets also constrained. This revenue pressure, combined with onboarding of larger new customers, required additional IT development and support resources which saw Cost of Goods Sold rise by 6.7% and Selling, General & Administration (“SG&A”) expenses increase again, although the FY2021 SG&A rise was a more modest 1.9% versus the substantial rise of 47.5% the prior year.

Cash flow from operations was \$2.61 million (FY2020 \$5.77 million) and the net cash position at year end was \$4.71 million (FY2020 \$5.01 million). Part of the year-end cash position represents prepayment of postage by some clients (around \$1.2 million).

The directors have declared a final dividend of 4.0 cents per share (FY2020 6.0 cents) fully imputed, bringing total dividends for FY2021 of 11.0 cents per share (FY2020 9.0 cents).

## Effects of COVID-19

SDL has continued its COVID-19 monitoring and safety policies, aimed at ensuring the Company’s staff remained safe. This includes the use of segregated teams as required, significant levels of working from home for non-production staff, health monitoring, and controlled facility access. These have helped ensure no SDL staff member has been infected by COVID-19 to date. These measures will likely remain in place until a vaccine is widely implemented in New Zealand and proven to be effective, and some such as working from home are likely to become a normal part of workplace practice. The Company deeply appreciates the efforts and cooperation by staff in their flexibility, assistance and compliance with health requirements, and thanks them for perseverance and maintaining morale in difficult operating circumstances.

It is difficult to accurately assess the financial impact of COVID-19 on SLD’s FY2021 financial result. The largest effects were on volumes in the UK where SDL’s customers had significantly lower activity for the financial year (in some cases down around 80%). Additionally, a large customer with international activities that has sizeable activity in developing markets, was forced to scale back operations in many countries, reducing processing volumes. Less easily measurable was the lack of direct sales activity in the US particularly. The Company’s best estimate is that COVID reduced revenues by – very approximately – around 10-12%.

Some modest costs savings continued, with travel remaining near zero. However, COVID appears to be a factor in the shortage of skills across the technology sector, adding cost pressures that are continuing in FY2022.

As noted in last year’s Annual Report, an SDL director, Mr Elmar Toime, has significant experience in the global mail and logistics markets (former CEO of NZ Post, former Deputy Executive Chair of the Royal Mail Group, was a Supervisory Board member of Deutsche Post DHL, and is a non-executive director of Qatar Post). He provided specialised mail and logistics consulting advice to the Company during the COVID-19 period along with additional support to SDL’s northern hemisphere operations during a period when travel from New Zealand has not been

possible, along with the temporary absence of the CEO, Nelson Siva, for medical reasons. These services were partly provided in FY2020 and continued for the early part of FY2021 but then ceased; they were provided on normal commercial terms (refer Note 29).

## Business Description

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

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

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

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

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

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

Transactional mail volumes in New Zealand and internationally are continuing to decline, although anecdotal evidence suggests direct marketing mail is seeing less erosion. Some types of communications still remain better suited to print and the usage level of printed versus electronic communications varies significantly across countries. Technology such as DéjarMail (SDL's print-on-demand desktop mail solution) can improve the handling efficiency, management and cost of physical mail. The Company's integrated range of print and software technologies means it is able to offer a holistic and distribution channel/platform-agnostic approach to managing its customers' communications needs.

The Company is headquartered in New Zealand with international operations in the UK, France and USA.

## International Expansion

Historically, SDL was predominantly a New Zealand digital print and mail house business with some international software revenue. That position changed in FY2020, when SDL's international revenue surpassed its New Zealand revenue for the first time. Total Software & Technology revenue (some of which is revenue billed in New Zealand) as a proportion of total revenue was around 70%.

The requirement to provide high levels of international customer service for software delivery and support capability means SDL's New Zealand technology staff are regularly called upon to provide after-hours support to overseas customers and the Company's international staff. Most of the Company's software development team are based in New Zealand (two are in the UK and one in the USA). SDL recognises the stress that international expansion and time zone differences have placed on staff, both in New Zealand and globally, and has actively increased the number of support, implementation and DevOps staff in the northern hemisphere.

## Description and Review of Revenue Streams

### SDL Services

SDL Services predominantly provides mail house operations to high-volume postal mail users in the business-to-consumer sector. DéjarMail has expanded the market for SDL's print and post service down to the SME (small to medium enterprise) sector although the Company sells to 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 ancillary document handling operations such as automated envelope inserting and flow-wrap.

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

General mail volumes continue to decline albeit at what SDL estimates is a lower rate than the overall market fall; SDL's FY2021 mail lodgement volumes declining 8.8%, versus 15.8% the prior year. The Company's digital print volumes also fell slightly, declining 3.7%. SDL believes consolidation of mail house capacity is inevitable and is confident it holds a strong competitive position in the market.

On the digital communications side, SDL's volume of customer emails rose 7.6%.

Outsourced Services revenue in the following table is a combination of both very low margin postage and the outsourced printing in the New Zealand operations.

<b>SDL Services Revenue Breakdown</b> (all figures \$000)	<b>FY2021</b>	<b>FY2020</b>	<b>Percentage Change</b>
Digital Printing and Document Handling	4,161	4,568	-8.9%
Outsourced Services	6,649	7,450	-10.8%
<b>Total Services Revenue</b>	<b>10,810</b>	<b>12,018</b>	<b>-10.1%</b>

During the year, SDL renewed the lease contract on its print equipment and the Company believes it now has highly competitive rates for its continuous digital printing equipment. Additionally, one of SDL's major New Zealand customers re-tendered its business during FY2021 and the Company re-secured the business for a further three plus two year term. SDL has also gained business from a medium-sized regional authority that will contribute in FY2022.

## SDL Software & Technology

Two trends continue to drive demand for SDL's software. First is the digital transformation of communication channels with the increasing ability for businesses to personalise their customer engagement. Secondly, cost and efficiency pressures are causing businesses to optimise their communications channels, both digital and print. SDL's software platforms provide functionality to deliver on both these trends that may have been accelerated by COVID.

The digital transformation aspect has significant market competition in the purely digital sector, with technology companies look to help businesses employ more "pull" marketing tactics, drawing people into their brands with interesting, informative, and engaging content. Communication channels are no longer "one size fits all"; customers now receive increasingly personalised messaging through multi-media channels. SDL treats each form of communication – whether a customer email, an invoice or account statement, or a piece of marketing collateral – as a means to enrich and deepen the personalised relationships that our customers have with their customers.

The second aspect – helping optimise both print and digital communications channels – is one where SDL appears to have a greater degree of competitive advantage. The Company's history in mail house, digital printing and fulfilment means it understands the importance of, and requirements for, data accuracy, timely delivery and cost efficiency. This is not simply a case of generating, printing and mailing a PDF. There are significant complexities around personalised document creation and production for specialised, high volume print equipment, coupled with personalised mail inserts, multi-part and multi-lingual documents, global routing for optimised multi-region printing, and handling and management of mail returns, along with industry knowledge around optimising mail and logistics costs. In addition, there are increasing data security and privacy regulations, including data integrity and document management requirements. Delivering solutions in this domain requires a combination of digital document skills and specialised global print and mail industry knowledge. SDL's in-house production experience and how the Company has coupled this with its in-house development (and in some cases acquisition) of software technology has produced what it believes is effective technology with few global competitors.

SDL Software has six software engines or platforms that can be linked together in bespoke combinations to develop customer-specific solutions:

### 1. 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 document can be printed, faxed or emailed and Déjar's security and history features ensure every document created and subsequent access event is recorded by User ID and date/time stamp.

### 2. 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. Based on templates it automatically creates templates, documents and letters with dynamic, 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.

### 3. Bremy

Bremy is an integrated, multi-channel publishing and distribution solution for businesses across a broad spectrum of industries. It manages the workflow of digital assets, from 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. It also has a Campaign Manager module to assist companies in creating and managing specific advertising programmes.

#### **4. DéjarMail (POD: Post on Demand)**

DéjarMail is a desktop mail management solution which allows customers to route mail correspondence, by file transfer or web browser portal (Post On Demand), 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.

#### **5. Jupiter**

Jupiter is a global print and mail solution that benefits Postal Administrators, senders and recipients, all via a "Managed Print and Mail Solution". Jupiter provides a technology platform which links together customer communication origin points such as ERP, transactional and marketing output with production and fulfilment on a globally distributed basis. Closely integrated with over 300 service providers globally, customers can use a highly flexible web service API to achieve simultaneous concurrent fulfilment across five continents, all while retaining visibility and control of the process via an intuitive and mobile friendly, web portal.

The scope for integration of the SDL product set, particularly DéjarMail Post on Demand, with Jupiter's global fulfilment network opens the door to expansion of the markets that SDL's solutions can apply to.

#### **6. Scantech scanning software**

Scantech's suite of software solutions include scanning applications to digitise physical documents, automated extraction of data from documents (both physical and digital) including workflows for the processing of this data and the automation of business processes such as accounts payable and accounts receivable. These are also integrated into SDL products, such as Déjar for archival and retrieval.

Software & Technology has four broad revenue sources.

The first is as a SaaS (Software as a Service), where customers operate SDL's software on a pay-as-you-go model. This is normally by way of a per-document or per-electronic transaction charge and in many cases with a base monthly fee. SDL will usually host the software on third party hosting infrastructure (such as Amazon Web Services or Microsoft Azure) and may also archive related data on behalf of the client.

Secondly, the company offers bespoke software development where this is related to a customer using SDL's 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. In general, SDL prefers to provide generic functionality that covers most customer use situations rather than building overly customer-bespoke infrastructure, as this allows better ongoing management of SDL's software base by mitigating excess complexity and the risk of "technical debt".

The third is the provision of programming, consulting, end-customer onboarding, business analysis and design services that help clients to manage essential and marketing communications both physical and electronic.

The fourth is a total communications solution. This includes SDL providing print and mail/logistics through third party partners that may not be in the same country as the customer. In this economic model, SDL does not usually disaggregate software and services, but prices an integrated communications solution for the customer.

Software encompasses all international and New Zealand software revenue. It includes Déjar revenue in New Zealand for digital document archival and management for SDL Services' customers.

SDL continues to invest in its software IP and current efforts are mainly focussed on functional development and tighter integration amongst product platform engines. A number of the Company's software products have been developed in-house (e.g. DéjarMail Post-on-Demand) while others such as the Jupiter global distributed print platform have been acquired. As SDL's international expansion relies on channel partners, having these products more closely integrated and easier to use by third parties is an increasing requirement as well as enabling SDL to scale more effectively.

SDL has been assisted in its American growth initiative by a market development grant from NZ Trade and Enterprise ("NZTE") that contributed towards the costs of expansion. The NZTE grant was fully utilised during FY2021. SDL appreciates the financial and market assistance it has received from NZTE.

Software & Technology generated revenue of \$24.64 million in FY2021, an increase of 11.9% on the prior year's revenue of \$22.01 million despite significant decline in UK revenues due to COVID. This growth was from several sources including incremental revenue from a large multinational organisation that SDL secured around two years ago (the bulk of the revenue from this client is from underlying print and logistics activity) plus a large US-based multinational corporation that is progressively rolling out SDL's Post on Demand and Jupiter platforms globally, including incremental business as it transfers clients across to SDL. Mid-sized clients in the financial services sector contributed strongly to US growth, while the UK continued to be COVID restrained (UK revenues in FY2021 declined approximately 50% on the prior year).

## Financial Performance

SDL's growth in revenue and earnings over FY2021 resulted from ongoing expansion of its international business, predominantly in the US. The New Zealand business continued to struggle for revenue growth from the ongoing structural decline in volumes and pricing pressure resulting from excess industry capacity, but remains sustainably profitable.

Cost pressures offset the revenue growth and held Gross Profit flat on the prior year, with the modest increase in SG&A reducing EBITDA by 3.2% to \$4.21 million.

<b>Summary Financial Performance</b> (all figures \$'000)	<b>FY2021</b>	<b>FY2020</b>	<b>Percentage Change</b>
<b>Total Revenue</b>	<b>35,445</b>	<b>34,030</b>	<b>4.2%</b>
Less: Cost of Goods Sold	21,954	20,571	6.7%
<b>Gross Profit</b>	<b>13,491</b>	<b>13,459</b>	<b>0.2%</b>
Gross Margin (%)	38.1%	39.6%	
Less: Selling, General & Admin (SG&A)	9,277	9,105	1.9%
<b>EBITDA</b>	<b>4,214</b>	<b>4,354</b>	<b>-3.2%</b>
EBITDA margin (%)	12.8%	12.8%	
Depreciation	1,156	1,151	0.4%
Amortisation	283	330	-14.2%
<b>EBIT</b>	<b>2,775</b>	<b>2,873</b>	<b>-3.4%</b>
Net Interest	70	92	-23.9%
Income Tax	671	915	-26.7%
<b>Net Profit after Tax</b>	<b>2,034</b>	<b>1,866</b>	<b>9.0%</b>
Tax rate	24.8%	32.9%	

Note that the prior FY2020 result contained two material one-off items that produced a net gain after tax of \$0.23 million. Deducting this from reported earnings produces a normalised profit (note this is a non-GAAP measure) of \$1.63 million, which the Directors believe provides a more accurate picture of how the Company's underlying operations performed. Part of the FY2020 one-off gain was from foreign exchange hedging that assisted the Gross Profit and this largely explains the 150 basis point decline in Gross Margin in FY2021.

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

<b>SDL Half Financial Years</b> (all figures \$'000)	<b>2H</b> <b>FY2021</b>	<b>2H</b> <b>FY2020</b>	<b>Percent</b> <b>Change</b>	<b>1H</b> <b>FY2021</b>	<b>1H</b> <b>FY2020</b>	<b>Percent</b> <b>Change</b>
<b>Total Revenue</b>	<b>16,923</b>	<b>18,245</b>	<b>-7.2%</b>	<b>18,522</b>	<b>15,785</b>	<b>17.3%</b>
EBITDA	1,369	2,938	-53.4%	2,845	1,416	100.9%
EBITDA margin	8.1%	16.1%		15.4%	9.0%	
Tax rate	9.9%	36.1%		29.5%	21.2%	

## Balance Sheet, Liquidity and Debt

SDL closed the year with net cash (i.e. cash net of interest bearing debt) on hand on \$4.71 million (FY2020 \$5.01 million). Note that this net cash figure excludes Right to Use Liabilities arising from the new Lease Accounting standard; these liabilities are approximately offset by Right to Use Assets. As previously noted, the year-end cash position is abnormally high from unusually favourable timing of year-end debtor and creditor (creditors are also elevated at year end) cash flows, along with prepayment of (very low margin) postage by some clients (totalling around \$1.2 million). Given the increase in global health and macroeconomic risks the Directors intend retaining a prudent approach to balance sheet management.

The Company maintains an overdraft arrangement from ANZ Bank with a \$200,000 limit. This was unused during FY2021.

<b>Selected Balance Sheet and Cashflow Figures</b> (all figures \$'000)	<b>FY2021</b>	<b>FY2020</b>	<b>Change</b>
Net Cash/(Debt & Borrowings)	4,713	5,012	-299
Non-Current Assets	1,816	2,310	-494
Right of Use Assets	1,210	1,406	-196
Net Other Assets/(Liabilities)	(1,458)	(2,304)	846
Right of Use Liabilities	(1,346)	(1,531)	185
<b>Net Assets</b>	<b>4,935</b>	<b>4,893</b>	<b>42</b>
Cashflow from Trading	2,372	2,292	80
Movement in Working Capital	236	3,474	-3,238
<b>Cash Inflow from Operations</b>	<b>2,608</b>	<b>5,766</b>	<b>-3,158</b>
<b>Cash dividends paid</b>	<b>1,903</b>	<b>732</b>	<b>1,171</b>

Capital expenditure for the year was modest at \$0.749m, mainly for Right of Use Assets on capitalisation of a new three year lease to update the New Zealand digital print production platform.

Net assets were broadly flat over the year. Net assets includes intangible assets of around \$1.31 million of which the bulk (\$1.06 million) is goodwill and subject to an annual impairment test. The balance of intangibles represents software and customer contracts from acquisitions which are being amortised.

SDL operates with a largely neutral working capital balance although international expansion and larger “lumpier” contracts means month-to-month and intra-month cash flow movements have wider fluctuations. The Directors intend to maintain sufficient liquidity reserves to manage these short-term fluctuations.

## Taxation and Dividends

SDL pays full New Zealand tax on locally generated earnings. The international business in FY2021 was able to utilise some foreign tax losses from the prior year and this lowered the overall tax rate to 24.8% versus 32.9% the prior year.

The Company’s US business is profitable after new business growth during the prior FY2020 saw the full utilisation of remaining US tax losses. A portion of amortisation of acquired intangibles (relating to customer contracts and some of the acquired software) is not tax deductible and this will bias the reported tax rate slightly upwards until these are fully written off.

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

<b>Earnings and Dividends per Share</b> (all figures \$'000)	<b>FY2021</b>	<b>FY2020</b>	<b>Change</b>
Shares on Issue ('000)	14,640	14,640	0.0%
<b>Reported Earnings per Share (cents)</b>	<b>13.89</b>	<b>12.75</b>	<b>9.0%</b>
Dividend per Share (cents)	11.0	9.0	22.2%
Dividend Proportion Imputed	100.0%	100.0%	
Dividend Payout ratio	79.2%	70.6%	
Dividend Payout ratio on NPATA	72.0%	62.6%	

The final dividend of 4.0 cents per share is fully imputed and will be paid on 1 October 2021 (expected ex-date of 16 September 2021).

The number of shares on issue remained flat over the year. The Company operates an employee share option plan (ESOP) for key staff. At year end there were four staff members in this plan with the right to 360,000 shares.

## Risk Factors

The physical mail market in New Zealand is continuing its volume decline trend, especially for transactional mail such as statements and bills. This has been exacerbated by COVID-19 increasing the emphasis towards electronic communications and the Company believes it is placing further pressure on what is excess printing capacity in the New Zealand mail house sector. Direct mail/marketing volumes have been more robust and SDL estimates have shown modest to little decline. Anecdotal industry feedback suggests some industry participants are operating at low levels of capacity utilisation. This is likely to force industry consolidation at some stage, although industry-wide pricing and margin pressure may exacerbate before this eventuates. This risk to SDL is partly mitigated by the Company’s ability to add value through its technology offerings. The Company has several key domestic contracts that, if lost, could place material pressure on local profitability although much of this is under medium-term contract (and SDL renewed a major print and mail contract for a multi-year term during FY2021). While SDL expects that consolidation in the New Zealand print market is inevitable, and has held industry rationalisation discussions with other participants in the print sector, the Company will not participate unless there is clear value enhancement for shareholders.

SDL's top five customers (both domestic and international) provided 49.5% of the Company's revenue in FY2021 with the largest customer accounting for 28.7% of revenue. Loss of one or more of those customers would cause financial results to differ materially from those outlined in the FY2022 Outlook section below.

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

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

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

SDL reiterates comments from the "Effects of COVID-19" section above. At present, the Company sees ongoing growth from recent customer and contract wins as sufficient to support future growth expectations. However, the global environment (both in health and economic terms) remains extremely uncertain and this could materially affect SDL in unforeseen ways.

## FY2022 Outlook

SDL confirms previously providing guidance for FY2022 reported net profit of around \$2.5 million. This guidance assumes growth rates in North America continue and some recovery in UK volumes during the second half of the financial year as that economy begins to normalise from the effects of COVID-19.

The Company expects some customers to continue seeing reduced physical communication volumes, especially those involved in developing markets, and this will remain a drag on earnings during FY2022. Some costs, especially in various areas of technology, continue to see pressure and skill shortages; these factors are not expected to abate during FY2022. The Company has invested significantly in personnel in recent years (both in New Zealand and internationally) and the skills and staff now in place should be capable of supporting a step change in growth. SDL expects sufficient organic growth, coupled with growth in business from new and recent customers, to more than offset the COVID drag and increased cost structure.

Significant volatility remains possible in the range of earnings outcomes for FY2022. The Directors continue to monitor the world health and macroeconomic outlooks for risk. COVID has made international sales a slower and more complex process, however, SDL has the software platforms and customer support infrastructure to maintain growth momentum.

## Key Financial Trend Metrics

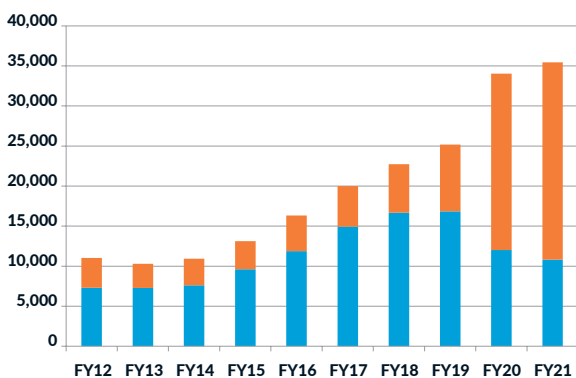
### Revenue (\$000)

Revenue CAGR (10 yr) 12.4%

Software CAGR (10 yr) 20.8%

Print/Mail CAGR (10 yr) 4.0%

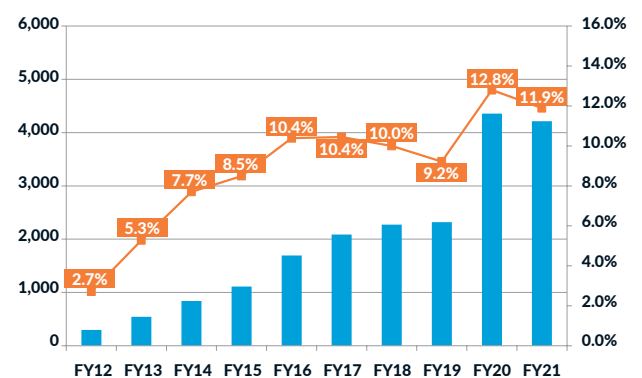
■ Software & Technology
 ■ Print/Mailhouse



### EBITDA (\$ 000)

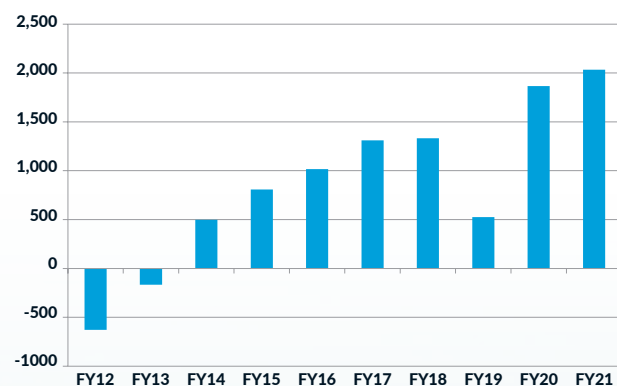
CAGR (10 year) 30.3%

EBITDA is as reported in financial statements, noting this is affected by the change of accounting standard to NZ IFRS 16 (accounting for leases) in FY20 (increases reported EBITDA) so FY20 onwards is not comparable with prior years.



### Net Profit (\$000)

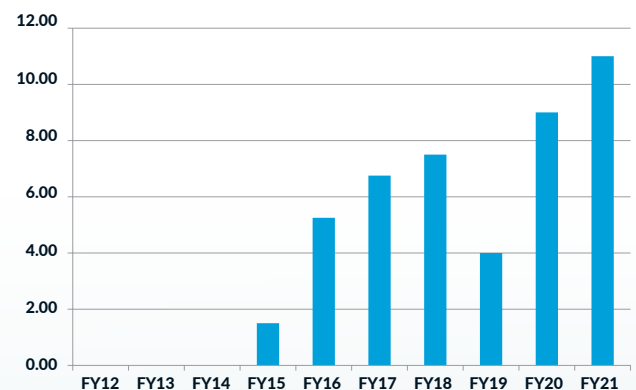
Reported net profit. Note no tax was payable in FY12, FY13 and FY14.



### Dividends

Cents per share (excludes imputation credits).

All dividends have been fully imputed.



# Independent Auditor's Report

---

Grant Thornton New Zealand Audit Limited

L4, Grant Thornton House  
152 Fanshawe Street  
PO Box 1961  
Auckland 1140

T +64 9 308 2570  
www.grantthornton.co.nz

## To the Shareholders of Solution Dynamics Limited

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Solution Dynamics Limited and its subsidiaries (the Group) on pages 17 to 52 which comprise the consolidated statement of financial position as at 30 June 2021, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2021 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) issued by the New Zealand Accounting Standards Board.

#### Basis for Opinion

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

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

#### Key Audit Matters

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

Key audit matters	Our procedures to address the key audit matter
<p><b>Carrying Value of Goodwill</b></p> <p>The Group has significant goodwill of \$1,061,000 arising from historical acquisitions of businesses. Goodwill is allocated across the Groups software cash generating units. Any risk of downturn in the macroeconomic environment could result in an indicator of impairment to the goodwill balance. The inherent uncertainty involved in forecasting and discounting future cash flows is one of the key judgement areas that our audit concentrated on. The uncertainty is affected by several factors including general market trends, current environment and economic factors such as impact of the COVID19 global pandemic, the number of new customers and future demand for the software solutions. All which form the basis for assessment of the carrying value of the goodwill balance.</p>	<p>For this key audit matter our audit procedures included assessment of the Group's forecast and budgeting procedures used to form the basis for value in use calculations. We also compared the Group's historical budget to actual performance and its future projections compared to prior year actual results and tested the reasonableness of forecasting assumptions. In addition, we performed our own assessments in relation to key inputs such as projected revenue growth, cost and overhead inflation expectations and discount rates used.</p> <p>We further evaluated the reasonableness where changes to inputs, methodology or assumptions from the prior year have occurred. We also assessed whether the Group's disclosures about the sensitivity in key assumptions fairly reflected the risks inherent in the carrying value of the goodwill balance.</p>
<p><b>Accuracy of revenue</b></p> <p>The Group recognised revenue of \$34.3 million (2020: \$32.1 million) for the year ended 30 June 2021 comprising sale of goods and rendering of services under contract. The principal risk associated with revenue relates to recognition and recoverability. There are several factors that could affect revenue including:</p> <ul style="list-style-type: none"> <li>• Delivery may not have occurred before year end resulting in recorded sales being recognised in the incorrect accounting period.</li> <li>• Revenues recognised from contract sales of products and services may be at a point in time or over time with reference to the various performance obligations existing with customers.</li> <li>• Revenue may include estimates and judgements that impact the amount of revenue recognised.</li> </ul>	<p>For the key audit matter our audit procedures included evaluating the Group's recognition of revenue by assessing the procedures and controls in place and ensuring appropriate revenue recognition policies have been applied. In relation to sales cut-off, we performed detailed substantive testing on sales recognised or adjusted either side of year end to substantiate the appropriate terms of the relevant contracts had been satisfied in line with contract performance obligations.</p> <p>Our audit work included assessing performance obligations of any significant projects or contracts including the delivery of the goods to ensure appropriate revenue recognition.</p> <p>For contracts recognised at a point in time we inspected a sample of delivery notes, invoices raised and cash receipts.</p> <p>For contracts recognised over time we reperformed the calculation of any material revenue to be recognised at year end and agreed the assumptions used in determining the various performance obligations to supporting documentation.</p>

### Other Information

The Directors are responsible for all other information included in the Group's Annual Report. The other information comprises 2021 key points, Management Discussion and Analysis, Statement of Corporate Governance and the Company Directory, included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

#### **Directors' Responsibilities for the Consolidated Financial Statements**

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

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

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

#### **Restriction on use of our report**

This report is made solely to the Group's shareholders, as a body. Our audit work has been undertaken so that we might state to the Group's shareholders, as a body those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's shareholders, as a body, for our audit work, for this report or for the opinion we have formed.

**Grant Thornton New Zealand Audit Limited**



**VJ Black**  
**Auckland**

**26 August 2021**

# Consolidated Statement of Profit or Loss

For the year ended 30 June 2021

	Note	2021 \$000	2020 \$000
Revenue	4	34,302	32,140
Other income	4	1,143	1,890
<b>Total revenue</b>		<b>35,445</b>	<b>34,030</b>
Expenses	5	31,231	29,676
<b>Earnings before interest, tax, depreciation &amp; amortisation (EBITDA)</b>		<b>4,214</b>	<b>4,354</b>
Depreciation	17/18	1,156	1,151
Amortisation of intangible assets (software)	19	283	330
Net interest (income)	7	70	92
<b>Profit before income tax</b>		<b>2,705</b>	<b>2,781</b>
Income tax	8	671	915
<b>Net profit after income tax</b>		<b>2,034</b>	<b>1,866</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	9	13.9	12.7
Diluted earnings per share	9	13.6	12.6

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2021

	2021 \$000	2020 \$000
Net profit after income tax	2,034	1,866
Items that may be reclassified subsequently to profit and loss:		
Exchange gain on translation of foreign operations	(91)	(53)
<b>Other comprehensive (loss) / income net of tax</b>	<b>(91)</b>	<b>(53)</b>
<b>Total comprehensive income for the year</b>	<b>1,943</b>	<b>1,813</b>

The accompanying notes on pages 21 - 52 form part of the consolidated financial statements.

# Consolidated Statement of Financial Position

As at 30 June 2021

	Note	2021 \$000	2020 \$000
<b>Current Assets</b>			
Cash and cash equivalents	10	4,713	5,012
Trade & other receivables	12	5,574	4,838
Inventories and work in progress	11	164	267
Prepayments		853	200
<b>Total Current Assets</b>		<b>11,304</b>	<b>10,317</b>
<b>Current Liabilities</b>			
Trade creditors		3,183	2,511
Other current liabilities	13	4,138	4,131
Other non-financial liabilities	14	81	72
Deferred tax liability	8	(161)	229
Lease liability - current	16	863	802
Employee benefit liabilities	15	808	666
<b>Total Current Liabilities</b>		<b>8,912</b>	<b>8,411</b>
<b>Working Capital</b>		<b>2,392</b>	<b>1,906</b>
<b>Non-Current Assets</b>			
Capital works in progress		195	188
Property, plant & equipment	17	307	525
Right of use assets	18	1,210	1,406
Intangible assets	19	253	536
Goodwill	20	1,061	1,061
<b>Total Non-Current Assets</b>		<b>3,026</b>	<b>3,716</b>
<b>Non-Current Liabilities</b>			
Lease liability	16	483	729
<b>Total Non-Current Liabilities</b>		<b>483</b>	<b>729</b>
<b>Net Assets</b>		<b>4,935</b>	<b>4,893</b>
<b>Equity</b>			
Share capital	21	5,413	5,413
Employee share option plan	30	31	29
Foreign currency translation reserve		(159)	(68)
Accumulated losses	22	(350)	(481)
<b>Total Equity</b>		<b>4,935</b>	<b>4,893</b>

For and on behalf of the Board who approved these financial statements for issue on 26 August 2021.



John McMahon – Director  
(Chairman)



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

The accompanying notes on pages 21 - 52 form part of the consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

	Share Capital \$000	Employee Share Plan \$000	Currency Translation Reserve \$000	Accumulated Losses \$000	Total Equity \$000
Balance 30 June 2019	5,413	7	(15)	(1,615)	3,790
Issue of shares to employees	-	22	-	-	22
<b>Transactions with owners</b>	-	<b>22</b>	-	-	<b>22</b>
Profit for the year after tax	-	-	-	1,866	1,866
Dividend paid	-	-	-	(732)	(732)
Other comprehensive (loss)	-	-	(53)	-	(53)
<b>Total comprehensive income</b>	-	-	<b>(53)</b>	<b>1,134</b>	<b>1,081</b>
<b>Balance 30 June 2020</b>	<b>5,413</b>	<b>29</b>	<b>(68)</b>	<b>(481)</b>	<b>4,893</b>
Issue of shares to employees	-	2	-	-	2
<b>Transactions with owners</b>	-	<b>2</b>	-	-	<b>2</b>
Profit for the year after tax	-	-	-	2,034	2,034
Dividend paid	-	-	-	(1,903)	(1,903)
Other comprehensive (loss)	-	-	(91)	-	(91)
<b>Total comprehensive income</b>	-	-	<b>(91)</b>	<b>131</b>	<b>40</b>
<b>Balance 30 June 2021</b>	<b>5,413</b>	<b>31</b>	<b>(159)</b>	<b>(350)</b>	<b>4,935</b>

The accompanying notes on pages 21 - 52 form part of the consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Note	2021 \$000	2020 \$000
<b>Cash Flow from Operating Activities</b>			
<i>Cash was provided from:</i>			
Receipts from sales		35,389	35,296
Other revenue		1,143	1,890
		<b>36,532</b>	<b>37,186</b>
<i>Cash was applied to:</i>			
Payments to suppliers		22,696	21,560
Payments to employees		10,594	8,730
GST paid to Inland Revenue		634	1,130
		<b>33,924</b>	<b>31,420</b>
<b>Net Cash Inflow from Operating Activities</b>	<b>24</b>	<b>2,608</b>	<b>5,766</b>
<b>Cash Flow from Investing Activities</b>			
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment & capital works in progress		749	216
Purchase of software & intangible assets		-	6
		<b>749</b>	<b>222</b>
<b>Net Cash Outflow from Investing Activities</b>		<b>(749)</b>	<b>(222)</b>
<b>Cash Flow from Financing Activities</b>			
<i>Cash was provided from:</i>			
Finance lease additions		600	-
Exercise of employee share options		-	-
		<b>600</b>	<b>-</b>
<i>Cash was applied to:</i>			
Payment of dividends		1,903	732
Interest paid		70	124
Finance lease liabilities		785	858
		<b>2,758</b>	<b>1,714</b>
<b>Net Cash (Outflow) from Financing Activities</b>		<b>(2,158)</b>	<b>(1,714)</b>
Net change in cash and cash equivalents		(299)	3,830
Add cash and cash equivalents held at beginning of year		5,012	1,182
<b>Cash and cash equivalents at end of year</b>	<b>10</b>	<b>4,713</b>	<b>5,012</b>

The accompanying notes on pages 21 - 52 form part of the consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2021

## 1. CORPORATE INFORMATION

The consolidated financial statements of Solution Dynamics Limited (SDL or Company) and its subsidiaries, Solution Dynamics International Limited, Solution Dynamics Incorporated and Déjar International Limited (collectively the Group) for the year ended 30 June 2021 were authorised for issue in accordance with a resolution of directors on 26 August 2021.

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Statement of Compliance

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

### 2.2 Basis of Preparation

#### 2.2.1 Basis of Preparation

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

#### 2.2.2 Basis of Consolidation

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

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

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

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

## Notes to the Consolidated Financial Statements CONTINUED

For the year ended 30 June 2021

### 2.2.3 Rounding of Amounts

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

### 2.2.4 Changes in Accounting Policies and Disclosures

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

## SPECIFIC ACCOUNTING POLICIES

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

### 2.3 Foreign Currency

#### 2.3.1 Functional and Presentation Currency

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

#### 2.3.2 Transaction and Balances

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

### 2.4 Revenue Recognition

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

#### 2.4.1 Sale of Goods

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

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

The Group often enters into transactions involving a range of the Group's products and services, for example the delivery of mailing services involves a blend of physical material (paper stock and envelopes) along with the provision of data and other services to process and deliver the finished job for lodgement to NZ Post. In all cases, the total transaction price for a contract is allocated amongst the various stages of the project based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties. However, these constitute one performance obligation due to them being highly integrated and non-distinct.

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

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

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

#### **2.4.2 Interest Revenue**

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

#### **2.4.3 Government Grants**

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

#### **2.5 Leases**

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

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

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

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

#### **Measurement and recognition of leases as a lessee**

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

## Notes to the Consolidated Financial Statements CONTINUED

### For the year ended 30 June 2021

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

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

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

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

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

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

#### **2.6 Employment Benefits**

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

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

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

#### **2.7 Share-based Payments**

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

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

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

#### **2.8 Taxation**

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

### 2.8.1 Current Tax

The tax currently payable is based on the taxable profit for each reporting period. The taxable income or loss differs from the amount as reported in the Consolidated Statement of Profit or Loss because it excludes items of income or expense that are taxable or deductible 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.

## Notes to the Consolidated Financial Statements CONTINUED

For the year ended 30 June 2021

### 2.9 Goods and Services Tax (GST)

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

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

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

### 2.10 Property, Plant and Equipment

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

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

The principal depreciation rates used in the reporting periods are:

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

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

### 2.11 Intangible Assets

#### 2.11.1 Intangible Assets Acquired with a Finite Life

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

#### 2.11.2 Internally Generated Intangible Assets with a Finite Life

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

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

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

#### **2.11.3 Subsequent Measurement**

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

- Software 3-5 years.

#### **2.11.4 Intangible Assets Acquired in Business Combination**

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

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

- Customer contracts 3–4 years.

#### **2.12 Goodwill**

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

#### **2.13 Impairment of Assets**

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

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

## Notes to the Consolidated Financial Statements CONTINUED

### For the year ended 30 June 2021

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

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

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

#### **2.14 Cash and Cash Equivalents**

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

#### **2.15 Inventories**

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

#### **2.16 Financial Instruments**

##### **2.16.1 Recognition and Derecognition**

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

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

##### **2.16.2 Classification and Initial Measurement of Financial Assets**

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

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

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

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

The classification is determined by both:

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

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

### 2.16.3 Subsequent Measurement of Financial Assets

#### Financial assets at amortised cost

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

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

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under NZ IAS 39.

### 2.16.4 Classification and Measurement of Financial Liabilities

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

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

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

### 2.16.5 Impairment of Financial Assets

NZ IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under NZ IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

## Notes to the Consolidated Financial Statements CONTINUED

For the year ended 30 June 2021

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

### 2.17 Share Capital

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

### 2.18 Trade Payables and Other Current Liabilities

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

### 2.19 Statement of Cash Flows

The following terms are used in the Statement of Cash Flows:

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

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

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

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

### 2.20 New IFRS standards and interpretations issued but not yet adopted

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

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

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

#### 3.1 Annual Goodwill Impairment Testing

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

The carrying value of goodwill at each reporting date was \$1,061,000 (2020: \$1,061,000).

The recoverable amount of \$938,000 of goodwill associated with the acquisition of the Déjar and Bremy businesses has been determined based on a value in use model applying the budget, approved by the Directors covering the reporting period to 30 June 2022, and forecast sales based on assessments of the current market opportunities through existing distribution channels net of forecast costs, through to the end of 2026, at a post-tax discount rate of 10.2% (2020: 10.2%). Cash flows beyond 2026 have been taken into account by the calculation of a terminal value.

The revenue assumptions used for the forecast period are based on management expectations supported by existing prospects for the budget period and allow for growth of 2.5% (2020: 2.5%) per annum over the balance of the forecast period. The assumptions are subject to fundamental uncertainties, particularly those surrounding future license sales which comprise a substantial portion of projected revenues and hence only inflationary growth rates have been applied. Gross margin is forecast to be consistent through the budget and forecast period.

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

Goodwill of \$123,000 is associated with the acquisition of the Scantech and DTP business (2020: \$123,000). This has similarly been tested for impairment through a review of revenue and earnings forecasts for the financial year ended 30 June 2021. Refer to note 20 for Directors' judgements and estimates.

## Notes to the Consolidated Financial Statements CONTINUED

For the year ended 30 June 2021

### 3.2 Right-of-use assets

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

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

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

In assessing the lease liability an incremental borrowing rate is applied to lease liabilities recognised under NZ IFRS 16. This is 4.5% (2020: 4.5%) for property and 8.5% (2020: 8.5%) on plant & equipment.

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

## 4. REVENUE & OTHER INCOME

	2021 \$000	2020 \$000
Revenue recognised over time	32,079	30,651
Revenue recognised at a point in time	2,223	1,489
<b>Revenue</b>	<b>34,302</b>	<b>32,140</b>
Government grant revenue	486	534
Gain on foreign exchange	657	1,356
<b>Other Income</b>	<b>1,143</b>	<b>1,890</b>

## 5. EXPENSES

	Note	2021 \$000	2020 \$000
Acquisition related costs		-	-
Auditor's remuneration	6	64	67
Bad debts		-	27
Freight, postage & external print		5,420	6,179
Directors' remuneration - directors' fees	29	793	570
Research		1,415	1,077
Salaries		7,673	7,621
Superannuation (KiwiSaver)		547	321
Employee entitlements – share based payments		2	22
Donations		48	1
Other expenses		15,269	13,791
<b>Total Operating Expenses</b>		<b>31,231</b>	<b>29,676</b>

## 6. AUDITOR'S REMUNERATION

	2021 \$000	2020 \$000
Audit fees – statutory audit	64	67
Tax compliance and advisory services	18	32
<b>Total auditor's remuneration</b>	<b>82</b>	<b>99</b>

## 7. INTEREST

	2021 \$000	2020 \$000
Interest on financing of right of use assets	70	92
<b>Net interest paid</b>	<b>70</b>	<b>92</b>

## 8. INCOME TAX EXPENSE

### 8.1 Current Tax

	2021 \$000	2020 \$000
<i>Income tax expense comprises:</i>		
Current tax expense	1,061	1,136
Deferred tax expense relating to the origination and reversal of temporary differences	(390)	(221)
<b>Total tax expense</b>	<b>671</b>	<b>915</b>

Notes to the Consolidated Financial Statements CONTINUED  
For the year ended 30 June 2021

## 8. INCOME TAX EXPENSE CONTINUED

### 8.1 Current Tax

	2021 \$000	2020 \$000
The total charge for the reporting period can be reconciled to the accounting loss as follows:		
Net profit before income tax	2,705	2,781
Income tax at company tax rate (1)	757	778
Permanent differences	6	14
Under / (over) provision in prior years	96	(31)
Benefit of tax losses not recognised	-	103
Other	(122)	60
Utilisation of previously unrecognised tax losses	(66)	(9)
<b>Income tax expense</b>	<b>671</b>	<b>915</b>

(1) The Group tax rate of 28% (2020: 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 2021 there are imputation credits available of \$727,026 (2020: \$713,000) for use in subsequent reporting periods.

### 8.2 Deferred Tax Liability

	2021 \$000	2020 \$000
<b>Temporary differences</b>		
Depreciable and amortisable assets	60	192
Accruals and provisions	(221)	37
<b>Deferred tax recognised</b>	<b>(161)</b>	<b>229</b>

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.

	2021 \$000	2020 \$000
<b>Deferred tax liability movement</b>		
Balance at beginning of period	229	8
Current year movement through profit or loss	(390)	221
<b>Balance at end of period</b>	<b>(161)</b>	<b>229</b>

## 9. EARNINGS PER SHARE (EPS)

	2021 \$000	2020 \$000
<b>Net profit for the year attributable to ordinary shareholders</b>	<b>2,034</b>	<b>1,866</b>
<b>Basic</b>		
Weighted average number of ordinary shares (000's)	14,640	14,640
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	13.9	12.7

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

<b>Diluted</b>		
Weighted average number of ordinary shares (000's)	14,640	14,640
Adjustment for share options	360	160
Weighted average	15,000	14,800
	<b>Cents</b>	<b>Cents</b>
Diluted earnings per share	13.6	12.6

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

## 10. CASH AND CASH EQUIVALENTS

	2021 \$000	2020 \$000
Cash and cash equivalents	4,713	5,012
<b>Total</b>	<b>4,713</b>	<b>5,012</b>

Solution Dynamics has an overdraft facility in place with the ANZ Bank at an interest rate of 6.95% p.a. (2020: 6.95%). 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.

At period end, the ANZ Bank has imposed no financial covenants to secure the existing facilities. The Group maintains a \$200,000 overdraft facility that was unused at the reporting date (2020: \$200,000). The Group now holds a net cash position with no bank debt (2020: \$Nil).

At the end of the reporting period the Bank provided commercial guarantees totalling \$65,000 (2020: \$65,000) to the Group's suppliers.

Notes to the Consolidated Financial Statements CONTINUED  
For the year ended 30 June 2021

## 11. INVENTORIES AND WORK IN PROGRESS

	2021 \$000	2020 \$000
Work in Progress	106	190
Inventory	58	77
<b>Total Inventories and Work in Progress</b>	<b>164</b>	<b>267</b>

## 12. TRADE & OTHER RECEIVABLES

	2021 \$000	2020 \$000
Trade receivables	5,252	3,666
Credit loss allowance	(5)	(40)
	5,247	3,626
Allowance for credit notes	(6)	(6)
<b>Total trade receivables</b>	<b>5,241</b>	<b>3,620</b>
Forward foreign exchange contract receivable	-	648
Sundry debtors	333	570
<b>Total Trade &amp; Other Receivables</b>	<b>5,574</b>	<b>4,838</b>

### 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 \$880,000 (2020: \$718,000) for which an allowance of \$5,250 (2020: \$40,246) was made. With average receivables at 16.8% of total receivables (2020: 19.6%) 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.

	2021 \$000	2020 \$000
30 - 60 days	138	278
60 - 90 days	246	258
90 - 120 days	496	182
<b>Total overdue trade receivables</b>	<b>880</b>	<b>718</b>

### Movement in allowance for credit losses

	2021 \$000	2020 \$000
Balance at the beginning of the reporting period	40	22
Accounts written off as uncollectable	(35)	18
<b>Total allowance for credit losses</b>	<b>5</b>	<b>40</b>

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 31% (2020: 26%) of the gross trade receivable balance, of which all was current. 86% of the outstanding balance is less than 60 days old (2020: 88%). Accordingly, the directors believe that no further adjustments for credit are required in excess of the allowance for credit losses.

For the reporting period there are no provisions against third parties (2020: \$Nil).

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

#### Forward foreign exchange contract receivable

As at 30 June 2021 the Group held no forward foreign exchange contracts (2020: selling USD3.73 million and purchasing GBP and NZD).

### 13. OTHER CURRENT LIABILITIES

	2021 \$000	2020 \$000
Sundry creditors	1,249	1,062
Payroll accruals	349	682
Provision for tax	676	672
Provision for deferred income	1,789	1,654
Audit fees accrued	75	61
<b>Total Other Current Liabilities</b>	<b>4,138</b>	<b>4,131</b>

### 14. OTHER NON-FINANCIAL LIABILITIES

	2021 \$000	2020 \$000
PAYE	161	162
GST	(80)	(90)
<b>Total Non-Financial Liabilities</b>	<b>81</b>	<b>72</b>

### 15. EMPLOYEE BENEFIT LIABILITIES

	2021 \$000	2020 \$000
Provision for sick pay	2	2
Provision for long service leave	139	114
Provision for holiday pay	667	550
<b>Total Employee Benefit Liabilities</b>	<b>808</b>	<b>666</b>

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% (2020: 2.0%).

Notes to the Consolidated Financial Statements CONTINUED  
For the year ended 30 June 2021

16. LEASES

	2021 \$000	2020 \$000
Current	863	802
Non-current	483	729
	<b>1,346</b>	<b>1,531</b>

The Group has property leases for its Canaveral Drive office and production facility, an IT infrastructure disaster recovery site also in Auckland and a sales office in North America. In addition to property leases, the Group has two leases for its production imaging equipment in Auckland.

The table below describes the nature of the Groups leasing activities by right of use asset type recognised on the balance sheet.

Right of use (ROU) assets	No of ROU assets leased	Range of remaining term	Average remaining term
Property	3	2-14 months	7-months
Plant & equipment	2	2 – 3 years	2-years

There is one property with a right of early termination on the payment of a break penalty. No agreements have a right to purchase or have extension options.

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 30 June 2021 were as follows:

Right of use (ROU) assets	Within 1 Year \$000	1 - 2 years \$000	2 - 5 years \$000	After 5 years \$000	Total \$000
<b>30 June 2021</b>					
Lease payments	863	420	152	-	1,435
Finance charges	61	23	5	-	89
<b>Net present values</b>	<b>802</b>	<b>397</b>	<b>147</b>	<b>-</b>	<b>1,346</b>
<b>30 June 2020</b>					
Lease payments	802	650	160	-	1,612
Finance charges	41	31	9	-	81
<b>Net present values</b>	<b>761</b>	<b>619</b>	<b>151</b>	<b>-</b>	<b>1,531</b>

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

At 30 June 2021 the Group had not committed to any leases that were yet to commence.

## 17. PROPERTY, PLANT AND EQUIPMENT

	Plant & Machinery \$000	Furniture & Fittings \$000	Leasehold Improvements \$000	Total \$000
<b>Cost</b>				
Balance 1 July 2019	2,564	157	646	3,367
Additions	165	2	12	179
Disposals	-	-	-	-
Balance 30 June 2020	2,729	159	658	3,546
Additions	47	-	7	54
Disposals	-	-	-	-
<b>Balance 30 June 2021</b>	<b>2,776</b>	<b>159</b>	<b>665</b>	<b>3,600</b>
<b>Accumulated depreciation</b>				
Balance 1 July 2019	2,136	143	459	2,738
Depreciation expense	200	4	79	283
Disposals	-	-	-	-
Balance 30 June 2020	2,336	147	538	3,021
Depreciation expense	196	4	72	272
Disposals	-	-	-	-
<b>Balance 30 June 2021</b>	<b>2,532</b>	<b>151</b>	<b>610</b>	<b>3,293</b>
<b>Carrying amount</b>				
Balance 1 July 2019	428	14	187	629
Balance 30 June 2020	393	12	120	525
<b>Balance 30 June 2021</b>	<b>244</b>	<b>8</b>	<b>55</b>	<b>307</b>

Notes to the Consolidated Financial Statements CONTINUED  
For the year ended 30 June 2021

18. RIGHT OF USE ASSETS

	Right of Use Assets Property \$000	Right of Use Assets Plant \$000	Total \$000
<b>Cost</b>			
Balance 1 July 2019	2,438	807	3,245
Balance 30 June 2020	2,438	807	3,245
Additions	-	600	600
Disposals	(102)	(653)	(755)
<b>Balance 30 June 2021</b>	<b>2,336</b>	<b>754</b>	<b>3,090</b>
<b>Accumulated depreciation</b>			
Balance 1 July 2019	582	303	885
Depreciation expense	651	303	954
Balance 30 June 2020	1,233	606	1,839
Depreciation expense	585	299	884
Disposal	(102)	(653)	(755)
Adjustment <sup>(1)</sup>	(8)	(80)	(88)
<b>Balance 30 June 2021</b>	<b>1,708</b>	<b>172</b>	<b>1,880</b>
<b>Carrying amount</b>			
Balance 1 July 2019	1,856	504	2,360
Balance 30 June 2020	1,205	201	1,406
<b>Balance 30 June 2021</b>	<b>628</b>	<b>582</b>	<b>1,210</b>

Note (1) Adjustments arise from variations in lease term

## 19. IDENTIFIABLE INTANGIBLES, FINITE LIFE

	Software - Déjar \$000	Software - Bremy \$000	Software \$000	Customer Contracts \$000	Total \$000
<b>Cost</b>					
Balance 1 July 2019	2,090	110	1,732	441	4,373
Transfers	-	-	-	-	-
Additions - purchased	-	-	6	-	6
Balance 30 June 2020	2,090	110	1,738	441	4,379
Transfers	-	-	-	-	-
Additions - purchased	-	-	-	-	-
<b>Balance 30 June 2021</b>	<b>2,090</b>	<b>110</b>	<b>1,738</b>	<b>441</b>	<b>4,379</b>
<b>Accumulated amortisation</b>					
Balance 1 July 2019	2,090	110	1,164	149	3,513
Transfers	-	-	-	-	-
Amortisation expense	-	-	207	123	330
Balance 30 June 2020	2,090	110	1,371	272	3,843
Transfers	-	-	-	-	-
Amortisation expense	-	-	168	115	283
<b>Balance 30 June 2021</b>	<b>2,090</b>	<b>110</b>	<b>1,539</b>	<b>387</b>	<b>4,126</b>
<b>Carrying amount</b>					
Balance 1 July 2019	-	-	568	292	860
Balance 30 June 2020	-	-	367	169	536
<b>Balance 30 June 2021</b>	<b>-</b>	<b>-</b>	<b>199</b>	<b>54</b>	<b>253</b>

(i) Déjar software (intellectual property) includes software costs of \$1,400,000 purchased from Efactor and Déjar Holdings.

## 20. GOODWILL

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

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

No accumulated impairment losses have been recognised against the goodwill.

The carrying value of goodwill relating to the Déjar and Bremy acquisitions is tested on an annual basis through assessment of the value-in-use of the SDL Software cash generating unit. The cash flows used in the value-in-use calculations are based firstly on the management budget for the 2022 year followed by management forecasts over a further four-year period. Cash flows after 2026 have been taken into account through a terminal value calculation. Management has projected growth in sales for the Déjar and Bremy products at 2.5% per annum for the 2023-2026 forecast period because it reflects inflation. Growth above inflation has not been projected due to there being uncertainty around this.

## Notes to the Consolidated Financial Statements CONTINUED

For the year ended 30 June 2021

The pre-tax discount rate used in the impairment calculation is 13.1% (2020: 13.2%). The equivalent post-tax nominal rate for the forecast cash flows is 10.2% (2020: 10.2%). In the Directors' view this represents the rate that the market would expect on an investment of equivalent risk. There has been no impairment in the reporting period (2020: \$Nil).

Goodwill of \$123,000 has arisen from deferred tax on business combinations associated with the Scantech Limited and DigitalToPrint acquisitions. Following a review of forecast cash flows for the 2022 budget period the Directors' judgement is that there are no indicators of impairment at reporting date.

### 20.1 Sensitivity to Changes in Assumptions

As at 30 June 2021, the date of the Group's annual impairment test, the estimated recoverable amount of the Déjar and Bremy indefinite life intangible assets exceeded their carrying amount by \$17,701,000 (2020: \$4,874,000).

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

## 21. SHARE CAPITAL

	2021 \$000	2020 \$000
<b>Ordinary Shares</b>		
Balance at beginning of year	5,413	5,413
Exercise of employee share options	-	-
<b>Share Capital at End of Year</b>	<b>5,413</b>	<b>5,413</b>

The Company had 14,639,810 (2020: 14,639,810) ordinary shares on issue as at 30 June 2021. 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

	2021 \$000	2020 \$000
Balance at beginning of reporting period	(481)	(1,615)
Net operating profit after income tax	2,034	1,866
Exercise of employee share options	-	-
Payment of dividends	(1,903)	(732)
<b>Accumulated Losses at end of reporting period</b>	<b>(350)</b>	<b>(481)</b>

## 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:

	2021 \$000	2020 \$000
\$100,000 to \$109,999	2	5
\$110,000 to \$119,999	5	4
\$120,000 to \$129,999	1	-
\$130,000 to \$139,999	3	1
\$140,000 to \$149,999	1	-
\$150,000 to \$159,999	-	1
\$160,000 to \$169,999	-	1
\$170,000 to \$179,999	1	2
\$180,000 to \$189,999	1	3
\$200,000 to \$209,999	2	2
\$210,000 to \$219,999	1	-
\$220,000 to \$229,999	1	-
\$250,000 to \$259,999	-	-
\$260,000 to \$269,999	-	1
\$270,000 to \$279,999	1	1
\$340,000 to \$349,999	1	1
\$350,000 to \$359,999	1	-
\$430,000 to \$439,999	-	1
\$540,000 to \$549,999	1	-
\$670,000 to \$679,999	1	-
<b>Total staff with remuneration exceeding \$100,000</b>	<b>23</b>	<b>23</b>

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

	2021 \$000	2020 \$000
Net profit / (loss) after income tax	2,034	1,866
<b>Adjustments:</b>		
Depreciation and amortisation of assets	1,439	1,481
(Gain) on foreign exchange	(657)	(1,356)
Bad and doubtful debts	(35)	19
Interest expense (reclassified as financing activity)	70	92
Other non-cash items	(479)	190
<b>Cash flow from trading</b>	<b>2,372</b>	<b>2,292</b>

Notes to the Consolidated Financial Statements CONTINUED  
For the year ended 30 June 2021

Add movements in working capital:		
(Increase) in trade & other receivables	(717)	(1,541)
Decrease in inventories and work in progress	52	143
(Increase) in prepayments	(586)	(139)
Increase in other current liabilities	997	3,769
Increase / (Decrease) in other non-financial liabilities	9	(368)
Increase in trade creditors	672	803
(Decrease) / increase in employee benefit liabilities	(191)	807
<b>Total movement in working capital</b>	<b>236</b>	<b>3,474</b>
<b>Net Cash Flows from Operating Activities</b>	<b>2,608</b>	<b>5,766</b>

## 25. SEGMENT INFORMATION

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

- **Software & Technology**, Solution Dynamics owns the intellectual property in five products;
  - » Déjar, an online digital archival and retrieval system sold stand-alone under licence agreements and also as a hosted service in New Zealand and Internationally.
  - » Bremy, Digital asset management, workflow and multichannel publishing software sold as a licenced product and also as a hosted service in New Zealand, Australia and the UK.
  - » Composer, “On-Demand” content creation software.
  - » 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.
  - » Jupiter is a hybrid mail application that was acquired through the purchase of the DigitalToPrint business. The application routes data received from clients for international distribution of communications to the destination country for print production and lodgement as local mail.

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

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

- **Digital Printing & Document Handling Services**, the printing of client’s information digitally using high speed laser printers followed by the lodgement and distribution of those documents using a variety of machine and other processes.
- **Outsourced Services**, not all components of Solution Dynamics’ solutions are produced internally. External elements such as post, freight, paper and envelopes are sourced from external suppliers and included in this service stream. Solution Dynamics has long term arrangements with a number of key suppliers such as NZ Post for the provision of these services.

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

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

#### Segment Consolidated Statement of Profit or Loss

	2021 \$000	%	2020 \$000	%
Software & Technology	24,635	70%	22,012	65%
Digital Printing & Document Handling Services	4,161	12%	4,568	13%
Outsourced services	6,649	18%	7,450	22%
<b>Total revenue</b>	<b>35,445</b>	<b>100%</b>	<b>34,030</b>	<b>100%</b>
Less cost of sales	21,954	62%	20,571	60%
Gross margin	13,491	38%	13,459	40%
Selling, general & administration	9,277	26%	9,105	27%
<b>Earnings before interest, tax, depreciation &amp; amortisation</b>	<b>4,214</b>	<b>12%</b>	<b>4,354</b>	<b>13%</b>
Less:				
Depreciation	1,156	3%	1,151	3%
Amortisation	283	1%	330	1%
Interest	70	0%	92	0%
Tax	671	2%	915	3%
<b>Operating profit</b>	<b>2,034</b>	<b>6%</b>	<b>1,866</b>	<b>6%</b>

#### Segment Assets

Assets are not segmented between service streams.

#### Information about Major Customers

Included in revenues for the Group of \$35.45 million (2020: \$34.03 million) are revenues of \$9.86 million (2020: \$8.28 million) which arose from sales to the Group's largest customer.

#### Geographical Information

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

	Revenue from external customers		Non-current assets	
	2021 \$000	2020 \$000	2021 \$000	2020 \$000
New Zealand	14,667	16,687	2,999	3,613
Australia	426	484	-	-
United States of America	18,291	12,625	15	50
Europe	2,061	4,234	12	53
<b>Total</b>	<b>35,445</b>	<b>34,030</b>	<b>3,026</b>	<b>3,716</b>

## Notes to the Consolidated Financial Statements CONTINUED

For the year ended 30 June 2021

### 26. CONTINGENT LIABILITIES

There were no contingent liabilities at reporting date for the Group (2020: \$Nil).

### 27. CAPITAL COMMITMENTS

The Group had no capital commitments at the reporting date (2020: \$Nil).

### 28. FINANCIAL INSTRUMENTS

#### 28.1 Credit Risk

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

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

#### 28.2 Categories of Financial Instruments

	2021 \$000	2020 \$000
	Financial Assets & liabilities at amortised cost	Financial Assets & liabilities at amortised cost
<b>Assets</b>		
Cash & cash equivalents (Note 10)	4,713	5,012
Trade & other receivables (Note 12)	5,574	4,838
<b>Total Financial Assets</b>	<b>10,287</b>	<b>9,850</b>
Total non-financial assets	4,043	4,183
<b>Total Assets</b>	<b>14,330</b>	<b>14,033</b>
<b>Finance Liabilities</b>		
Trade creditors	3,183	2,511
Other current liabilities (Note 13)	4,138	4,131
<b>Total Financial Liabilities</b>	<b>7,321</b>	<b>6,642</b>
Lease liability – right of use assets	1,346	1,531
Total non-financial liabilities	728	967
<b>Total Liabilities</b>	<b>9,395</b>	<b>9,140</b>

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

### 28.3 Maturity Date of Financial Instruments

	Weighted average effective interest rate	Less than 1 month (\$000)	1 - 3 months (\$000)	3 months to 1 year (\$000)	1 - 5 years (\$000)	Gross Nominal outflow (\$000)	Carrying Value (\$000)
<b>2021</b>							
Non-interest bearing	n/a	4,623	2,698	-	-	7,321	7,321
		<b>4,623</b>	<b>2,698</b>	<b>-</b>	<b>-</b>	<b>7,321</b>	<b>7,321</b>
<b>2020</b>							
Non-interest bearing	n/a	3,791	2,098	753	-	6,642	6,642
		<b>3,791</b>	<b>2,098</b>	<b>753</b>	<b>-</b>	<b>6,642</b>	<b>6,642</b>

### 28.4 Interest Rates

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

	2021	2020
Financial Liabilities:		
Finance facility (overdraft rate)	6.95%	6.95%

### 28.5 Foreign Currency Risk Management

Hosting and license sales linked to SDL Software operations are denominated in foreign currency and sold under standard terms and conditions. Any variation in exchange rate between the date of sale and the date cash is received is accounted for as a foreign exchange gain/loss in the period in which it occurs. For material individual transactions in foreign currencies the Group has a policy of taking forward exchange. At 30 June 2021 of total trade receivables of \$5,252,000 (2020: \$3,666,000) a total of \$3,776,000 (2020: \$2,085,000) was in foreign currencies. \$150,000 (2020: \$235,000) of the foreign currency receivables were denominated in European currencies, \$3,526,000 (2020: \$1,761,000) in US \$ with the remainder of the balance in AUD \$.

In addition to the trade receivables of \$3,776,000 (2020: \$2,085,000) held in foreign currencies at the end of the reporting period, a further \$4,057,000 (2020: \$4,143,000) in cash was also held in foreign currencies, a total of \$7,883,000 (2020: \$6,228,000). Adjusted for offsetting payables balances of \$4,947,000 (2020: 3,976,000), a movement in the exchange rate of 10% would give rise to an exchange fluctuation of \$294,000 (2020: \$225,000).

Trading operations for the UK and Europe are largely undertaken through SDL's UK subsidiary Solution Dynamics International Limited (SDIL). For North America operations are undertaken through Solution Dynamics Incorporated. At period end the net assets for SDIL and SD Inc., comprising largely working capital, was a credit balance of NZ\$872,000 (2020: NZ\$153,000) with cash and receivable balances as noted above.

At 30 June 2021 the reporting date, \$Nil forward exchange contracts were held (2020: \$5,785,000), on which an unrealised gain of \$Nil (2020: \$648,000) is recognised at the reporting date.

## Notes to the Consolidated Financial Statements CONTINUED

For the year ended 30 June 2021

### 28.6 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. With positive cash inflows, the Group's liquidity risk is considered by the Directors to be low.

### 28.7 Interest Rate Sensitivity Analysis

At 30 June 2021 the interest rate on the overdraft facility was 6.95% (2020: 6.95%). With a net cash position of \$4.71 million (2020: \$5.01 million) at the end of the reporting period a material change in the interest expense is not expected.

### 28.8 Capital Management

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

Earnings in the Group has improved on the prior year. The Group is in a net cash position of \$4.71 million (2020: \$5.01 million) and a net cash inflow from operations of \$2.61 million (2020: \$5.77 million). There was an operating profit of \$2.03 million in the current year (2020: \$1.87 million). The Group has no externally imposed covenants to manage, the only debt on the balance sheet relates to right of use assets.

	2021 \$000	2020 \$000
Borrowings – Liability right of use assets	(1,346)	(2,208)
Cash & Finance facility (Note 10)	4,713	5,012
<b>Net cash (debt)</b>	<b>3,367</b>	<b>2,804</b>
Equity (all capital and reserves)	4,935	4,893
Net (cash) debt to equity ratio	(68%)	(57%)

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

## 29. RELATED PARTIES TRANSACTIONS AND DIRECTORS' REMUNERATION

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

Related party transactions from 1 July 2020 to 30 June 2021 were as follows:

- Key management were paid \$2,108,021 (as employees of Solution Dynamics Limited or its subsidiaries and including the calculated benefit of the employee share option plan) during the reporting period (2020: \$1,485,985) and were owed \$153,744, including annual leave, at 30 June 2021 (2020: \$150,918).

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

	2021 \$000	2020 \$000
John McMahon (Chairman)	60	55
Nelson Siva (CEO)	541	342
Julian Beavis	40	36
Elmar Toime	64	60
Lee Eglinton	40	36
Andy Preece (Chairman Audit & Risk Management Committee)	48	41
<b>Total Directors' Remuneration</b>	<b>793</b>	<b>570</b>

### 30. EMPLOYEE OPTIONS

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

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

All options from the initial tranches of the scheme were exercised by March 2020. Effective 14 December 2018 the board issued 80,000 share options each to two staff who are key senior members of the Company's IT team (with an exercise price of \$1.70), one of whom remains as an employee. The issue of a further 360,000 share options was approved to four key members in October 2020 (with an exercise price of \$2.60), three of whom remain as employees at 30 June 2021.

	2021 Number of shares '000	2020 Number of Shares '000
Unvested shares at 1 July	160	160
Granted	360	80
Lapsed (on resignation of staff member)	(160)	(80)
Vested	-	-
<b>Unvested shares at 30 June</b>	<b>360</b>	<b>160</b>
Percentage of total ordinary shares	2.5%	1.1%

**Notes to the Consolidated Financial Statements CONTINUED**  
For the year ended 30 June 2021

The net fair value of the options granted during the reporting period was \$213,825 (2020: \$50,445). This cost is recognised over the vesting period.

Grant Date	Options Issued	Share price at Grant Date	Exercise Price	Options Expire	Option Value \$
December 2018	80,000	\$1.70	\$1.70	June 2023	\$25,220
March 2021	280,000	\$2.60	\$2.60	September 2025	\$213,825

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 35%. This is based on an analysis of share price movements over the 12-months prior to the issue of the options.
- Average dividend yield of 3.67%.
- Average annual risk-free rate of 0.83%.

## 32. SHAREHOLDERS AND SUBSTANTIAL SECURITY HOLDERS

### 32.1 The 20 largest shareholders as at 22 July 2021 were:

Shareholder	% Of Total	Shares
ASB Nominees Limited <574233 A/C>	10.93%	1,600,658
Philip Hadfield Hardie Boys <P & K Hardie Boys Family A/C>	7.51%	1,100,000
Public Trust - NZCSD <The Aspiring Fund>	6.63%	970,086
Indrajit Nelson Sivasubramaniam + Tracey Lee Sivasubramaniam + Comac Trustees Limited	6.08%	890,000
Hobson Wealth Custodian Limited <Resident Cash Account>	5.22%	763,882
Accident Compensation Corporation - NZCSD <ACCI40>	4.77%	698,234
Michael Charles Hare	4.63%	678,000
JBWERE (NZ) Nominees Limited <NZ Resident A/C>	4.16%	609,266
Colin Glenn Giffney	3.55%	520,000
Kirsten Roberts	3.07%	450,000
Stephen Christopher Montgomery	2.73%	400,000
Deirdre Elizabeth Tallott	2.56%	375,000
Jillian Bernadette Winstanley	2.22%	325,000
Roger Dixon Armstrong	2.06%	301,665
FNZ Custodians Limited <DRP NZ A/C>	1.96%	287,650
Christopher Veale + Penny Veale	1.81%	265,704
Don Nominees Limited	1.60%	234,944
Custodial Services Limited <A/C 18>	1.38%	202,075
Custodial Services Limited <A/C 4>	1.32%	193,914
Custodial Services Limited <A/C 3>	1.25%	182,756
<b>Grand Total</b>	<b>75.47%</b>	<b>11,048,834</b>

A total of 14,639,810 shares were on issue (2020: 14,639,810 shares).

### 32.2 Size of Shareholding as at 22 July 2021

Holdings	Shareholders	Shares Held	% Of Total
1-999	117	29,928	0.20%
1,000-4,999	106	212,033	1.45%
5,000-9,999	38	245,866	1.68%
10,000-49,999	51	860,832	5.88%
50,000-99,999	13	878,275	6.00%
100,000 and over	31	12,412,876	84.79%
<b>Total</b>	<b>356</b>	<b>14,639,810</b>	<b>100.0%</b>

### 32.3 Substantial Security Holders

According to notices given under the Financial Markets Conduct Act 2013, the following persons were substantial shareholders in Solution Dynamics Limited as at 22 July 2021:

Shareholder	% Of Total	Shares
Meta Capital Limited (John McMahon)	10.93%	1,600,658
Philip Hadfield Hardie Boys (P & K Hardie Boys Family A/C)	7.51%	1,100,000
Public Trust - NZCSD (The Aspiring Fund)	6.63%	970,086
Indrajit Nelson Sivasubramaniam & Tracey Lee Sivasubramaniam	6.08%	890,000

## 33. COVID-19

SDL has continued its COVID-19 monitoring and safety policies, aimed at ensuring the Company's staff remained safe. This includes the use of segregated teams as required, significant levels of working from home for non-production staff, health monitoring, and controlled facility access. These have helped ensure no SDL staff member has been infected by COVID-19 to date. These measures will likely remain in place until a vaccine is widely implemented in New Zealand and proven to be effective, and some, such as working from home, are likely to become a normal part of workplace practice. The Company deeply appreciates the efforts and cooperation by staff in their flexibility, assistance and compliance with health requirements, and thanks them for perseverance and maintaining morale in difficult operating circumstances.

It is difficult to accurately assess the financial impact of COVID-19 on SDL's FY2021 financial result. The largest effects were on volumes in the UK where SDL's customers had significantly lower activity for the financial year (in some cases down around 80%). Additionally, a large customer with international activities that has sizeable activity in developing markets, was forced to scale back operations in many countries, reducing processing volumes. Less easily measurable was the lack of direct sales activity, in the US particularly. The Company's best estimate is that COVID reduced revenues by – very approximately – around 10-12%.

Some modest costs savings continued, with travel remaining near zero. However, COVID appears to be a factor in the shortage of skills across the technology sector, adding cost pressures that are continuing in FY2022.

Notes to the Consolidated Financial Statements CONTINUED  
For the year ended 30 June 2021

**34. EVENTS AFTER THE REPORTING DATE**

On 26 August 2021, the directors approved the payment of a fully imputed dividend of 4.00 cents per share amounting to \$586,000 to be paid on 1 October 2021 (2020: The directors approved the payment of a fully imputed dividend of 6.00 cents per share, amounting to \$878,000).

# Statement of Corporate Governance

## 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 Code (re-dated as at January 2020). The information in this report is current as at 26 August 2021 and has been approved by the Board.

The Board Charter and key policies which were approved by the board on 2 May 2019 are available on the Company's website: [www.solutiondynamics.com](http://www.solutiondynamics.com).

SDL is listed on the NZX's Main Board and is subject to regulatory control and monitoring by both the NZX and the Financial Markets Authority (FMA). The Board Charter and key policies are available on the Company's website: [www.solutiondynamics.com](http://www.solutiondynamics.com).

### PRINCIPLE 1 - CODE OF ETHICAL BEHAVIOUR

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

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

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

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

A copy of the Code of Business Conduct and Ethics was made available to all employees and is given to all new employees when they join the Group. Any future changes to the Code of Business Conduct and Ethics will be communicated to staff. The Code of Business Conduct and Ethics can also be found at [http://www.solutiondynamics.com/wp-content/uploads/2019/05/Code\\_of\\_Business\\_Conduct\\_and\\_Ethics.pdf](http://www.solutiondynamics.com/wp-content/uploads/2019/05/Code_of_Business_Conduct_and_Ethics.pdf).

SDL has a Share Trading Policy to mitigate the risk of insider trading in SDL's securities by employees and Directors. A copy of this Policy can also be found at [http://www.solutiondynamics.com/wp-content/uploads/2019/05/Share\\_Trading\\_Policy.pdf](http://www.solutiondynamics.com/wp-content/uploads/2019/05/Share_Trading_Policy.pdf). The Policy was updated in May 2019 as a part of the process of migrating to the NZX Main Board. Additional share trading restrictions apply to Restricted Persons including Directors and certain employees.

### Directors' Share Dealings and Shareholding

Directors disclose the following relevant interests in shares in the Group at 30 June 2021 and transactions in relevant interests in shares during the financial year ended 30 June 2021.

Shareholder	Balance 30 June 2020	Additions	Disposals	Balance 30 June 2021
John McMahon	1,600,658	-	-	1,600,658
Nelson Siva	890,000	-	-	890,000
Andy Preece	53,000	-	-	53,000
Lee Eglinton	18,000	-	-	18,000

## Statement of Corporate Governance CONTINUED

### Entries in the Interests Register

In addition to the interests and related party transactions disclosures in Note 29 of the Notes to the Financial Statements and the Director remuneration disclosed under Principle 5 of the NZX Corporate Governance Code, the following interests were disclosed to the Board and noted in the interests register during the financial year ended 30 June 2021:

- Indemnification of Officers and Directors: The Company indemnifies Directors and Executive Officers of the Group against all liabilities which arise out of the performance of their normal duties as Director or Executive Officer.
- Directors' & Officers' insurance: In parallel with the indemnity coverage, the Group has Directors & Officers' liability insurance. The total cost of this insurance expensed during the year ended 30 June 2021 was \$54,242 (2020 - \$21,250).

### 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 2021 are disclosed in Note 29 of the Notes to the Financial Statements.

## PRINCIPLE 2-BOARD COMPOSITION & PERFORMANCE

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

The primary responsibilities of the Board include:

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

Board procedures are governed by the Constitution.

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

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

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

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

### **Board Composition and Appointment**

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

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

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

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

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

The Board supports the separation of the roles of Chairman and CEO. The Chair of SDL as at 26 August 2021 is non-executive director, John McMahon, who has (through a related party) a 10.93% shareholding in SDL and is therefore not considered independent under the NZX Main Board Listing Rules.

The Board currently comprises six Directors, being a non-executive chairman (non-independent), four non-executive Directors (independent) and the Chief Executive. They are all elected on the basis of the value they bring to the Board.

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

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

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

### **Diversity**

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

## Statement of Corporate Governance CONTINUED

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

SDL does not have formal diversity policy. Instead, SDL's Code of Business Conduct and Ethics notes that SDL values diversity and inclusion and has a workforce consisting of many individuals with diverse skills, values, backgrounds, ethnicity and experience. We attract and retain a diverse workforce and this diversity brings a range of ideals, skills and innovation to SDL, which assists in achieving our objectives.

As at 30 June 2021, the gender balance of SDL's directors and people was as follows:

	30 June 2021	30 June 2020
<b>Directors</b>		
Females	1	1
Males	5	5
<b>Management Team</b>		
Females	1	-
Males	6	7
<b>All Employees</b>		
Females	38	34
Males	60	50

The Management team is defined as being the Chief Executive Officer and senior leaders with reporting lines direct to the Chief Executive Officer.

### Board Meetings and Attendance

The Board has 11 scheduled meetings a year.

During the period 1 July 2020 to 30 June 2021 attendance at Board and Committee meetings was:

	Board Meetings <sup>(1)</sup>		Audit & Risk Management <sup>(2)</sup>	
	Held	Attended	Held	Attended
John McMahon (Chairman)	11	11	2	1
Julian Beavis	11	11	n/a	n/a
Nelson Siva (CEO)	11	11	n/a	n/a
Elmar Toime	11	11	n/a	n/a
Andy Preece	11	9	2	2
Lee Eglinton	11	11	2	1

(1) John McMahon is the board chairman

(2) Andy Preece is the chairman of the audit & risk management committee

### PRINCIPLE 3 - COMMITTEES

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

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

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

The Audit and Risk Committee meets as required and has terms of reference (a Charter). A copy of the Audit and Risk Committee Charter can be found at: [http://www.solutiondynamics.com/wp-content/uploads/2020/05/Audit\\_Risk\\_Charter.pdf](http://www.solutiondynamics.com/wp-content/uploads/2020/05/Audit_Risk_Charter.pdf)

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

The membership and performance of the Committee is reviewed annually.

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

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

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

#### **Audit and Risk Committee**

The role of the Audit and Risk Committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 2013 regarding accountancy practices, policies and controls relative to the Company's financial position and make appropriate enquiry into the audits of the Company's financial statements. This responsibility includes providing the Board with additional assurance about the quality and reliability of the financial information issued publicly by the Company. All matters required to be addressed and for which the Committee has responsibility were addressed during the 2021 financial year.

As noted above, a written charter outlines the Audit and Risk Committee's delegated authority, duties, responsibilities and relationship with the Board.

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

Members as at 30 June 2021 were Andy Preece (Chairman), Lee Eglinton and John McMahon. It met twice during the financial year.

## Statement of Corporate Governance CONTINUED

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

### Takeovers

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

## PRINCIPLE 4 –REPORTING & DISCLOSURE

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

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

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

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

### Financial Statements

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

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

For the financial year ended 30 June 2021, the directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of SDL and the Group and facilitate compliance of the financial statements with the Companies Act 1993 and the Financial Reporting Act 2013.

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

The Chief Executive and Chief Financial Officer have confirmed in writing to the Board that SDL's external financial reports present a true and fair view in all material aspects.

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

### Non-financial information

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

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

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

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

**PRINCIPLE 5 – REMUNERATION**

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

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

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

Details of Directors and management remuneration and entitlements for the 2021 financial year are set out in Note 29 of the Notes to the Financial Statements.

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

**Directors' Remuneration**

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

Directors are paid on a per director rate as follows,

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

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

Statement of Corporate Governance CONTINUED

**Executives’ Remuneration**

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

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

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

**Chief Executive Officer Remuneration**

The review and approval of the Chief Executive Officer’s remuneration is the responsibility of the Board.

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

The CEO’s remuneration can be summarised as follows:

Description	(000’s)
Base salary	270
Incentive based on earnings performance (1)	202
<b>Total on target earnings</b>	<b>472</b>

(1) This is paid annually in arrears based on Company earnings

**PRINCIPLE 6 –RISK MANAGEMENT**

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

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

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

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

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

The Board delegates day-to-day management of the risk to the Chief Executive Officer. SDL’s management team is required to regularly identify the major risks affecting SDL’s business and develop structures, practices and processes to manage and monitor these risks.

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

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

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

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

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

Key financial and non-financial risks are included in Note 28 of the Notes to the Financial Statements.

### **Health and Safety**

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

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

### **PRINCIPLE 7 – AUDITORS**

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

The Board's approach to the appointment and oversight of the external auditor are outlined in SDL's Audit and Risk Committee Charter, which can be found at: [http://www.solutiondynamics.com/wp-content/uploads/2020/05/Audit\\_Risk\\_Charter.pdf](http://www.solutiondynamics.com/wp-content/uploads/2020/05/Audit_Risk_Charter.pdf). Amongst other things, the Charter is designed to ensure that audit independence is maintained, both in fact and appearance, so that SDL's external financial reporting is viewed as being highly reliable and credible.

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

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

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

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

Grant Thornton attends the Annual Meeting, and the lead audit partner is available to answer questions from shareholders at that meeting. In this capacity, Grant Thornton attended the 2020 annual meeting.

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

## Statement of Corporate Governance CONTINUED

### PRINCIPLE 8 – SHAREHOLDER RIGHTS & RELATIONS

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

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

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

- Annual and Half-Yearly Reports
- Market announcements
- Annual Meeting
- Access to information through the SDL website [www.solutiondynamics.com](http://www.solutiondynamics.com)

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

Shareholders are encouraged to attend the Annual Meeting and may raise matters for discussion at the meeting. In accordance with NZX Corporate Governance Code, the Board ensured that the notice of the Annual Meeting was posted to SDL's website as soon as possible and at least 28 days prior to the meeting.

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

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

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

# Company Directory

## Nature of Business

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

## Directors

John McMahon – Non-independent Chairman  
Elmar Toime -Independent  
Julian Beavis - Independent  
Andy Preece - Independent  
Lee Eglinton - Independent  
Indrajit Nelson Sivasubramaniam (Nelson Siva) – Chief Executive Officer

## Auditors

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

## Bankers

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

## Legal Representative

Stephen Layburn  
Commercial Barrister  
Level 3, 175 Queen Street  
AUCKLAND

## Share Registry

Computershare Investor Services  
Level 2, 159 Hurstmere Rd  
Takapuna  
AUCKLAND  
Private Bag 92119  
Auckland Mail Centre  
AUCKLAND 1142

## Registered Office and address for service

18 Canaveral Drive  
Albany  
AUCKLAND  
PO Box 301248  
Albany  
AUCKLAND 0752  
Tel: +64 (9) 970-7700

## Solution Dynamics (International) Limited

Lancaster Court, 8 Barnes Wallis Road,  
Fareham, PO15 5TU  
Hampshire  
UNITED KINGDOM  
Tel: +44 1489 668219

## Solution Dynamics Incorporated

260 Madison Avenue, 8th floor  
New York, New York 10016  
UNITED STATES of AMERICA  
Tel: +1 (917) 319 5625

## Déjar International Limited

18 Canaveral Drive  
Albany  
AUCKLAND  
PO Box 301248  
Albany  
AUCKLAND 0752  
Tel: +64 (9) 970-7700



New Zealand ■ United Kingdom ■ United States of America



**Head Office:**

18 - 24 Canaveral Drive, Rosedale, Auckland 0632, New Zealand  
Phone +64 9 970 7700 | PO Box 301248, Albany 0752, New Zealand  
info@solutiondynamics.com | www.solutiondynamics.com