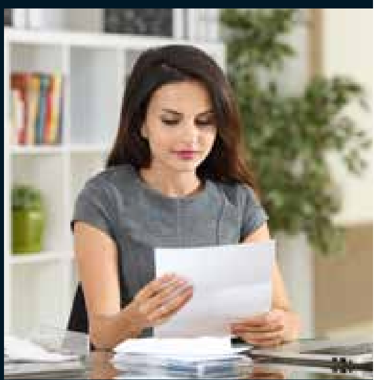
Simplifying Business

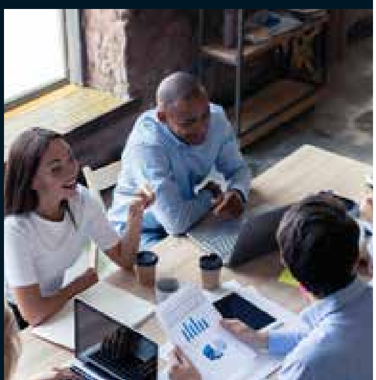
SOLUTION DYNAMICS

Annual Report 2020

Annual Shareholders Meeting

The Annual Meeting of shareholders will be held at 10:30am on Thursday, 22nd October 2020, as an online meeting with details to be provided when the Company provides the Notice of Meeting to shareholders.





2020 Key Points

> Record net profit after tax up 255% to $1.87 million

> Normalised net profit after tax up 211% to $1.64 million

> Dividends per share of 9.0 cents (prior year 4.0 cents)

> Revenue up 35% to $34.0 million

> International revenue surpasses NZ revenue

> EBITDA up 88% to $4.4 million

> Net cash on hand $5.0 million

> Further earnings growth expected in FY2021

Contents

Management Discussion and Analysis

FY2020 Result Overview

Solution Dynamics Limited ("SDL" or "Company") recorded a net profit after tax of $1.87 million for FY2020, well ahead of $0.53 million in the prior year. This result includes a net gain of $0.23 million that is one-off in nature (details in Financial Performance section) so the normalised profit for FY2020 is $1.63 million. The Company continues to see substantial growth in overall international business driven from its Software & Technology platforms, with a range of new customer wins contributing progressively over the year. This was partly offset by COVID-19 revenue and gross margin headwinds which have acted as a drag on results with NZ revenues affected slightly but UK/EU revenues significantly down. Additionally, SDL continues to add staff resources offshore to both bring on new customer wins and expand business development activity so Selling, General & Administration ("SG&A") expenses continue to trend structurally higher.

Cash flow from operations was $5.77 million (FY2019 $1.30 million) and the net cash position at year end was $5.01 million (FY2019 $1.18 million). The year-end cash position is abnormally high, reflecting unusually favourable timing of year-end debtor and creditor cash flows (creditors are also elevated at year end), along with prepayment receipts of (very low margin) postage by some clients (totalling around $1.5 million).

The directors have declared a final dividend of 6.0 cents per share (FY2019 2.0 cents) fully imputed, making a total dividend for FY2020 of 9.0 cents per share (FY2019 4.0 cents).

CEO Status

SDL's CEO, Nelson Siva, is currently receiving medical treatment. He is making good progress and the directors' current expectation is that he will re-engage in the business over September.

New Accounting Standard Applied in FY2020

SDL's FY2020 financial statements show a different result for the prior year of FY2019 than the FY2019 annual report. This is the result of an FY2020 accounting standards change (from NZ IAS 17 to NZ IFRS 16) that alters how leases are treated. Previously, lease expense was typically either a cost of goods sold item (where it related to production items such as print equipment) or an administration cost item (e.g. the cost of renting the Company's premises) and no liability for operating leases was recorded on the Company's balance sheet. The new accounting standard requires leases to be capitalised so that the balance sheet shows a "Right of Use" asset along with a "Right of Use" liability equivalent to the present value of future lease payments owing (the asset and liability approximately offset). The Profit or Loss Statement now shows the lease expense in two lines: mainly through depreciation of the right of use asset, and through an interest charge for an implied cost of funds on the right of use liability.

The net effect on the reported profit is minimal; it is largely a case of moving the lease expense cost into depreciation and interest costs. This does though have the effect of increasing SDL's EBITDA (by around $0.9 million in FY2020). The cash flow statement is similarly changed with cash flow from operating activities increasing and being offset by an increase in the cash outflow from financing activities.

SDL has adopted the fully retrospective approach which means the financial statements from the prior period (i.e. FY2019) are restated to conform with the new NZ IFRS 16 standard, allowing a like-for-like comparison between the two years. See Note 2.2.5 to the Financial Statements for details of restatement changes to FY2019 figures.

Effects of COVID-19

The key outcome of COVID-19 has been SDL's success to date in ensuring its staff remained safe, after strict health monitoring and effective work practices were put in place early and rigorously adhered to. The use of segregated teams, health monitoring, and controlled facility access helped ensure no SDL staff member has been infected by COVID-19. These measures are expected to remain in place for an extended period or until a vaccine is available. A range of SDL's clients are essential services businesses and consequently the Company continued partial onsite production operations throughout the New Zealand lockdown. The Company's non-production employees were able to work successfully from home, including SDL's international staff. 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.

SDL has seen several financial effects from COVID which are estimated to have had an aggregate moderately negative impact on the FY2020 result.

Given some of SDL's customers are essential services, revenue during the New Zealand lockdown period only declined by around 15%, a better result than had initially been anticipated, but nevertheless causing a drag on New Zealand profitability over a three month period. SDL claimed the New Zealand government's wage subsidy on the basis that revised budgets at the start of lockdown suggested revenue would decline by slightly more than 30%, however, when this did not eventuate, the wage subsidy was returned.

SDL's UK volumes were materially affected as large parts of that economy slowed significantly during lockdown, including one large client whose activity declined around 85%. The UK economy has been slow to recover and, at the time of this report has seen a slight uplift in activity as the government there is attempting to slowly normalise conditions. The UK lockdown and economic slowdown tipped SDL's UK business into loss for the half and this has distorted the Company's overall tax rate upwards as that loss is ring fenced for tax purposes so is not able to offset profits in other jurisdictions.

Some costs savings were made, with travel reducing to near zero and several months of rent relief at SDL's Albany premises. However, these were insufficient to offset the decline in gross profit from lower revenues.

The impact from COVID on SDL's trading outlook is discussed in the FY2021 Outlook section.

One of SDL's directors, Mr Elmar Toime, has significant experience in the global mail and logistics markets (former CEO of NZ Post, former Deputy executive Chair of Royal Mail Group, was a Supervisory Board member of Deutsche Post DHL, and is a non-executive director of Qatar Post). He is providing 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 are being 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, Scantech, is included in Services (for New Zealand scanning operations), while offshore consulting and software revenues that are related to Scantech'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.

The US business, DigitalToPrint (DTP), acquired by SDL in May 2018 is wholly included in Software & Technology. DTP operates the international cross-border print software, Jupiter, which is presently being more closely integrated with SDL's desktop mail print-on-demand solution. Note that for some international clients, SDL only provides software or related consulting services, but for others it arranges third party printing and logistics on which it will typically earn a modest margin. 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 as a result of 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 and is estimated to be reasonably static. 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 has operations in the UK, USA and Albany, Auckland.

International Expansion

Historically, SDL was predominantly a New Zealand business with some international software revenue. That position changed in FY2020. SDL's half year Interim Report noted that international Software & Technology revenue as a proportion of total revenue had moved from around 26% in 1H FY2019 to around 49% in 1H FY2020. This trend has continued and for the full FY2020, international Software & Technology revenues as a proportion of total revenue is now around 65%.

Moving into FY2021, and assuming the software contracts underway deliver as expected, then SDL's international activities will increasingly dominate the sales mix and business. Note that international Software & Technology revenue includes two different business models: in one, SDL is a pure software SaaS provider and earns revenue solely from the customer utilising the software. In the other, SDL still provides software on a SaaS basis but also earns revenue directly related to the software platform by acting as the customer's provider of a total communications solution service (including third party print, logistics and postage).

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 after hours to support overseas customers and the Company's international staff. SDL recognises the stress that international expansion and time zone differences have placed on staff, both in New Zealand and globally, and is actively increasing the number of support-related 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 flowrap.

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, SDL's FY2020 mail lodgement volumes dropped 15.8%, a similar rate of fall to 15.1% the prior year. The decline was exacerbated from late March by COVID-19 restrictions and lockdown. The Company's digital print volumes also fell, dropping by 13.0%.

On the digital communications side, SDL's volume of customer emails rose 7.9%.

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.

SDL Services Revenue Breakdown (all figures $000)	**FY2020**	**FY2019**	**Percentage Change**
Change			
Digital Printing and Document Handling	4,568	5,561	-17.9%
Outsourced Services	7,450	11,270	-33.9%
Total Services Revenue	**12,018**	**16,831**	**-28.6%**

Note that in FY2019 Outsourced Services also included some UK services (including postage) but this has been included in Software & Technology for FY2020 as it is derived from the bundled software solution that SDL provides to those UK clients. This re-allocation represents around two-thirds of the decline in Outsourced Services seen in FY2020.

SDL Software & Technology

Two trends are driving 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.

The digital transformation aspect has attracted significant market competition as pure technology organisations look to help businesses employ more "pull" marketing tactics, drawing people in to their brands with interesting, informative and engaging content. Communication channels are no longer "one size fits all"; customers now receive messaging through an omni-channel or multi-media approach. SDL treats every 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 mailhouse, 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 are used to develop customer 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 work flow 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: Print on Demand)

DéjarMail is a desktop mail management solution which allows customers to route mail correspondence, by file transfer or web browser portal (Print 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, acquired as part of the DTP acquisition, 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 Print 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 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 revenue is earned from three sources.

The first is SaaS (Software as a Service) revenue, where customers operate SDL's software on a pay-as-you-go model, typically 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 related data on behalf of the client. The Company has some customers on software license arrangements (SDL collects an annual maintenance fee) however these are now a minimal contributor to revenue.

Secondly, the company offers bespoke software development services 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 customer-bespoke infrastructure, as this allows better ongoing management of SDL's software base by mitigating excess complexity.

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.

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 future efforts will focus on both functional development and tighter integration between products. A number of the Company's software products have been developed in-house (e.g. DéjarMail Print-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.

In both the UK and USA, FY2020 saw SDL continue to add sales and support personnel to manage business growth; a further step up from these costs will occur in FY2021. SDL is being assisted in its American growth initiative by a market development grant from NZ Trade and Enterprise ("NZTE") that contributes towards the costs of expansion. The NZTE grant covers 40% of applicable costs and is to a maximum of $0.6 million or for three years, whichever comes first. On current projections it is likely the grant will be fully utilised during FY2021.

Software & Technology generated revenue of $22.0 million in FY2020, an increase of 164% on the prior year's revenue of $8.35 million. This growth was from several sources including a large multinational organisation that progressively transferred its activity to SDL's platform over the year (the bulk of the revenue from this client is from underlying print and logistics activity) plus a large US-based multinational corporation that began utilising SDL's Print on Demand and Jupiter platforms during the second half (revenue for this client is currently only for platform software and software support).

Financial Performance

International expansion has driven SDL's growth in revenue and earnings, the result of new contract wins as the Company progressively expanded its US business following the purchase of DTP during FY2018. The New Zealand business struggled for much of the year, given the ongoing structural decline in volumes, compounded by the COVID-19 lockdown, although more recently has begun to win modest new business.

Summary Financial Performance (all figures $000)	**FY2020**	**FY2019 Restated**	**Percentage Change**
Total Revenue	**34,030**	**25,176**	**35.2%**
Less: Cost of Goods Sold	20,571	16,682	23.3%
Gross Margin	**13,459**	**8,494**	**58.5%**
Gross Margin (%)	**39.6%**	**33.7%**	
Less: Selling, General & Admin (SG&A)	9,105	6,174	47.5%
EBITDA	**4,354**	**2,320**	**87.7%**
EBITDA margin (%)	**12.8%**	**9.2%**	
Depreciation	1,151	1,127	2.1%
Amortisation	330	347	-4.9%
EBIT	**2,883**	**846**	**239.6%**
Net Interest	92	198	-53.5%
Income Tax	915	122	650.0%
Net Profit after Tax	**1,866**	**526**	**254.8%**
Tax rate	32.9%	18.8%	

The FY2020 result requires adjustment to understand and better compare a normalised result, by allowing for two material one-off items during the year.

The first is a mark-to-market unrealised foreign exchange gain on currency hedges of $0.65 million (pre-tax). SDL has a range of foreign exchange hedges in place to manage currency exposures around revenues and costs in both US dollars and UK pounds. These unrealised hedge gains cover various maturities in the second half of calendar 2020 (i.e. they relate to SDL's FY2021 operations). While these hedges mature in FY2021, under NZ IFRS accounting standards a full mark-to-market of unrealised positions is required at 30 June balance date and any gain or loss included in the FY2020 result. This unrealised gain is included in the Company's reported revenue.

Secondly, SDL has been successful in the last 18 months in winning a range of new contracts internationally. A number of one-off incentives are now payable in relation to these contract wins and these total approximately $0.33 million (pre-tax). Approximately half of the payments relate to post-acquisition incentives. The cost of these incentives is recorded in the SG&A expense for the year.

The net gain to earnings (after tax) from these two items is $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.

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

SDL Half Financial Years (all figures $000. FY19 half years restated)	**2H FY2020**	**2H FY2019**	**Percent Change**	**1H FY2020**	**1H FY2019**	**Percent Change**
Total Revenue	**18,245**	**12,450**	**220.9%**	**15,785**	**12,726**	**92.4%**
EBITDA	2,938	1,265	133.5%	1,416	1,055	34.2%
EBITDA margin	16.1%	10.2%		9.0%	8.3%	
Tax rate	36.1%	2.7%		21.2%	44.9%	

Balance Sheet, Liquidity and Debt

SDL closed the year with net cash (i.e. cash net of interest bearing debt) on hand on $5.01 million (FY2019 $1.18 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 $1.5 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 FY2020.

Selected Balance Sheet and Cashflow Figures (all figures $000)	**FY2020**	**FY2019 Restated**	**Change**
Net Cash/(Debt & Borrowings)	5,012	1,182	3,830
Non-Current Assets	2,310	2,696	(386)
Right of Use Assets	1,406	2,360	(954)
Net Other Assets/(Liabilities)	(2,304)	54	(2,358)
Right of Use Liabilities	(1,531)	(2,502)	971
Net Assets	**4,893**	**3,790**	**1,103**
Cashflow from Trading	2,292	2,182	110
Movement in Working Capital	3,474	(880)	4,354
Cash Inflow from Operations	**5,766**	**1,302**	**4,464**
Cash dividends paid	**732**	**804**	**(72)**

The restated cashflow figures for FY2019 relate to the lease accounting change. Lease payments have been reclassified by removing them from Trading (or Operating) cashflows; they now appear as Financing cashflows (refer to Note 2.2.5 for details).

Capital expenditure for the year was modest at $0.19m, mainly for mail sorting equipment plus IT software and infrastructure.

The increase in net assets increased over the year to $4.89 million largely stemmed for improved profitability. This figure includes intangible assets of around $1.60 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 over three years from acquisition date.

SDL operates with a largely neutral working capital balance. This allows the Company to continue growing without particular requirement to fund additional working capital needs. However, as international expansion has occurred, especially from several large contracts, month-to-month and intra-month cash flow movements have become lumpier and the Directors are conscious of maintaining sufficient liquidity reserves to manage short-term fluctuations.

Taxation and Dividends

SDL pays full New Zealand tax on locally generated earnings. As a result of COVID-19, the UK business operated at a loss in the second half of the year; this is ring fenced to the UK for tax purposes. The Company's US business is now profitable. A range of new business growth during 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 down.

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

Earnings and Dividends per Share (all figures $000)	**FY2020**	**FY2019 Restated**	**Change**
Shares on Issue ('000)	14,640	14,640	0.0%
Reported Earnings per Share (cents)	**12.75**	**3.59**	**254.8%**
Dividend per Share (cents)	9.0	4.0	125%
Dividend Proportion Imputed	100.0%	100.0%	
Dividend Payout ratio	70.6%	111.3%	
Dividend Payout ratio on NPATA (Note a)	62.6%	75.5%	

(a) SDL's FY2019 agreement with NZTE for market development funding for North America limits the Company to a maximum dividend payout ratio of 75% of Net Profit after Tax plus Amortisation (NPATA).

The final dividend of 6.0 cents per share is fully imputed and will be paid on 21 October 2020 (expected ex-date of 8 October 2020).

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 two staff members in this plan with the right to a total of 160,000 shares. Historically, ESOP rights have only been provided to SDL's New Zealand staff. As the Company has expanded, with key staff now located internationally, further ESOP rights are expected to be allocated to certain international staff in FY2021.

Risk Factors

SDL expects the physical mail market will continue its volume decline trend, possibly exacerbated by COVID-19 increasing the emphasis towards electronic communications. This is likely to place additional pressure on the existing excess printing capacity in the New Zealand mail house sector. The Company's domestic business is likely to see increasing print margin pressure and higher risk of business loss as competitors marginally price in attempts to hold production volume levels. While the risk is partly mitigated by SDL'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. 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 but, these have been fruitless to date.

SDL's top five customers (both domestic and international) provided 49.8% of the Company's revenue in FY2020 with the largest customer accounting for 25.8% of revenue. Loss of one or more of those customers would cause financial results to differ materially from those outlined in the FY2021 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. SDL also regards IT and data security as a potential risk area and regularly reviews its IT and data security arrangements.

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 some backup capability with Fuji Xerox DMS.

The Company relies on 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 and SDL needs to ensure its software continues to adequately meet channel partner requirements. The Company has invested in a limited number of international sales staff in the UK and more recently in the US.

SDL also reiterates comments from the "Effects of COVID-19" section above. At this time, the Company sees ongoing underlying structural 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.

FY2021 Outlook

SDL has previously providing guidance for FY2021 reported net profit in the $2.0 to $2.5 million range. This excludes the pulled forward unrealised FY2021 foreign exchange hedge gains of around $0.65 million (pre-tax) that accounting standards have required the Company to mark-to-market at 30 June and bring into the FY2020 result.

Two key factors contribute to SDL's FY2021 outlook. On the positive side is the ongoing gain from customer wins over the last twelve months progressively moving onto SDL's software platforms. While there is always some onboarding risk along with uncertainty around how quickly these customers move to a fully annualised contribution, this is largely dependent on the Company ensuring it executes well operationally.

On the negative side, SDL has a number of customers whose operational expectations have been significantly lowered for FY2021 as a result of COVID-related disruptions. In some cases this is because economies are in some degree of government mandated lockdown (e.g. the UK) meaning certain sectors are suffering significantly restricted operations and not needing to engage in communications with their customers. In other cases, some of the Company's customers have suspended or significantly curtailed their operations, including communications, in higher risk countries such as developing markets.

While SDL expects continued growth in FY2021 – the Directors reiterate earnings guidance of $2.0 to $2.5 million – this is an expectation that has been lowered by drags from COVID noted in the prior paragraph. There is significant volatility possible – both upside and downside – in the range of possible outcomes for FY2021 and the causes are largely beyond the Company's control. The Directors are monitoring the world health and macroeconomic outlooks but hold the view that – subject to the Risk Factors section above – strong underlying international growth prospects are available for SDL's software platforms. Accordingly, SDL will continue to investment globally in both in sales channel development and customer support infrastructure to maintain growth momentum.

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Independent Auditor's Report

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 (the Group) on pages 19 to 56 which comprise the consolidated statement of financial position as at 30 June 2020, and the consolidated statement of profit or loss, consolidated statement of other 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 Solution Dynamics Limited (the Group) as at 30 June 2020 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 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 Solution Dynamics Limited and the entities it controlled 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
Carrying Value of Goodwill The Group has significant goodwill of $1,061,000 arising from historical acquisitions of businesses. Goodwill is allocated across its software cash generating units. Any risk of downturn in the macroeconomic environment could result in impairment of goodwill. The inherent uncertainty involved in forecasting and discounting future cash flows is one of the key judgement areas that our audit has focused on. The uncertainty is affected by a number of factors including general market trends, current environment and economic factors such as the COVID19 global pandemic, the number of new customers for technology solutions and expectation of future growth in demand for the software solutions, which form the basis for the assessment of recoverability.	In this area our audit procedures included an assessment of the Group's forecast and budgeting procedures as a 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 and tested the reasonableness of forecast assumptions. In addition, we performed our own assessments in relation to key inputs such as projected revenue growth, projected cost and overheads and discount rates. We based our work on work completed by our own valuation specialist who evaluated the key assumptions and methodologies used by the Group to derive a discount rate, when there have been changes to inputs, methodology or assumptions from the prior year. We also assessed whether the Group's disclosures about the sensitivity in key assumptions fairly reflected the risks inherent in the valuation of goodwill.

Accuracy of revenue The Group recognised revenue of $32.1 million (2019: $24.9 million) for the year ended 30 June 2020 comprising sale of goods and rendering of services under contract. The principal risk associated with commercial income relates to recognition and recoverability. There are a number of factors that could affect this balance including: • Delivery may not have occurred before year end which would allow the goods to be recorded as a sale in line with the revenue recognition policy. • 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 with customers. Revenue may include estimates and judgements that impact the amount of revenue recognised.	In this area our audit procedures included evaluating the Group's recognition of revenue by assessing the procedures and controls that the Group has in place and that 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 that the appropriate terms of the relevant contracts had been satisfied in line with contract performance obligations. Our audit work included assessing performance obligations of any significant projects or contracts including the delivery of the goods to ensure appropriate revenue recognition. For contracts recognised at a point in time we inspected a sample of delivery notes, invoices raised and cash receipts. 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.

Other Information

The directors are responsible for all other information included in the Group's Annual Report. The other information comprises 2020 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 consolidated 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 consolidated financial statements is located on the External Reporting Board’s website at https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

Restriction on use of our report

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

Grant Thornton New Zealand Audit Partnership

Grant Thornton

K T Price
Partner
Auckland

27 August 2020

Consolidated Statement of Profit or Loss

For the year ended 30 June 2020

	Note	2020 $000	Restated[(1)] 2019 $000
Revenue	4	32,140	24,879
Other income	4	1,890	297
Total revenue		**34,030**	**25,176**
Expenses	5	29,676	22,856
Earnings before interest, tax, depreciation & amortisation (EBITDA)		**4,354**	**2,320**
Depreciation	17	1,151	1,127
Amortisation of intangible assets (software)	19	330	347
Net interest (income)	7	92	198
Profit before income tax		2,781	648
Income tax	8	915	122
Net profit after income tax		**1,866**	**526**
		Cents	**Cents**
Basic earnings per share	9	12.7	3.6
Diluted earnings per share	9	12.6	3.6

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020

	2020 $000	Restated[(1)] 2019 $000
Net profit after income tax	1,866	526
Items that may be reclassified subsequently to profit and loss:		
Exchange gain on translation of foreign operations	(53)	(7)
Other comprehensive (loss) / income net of tax	**(53)**	**(7)**
Total comprehensive income for the year	**1,813**	**519**

Consolidated Statement of Financial Position

As at 30 June 2020

	Note	2020 $000	Restated[1] 2019 $000	Restated[1] 2018 $000
Current Assets				
Cash and cash equivalents	10	5,012	1,182	1,956
Trade & other receivables	12	4,838	3,300	2,902
Inventories and work in progress	11	267	359	183
Prepayments		200	128	131
Total Current Assets		**10,317**	**4,969**	**5,172**
Current Liabilities				
Trade creditors		2,511	1,708	1,871
Other current liabilities	13	4,131	1,094	838
Other non-financial liabilities	14	72	439	851
Deferred tax liability	8	229	8	24
Lease liability - current	16	802	802	745
Employee benefit liabilities	15	666	484	472
Total Current Liabilities		**8,411**	**4,535**	**4,801**
Working Capital		**1,906**	**434**	**371**
Non-Current Assets				
Capital works in progress		188	146	61
Property, plant & equipment	17	525	629	594
Right of use assets	18	1,406	2,360	3,245
Intangible assets	19	536	860	1,179
Goodwill	20	1,061	1,061	1,061
Total Non-Current Assets		**3,716**	**5,056**	**6,140**
Non-Current Liabilities				
Lease liability	16	729	1,700	2,500
Total Non-Current Liabilities		**729**	**1,700**	**2,500**
Net Assets		**4,893**	**3,790**	**4,011**
Equity				
Share capital	21	5,413	5,413	5,357
Employee share option plan	30	29	7	28
Foreign currency translation reserve		(68)	(15)	(8)
Accumulated losses	22	(481)	(1,615)	(1,366)
Total Equity		**4,893**	**3,790**	**4,011**

For and on behalf of the Board who approved these financial statements for issue on 27 August 2020.

John McMahon.

John McMahon – Director
(Chairman)

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

See accompanying notes to the accounts.
[1] Restated for the impact of adoption of NZ IFRS 16, see note 2.2.5

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

	Share Capital $000	Employee Share Plan $000	Currency Translation Reserve $000	Accumulated Losses $000	Total Equity $000
Balance 30 June 2018	5,357	28	(8)	(1,366)	4,011
Exercise of employee share options	56	(29)	-	29	56
Issue of shares to employees	-	8	-	-	8
Transactions with owners	**56**	**(21)**	**-**	**29**	**64**
Profit for the year after tax	-	-	-	526	526
Dividend paid	-	-	-	(804)	(804)
Other comprehensive (loss)	-	-	(7)	-	(7)
Total comprehensive income	**-**	**-**	**(7)**	**(278)**	**(285)**
Balance 30 June 2019 (Restated)	**5,413**	**7**	**(15)**	**(1,615)**	**3,790**
Exercise of employee share options	-	-	-	-	-
Issue of shares to employees	-	22	-	-	22
Transactions with owners	**-**	**22**	**-**	**-**	**22**
Profit for the year after tax	-	-	-	1,866	1,866
Dividend paid	-	-	-	(732)	(732)
Other comprehensive (loss)	-	-	(53)	-	(53)
Total comprehensive income	**-**	**-**	**(53)**	**1,134**	**1,081**
Balance 30 June 2020	**5,413**	**29**	**(68)**	**(481)**	**4,893**

The accompanying notes on pages 23 - 56 form part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

	Note	2020 $000	Restated[1] 2019 $000
Cash Flow from Operating Activities			
Cash was provided from:			
Receipts from sales		35,296	28,280
Other revenue		1,890	286
		37,186	**28,566**
Cash was applied to:			
Payments to suppliers		21,560	18,260
Payments to employees		8,730	7,759
GST paid to Inland Revenue		1,130	1,245
		31,420	**27,264**
Net Cash Inflow from Operating Activities	**24**	**5,766**	**1,302**
Cash Flow from Investing Activities			
Cash was applied to:			
Purchase of property, plant and equipment & capital works in progress		216	358
Purchase of software & intangible assets		6	28
		222	386
Net Cash Outflow from Investing Activities		**(222)**	**(386)**
Cash Flow from Financing Activities			
Cash was provided from:			
Exercise of employee share options		-	56
		-	**56**
Cash was applied to:			
Payment of dividends		732	804
Interest paid		124	172
Finance lease liabilities		858	770
		1,714	**1,746**
Net (Outflow) From Financing Activities		**(1,714)**	**(1,746)**
Net change in cash and cash equivalents		3,830	(774)
Add cash and cash equivalents held at beginning of year		1,182	1,956
Cash and cash equivalents at end of year	**10**	**5,012**	**1,182**

See accompanying notes to the accounts.
[1] Restated for the impact of adoption of NZ IFRS 16, see note 2.2.5

Notes to the Consolidated Financial Statements

For the year ended 30 June 2020

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 2020 were authorised for issue in accordance with a resolution of directors on 27 August 2020.

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.

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.

The Group adopted the standards detailed below from 1 July 2019. This has given rise to a requirement to restate comparative information.

2.2.5 NZ IFRS 16 - Leases

NZ IFRS 16 replaces NZ IAS 17 Leases along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Lease Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease') and removes the distinction between operating and finance leases for lessees. NZ IFRS 16 requires SDL to recognise most leases, where SDL is a lessee, on the statement of financial position. This has resulted in the recognition of 'right-of-use' assets and related lease liability balances. Rental payments for leases previously classified as operating leases – including property and plant & equipment leases – have moved from being included in operating expenses, to depreciation and finance expenses. The impact on net earnings before income tax of an individual lease over its term remains the same, however, the new standard results in a higher interest expense in the early years of a lease and lower in the later years, compared with the previous straight-line expense profile of an operating lease.

SDL has elected to transition to NZ IFRS 16 using the full retrospective method, subject to the following practical expedients and exemptions:

1. The recognition exemption for short-term leases (leases with a lease term of up to one year) and leases of low-value assets where appropriate. For these assets, SDL continued to account for the lease expense on a straight line basis over the remaining lease term; and
2. The practical expedient that states that an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. This practical expedient is applied to all of SDL's contracts entered into before the date of initial application.

The Group also has elected not to include the initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of NZ IFRS 16, being 1 July 2018. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability.

On transition to IFRS 16 the incremental borrowing rate applied to lease liabilities recognised under NZ IFRS 16 was 4.5% for property and 8.5% on plant & equipment.

The Group has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

A summary of the impact of the new standard on SDL's financial statements is included below.

Consolidated Statement of Profit or Loss

For the year ended 30 June 2019	Previously reported $000	Adoption of IFRS 16 $000	Restated $000
Total Revenue	**25,176**		**25,176**
Expenses	23,803	-947	22,856
Earnings before interest, tax, depreciation & amortisation (EBITDA)	**1,373**	**947**	**2,320**
Depreciation	238	889	1,127
Amortisation of intangible assets (software)	347		347
Net interest (income)	-4	202	198
Profit before income tax	**792**	**-144**	**648**
Income tax	122		122
Net profit after income tax	**670**	**-144**	**526**

Retrospective application of NZ IFRS 16

All comparative information in these financial statements has been prepared as if NZ IFRS 16 had been in effect since 1 July 2018. The accounting policies set out in the notes have been applied in preparing the financial statements for the year ended 30 June 2020, the comparative information presented in the financial statements for the year ended 30 June 2019 and for the opening statement of financial position as at 1 July 2018.

The impact of the adoption of NZ IFRS 16 on the statement of cash flows for the year ended 30 June 2019 is set out below:

Consolidated Statement of Cash Flows

	Previously reported 2019 $000	Adoption of IFRS 16 $000	Restated 2019 $000
Cash Flow from Operating Activities			
Cash was provided from:			
Receipts from sales	28,280	-	28,280
Other revenue	286	-	286
	28,566	**-**	**28,566**
Cash was applied to:			
Payments to suppliers	19,206	946	18,260
Payments to employees	7,759	-	7,759
GST paid to Inland Revenue	1,245	-	1,245
	28,210	946	27,264
Net Cash Inflow from Operating Activities	**356**	**946**	**1,302**
Net Cash Outflow from Investing Activities	**(386)**	**-**	**(386)**

Consolidated Statement of Cash Flows continued

	Previously reported 2019 $000	Adoption of IFRS 16 $000	Restated 2019 $000
Cash Flow from Financing Activities			
Cash was provided from:			
Exercise of employee share options	56	-	56
	56	**-**	**56**
Cash was applied to:			
Payment of dividends	804	-	804
Interest paid / (received)	(4)	(176)	172
Finance lease liabilities	-	(770)	770
	800	**(946)**	**1,746**
Net Cash (Outflow) from Financing Activities	**(744)**	**(946)**	**(1,690)**
Net change in cash and cash equivalents	(774)	-	(774)
Add cash and cash equivalents held at beginning of year	1,956	-	1,956
Cash and cash equivalents at end of year	**1,182**	**-**	**1,182**

Impact of adoption of NZ IFRS 16

The adoption of NZ IFRS 16 has had no net impact on SDL's statement of cash flows; however it has resulted in the reclassification of cash flows from lease arrangements. Payments for operating leases under NZ IAS 17 were included within 'payments to suppliers' in operating cash flows. Payments for leases are now split between payments for interest, and payments that reduce the principal balance of a lease liability, both included in financing cash flows.

The impact of the adoption of NZ IFRS 16 on the opening statement of financial position as at 1 July 2018 is set out below:

Statement of Financial Position

	As at 30 June 2018 $000	Adoption of NZ IFRS 16 $000	Restated 1 July $000
Total Current Assets	**5,172**	**-**	**5,172**
Current Liabilities			
Trade creditors	1,871	-	1,871
Other current liabilities	838	-	838
Other non-financial liabilities	851	-	851
Deferred tax liability	24	-	24
Lease liability right of use assets - current	-	745	745
Employee benefit liabilities	472	-	472
Total Current Liabilities	**4,056**	**745**	**4,801**

Statement of Financial Position continued

	As at 30 June 2018 $000	Adoption of NZ IFRS 16 $000	Restated 1 July $000
Working Capital	**1,116**	**(745)**	**371**
Non-Current Assets			
Capital works in progress	61	-	61
Property, plant & equipment	594	-	594
Right of use assets	-	3,245	3,245
Intangible assets	1,179	-	1,179
Goodwill	1,061	-	1,061
Total Non-Current Assets	**2,895**	**3,245**	**6,140**
Non-Current Liabilities			
Lease liability	-	2,500	2,500
Total Non-Current Liabilities	**-**	**2,500**	**2,500**
Net Assets	**4,011**	**-**	**4,011**
Total Equity	**4,011**	**-**	**4,011**

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.

2.4.2 Interest Revenue

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

2.4.3 Government Grants

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

2.5 Leases

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

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

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

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

Measurement and recognition of leases as a lessee

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

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

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

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

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

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

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

2.6 Employment Benefits

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

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

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

2.7 Share-based Payments

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

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

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

2.8 Taxation

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

2.8.1 Current Tax

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

2.8.2 Deferred Tax

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

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

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

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

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

2.8.3 Current and Deferred Tax for Each Reporting Period

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

2.9 Goods and Services Tax (GST)

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

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

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

2.10 Property, Plant and Equipment

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

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

The principal depreciation rates used in the reporting periods are:

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

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

2.11 Intangible Assets

2.11.1 Intangible Assets Acquired with a Finite Life

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

2.11.2 Internally Generated Intangible Assets with a Finite Life

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

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

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

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

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

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

2.11.3 Subsequent Measurement

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

- Software 3-5 years.

2.11.4 Intangible Assets Acquired in Business Combination

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

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

- Customer contracts 3–4 years.

2.12 Goodwill

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

2.13 Impairment of Assets

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

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

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

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

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

2.14 Cash and Cash Equivalents

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

2.15 Inventories

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

2.16 Financial Instruments

2.16.1 Recognition and Derecognition

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

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

2.16.2 Classification and Initial Measurement of Financial Assets

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

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

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

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

The classification is determined by both:

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

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

2.16.3 Subsequent Measurement of Financial Assets

Financial assets at amortised cost

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

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

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds 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'. This replaced NZ IAS 39's 'incurred loss 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.

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 standards and interpretations to existing standards had been published by the IASB and XRB. None of these Standards or 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 (2019: $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 2020, and forecast sales based on assessments of the current market opportunities through existing distribution channels net of forecast costs, through to the end of 2025, at a post-tax discount rate of 10.2% (2019: 10.2%). Cash flows beyond 2025 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% (2019: 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 (2019: $123,000). This has similarly been tested for impairment through a review of revenue and earnings forecasts for the financial year ended 30 June 2020. Refer to note 20 for Directors judgements and estimates.

3.2 Right-of-use assets

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

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

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

In assessing the lease liability an incremental borrowing rate is applied to lease liabilities recognised under NZ IFRS 16. This is 4.5% for property and 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

	2020 $000	2019 $000
Revenue recognised over time	30,651	23,204
Revenue recognised at a point in time	1,489	1,675
Revenue	**32,140**	**24,879**
Government grant revenue	534	265
Gain on foreign exchange – realised	708	21
Gain on foreign exchange - unrealised	648	-
Rent	-	11
Other Income	**1,890**	**297**

5. EXPENSES

	Note	2020 $000	2019 $000
Acquisition related costs		-	(283)
Auditor's remuneration	6	67	57
Bad debts		27	22
Freight, postage & external print		6,179	10,090
Directors remuneration - directors fees	29	570	477
Research & development		1,077	681
Salaries		7,621	6,240
Superannuation (KiwiSaver)		321	273
Employee entitlements – share based payments		22	9
Donations		1	1
Other expenses		13,791	5,289
Total Operating Expenses		**29,676**	**22,856**

6. AUDITOR'S REMUNERATION

	2020 $000	2019 $000
Audit fees – statutory audit	67	57
Tax compliance and advisory services	32	13
Total auditors' remuneration	**99**	**70**

7. INTEREST

	2020 $000	2019 $000
Interest on financing of right of use assets	92	198
Net interest paid	**92**	**198**

8. INCOME TAX EXPENSE

8.1 Current Tax

	2020 $000	2019 $000
Income tax expense comprises:		
Current tax expense	1,136	138
Deferred tax expense relating to the origination and reversal of temporary differences	221	(16)
Total tax expense	**915**	**122**

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

Net profit before income tax	2,781	648
Income tax at company tax rate [1]	778	181
Permanent differences	14	(60)
Under / over provision in prior years	(31)	(22)
Benefit of tax losses not recognised	103	-
Other	60	26
Utilisation of previously unrecognised tax losses	(9)	(3)
Income tax expense	**915**	**122**

[1] The Group tax rate of 28% (2019: 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 2020 there are imputation credits available of $713,000 (2019: $770,000) for use in subsequent reporting periods.

8.2 Deferred Tax Liability

	2020 $000	2019 $000
Temporary differences		
Depreciable and amortisable assets	192	130
Accruals and provisions	37	(122)
Deferred tax recognised	**229**	**8**

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.

	2020 $000	2019 $000
Deferred tax liability movement		
Balance at beginning of period	8	24
Current year movement through profit or loss	221	(16)
Balance at end of period	**229**	**8**

9. EARNINGS PER SHARE (EPS)

	2020 $000	2019 $000
Net profit for the year attributable to ordinary shareholders	**1,866**	**526**

Basic

Weighted average number of ordinary shares (000's)	14,640	14,586
	Cents	**Cents**
Basic earnings per share	12.7	3.6

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.

Diluted

Weighted average number of ordinary shares (000's)	14,640	14,600
Adjustment for share options	160	160
Weighted average	14,800	14,760
	Cents	**Cents**
Diluted earnings per share	12.7	3.6

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

	2020 $000	2019 $000
Cash and cash equivalents	5,012	1,182
Total	**5,012**	**1,182**

Solution Dynamics has an overdraft facility in place with the ANZ Bank at an interest rate of 6.95% p.a. (2019: 8.1%). 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 (2019: $200,000). The Group now holds a net cash position with no bank debt (2019: $Nil).

At the end of the reporting period the Bank provided commercial guarantees totalling $65,000 (2019: $65,000) to the Group's suppliers.

11. INVENTORIES AND WORK IN PROGRESS

	2020 $000	2019 $000
Work in Progress	190	278
Inventory	77	81
Total Inventories and Work in Progress	**267**	**359**

12. TRADE & OTHER RECEIVABLES

	2020 $000	2019 $000
Trade receivables	3,666	3,055
Credit loss allowance	(40)	(22)
	3,626	3,033
Allowance for credit notes	(6)	(7)
Total trade receivables	3,620	3,026
Forward foreign exchange contract receivable	648	-
Sundry debtors	570	274
Total Trade & Other Receivables	**4,838**	**3,300**

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 $718,000 (2019: $374,000) for which an allowance of $40,246 (2019: $21,795) was made. There has not been a significant change in credit quality therefore the amounts are considered recoverable. The Group does not hold any collateral over these balances.

	2020 $000	2019 $000
30 – 60 days	278	206
60 – 90 days	258	54
90 – 120 days	182	114
Total overdue trade receivables	**718**	**374**

Movement in allowance for credit losses

	2020 $000	2019 $000
Balance at the beginning of the reporting period	22	-
Accounts written off as uncollectable	18	22
Total allowance for credit losses	**40**	**22**

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 26% (2019: 13%) of the gross trade receivable balance, of which all was current. 88% of the outstanding balance is less than 60 days old (2019: 95%). 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 (2019: $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 2020 the Group held forward foreign exchange contracts maturing in the next 90-180 days selling USD3.73 million and purchasing GBP and NZD.

13. OTHER CURRENT LIABILITIES

	2020 $000	2019 $000
Sundry creditors	1,062	465
Payroll accruals	682	57
Provision for tax	672	(134)
Provision for deferred income	1,654	593
Provision for earnout	-	52
Audit fees accrued	61	61
Total Other Current Liabilities	**4,131**	**1,094**

14. OTHER NON-FINANCIAL LIABILITIES

	2020 $000	2019 $000
PAYE	162	134
GST	(90)	305
Total Non-Financial Liabilities	**72**	**439**

15. EMPLOYEE BENEFIT LIABILITIES

	2020 $000	2019 $000
Provision for sick pay	2	4
Provision for long service leave	114	96
Provision for holiday pay	550	384
Total Employee Benefit Liabilities	**666**	**484**

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%.

16. LEASES

	2020 $000	2019 $000
Current	802	802
Non-current	729	1,700
	1,531	**2,502**

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 and the UK. 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	4	1 – 3 years	2-years
Plant & equipment	2	0 – 3 years	1-year

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 2020 were as follows:

Right of use (ROU) assets	**Within 1 Year $000**	**1 - 2 years $000**	**2 - 5 years $000**	**After 5 years $000**	**Total $000**
30 June 2020					
Lease payments	802	650	160	-	1,612
Finance charges	41	31	9	-	81
Net present values	**761**	**619**	**151**	**-**	**1,531**
30 June 2019					
Lease payments	1,036	857	846	-	2,739
Finance charges	57	79	101	-	237
Net present values	**979**	**778**	**745**	**-**	**2,502**

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

At 30 June 2020 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
Cost				
Balance 1 July 2018	2,324	151	619	3,094
Additions	240	6	27	273
Disposals -	-	-	-	
Balance 30 June 2019	2,564	157	646	3,367
Additions	165	2	12	179
Disposals	-	-	-	-
Balance 30 June 2020	**2,729**	**159**	**658**	**3,546**
Accumulated depreciation				
Balance 1 July 2018	1,975	139	386	2,500
Depreciation expense	161	4	73	238
Disposals	-	-	-	-
Balance 30 June 2019	2,136	143	459	2,738
Depreciation expense	200	4	79	283
Disposals -	-	-	-	
Balance 30 June 2020	**2,336**	**147**	**538**	**3,021**
Carrying amount				
Balance 1 July 2018	349	12	233	594
Balance 30 June 2019	428	14	187	629
Balance 30 June 2020	**393**	**12**	**120**	**525**

18. RIGHT OF USE ASSETS

	Right of Use Assets Property $000	Right of Use Assets Plant $000	Total $000
Cost			
Balance 1 July 2018	2,438	807	3,245
Balance 30 June 2019	2,438	807	3,245
Balance 30 June 2020	**2,438**	**807**	**3,245**
Accumulated depreciation			
Balance 1 July 2018	-	-	-
Depreciation expense	582	303	885
Balance 30 June 2019	582	303	885

	Right of Use Assets Property $000	Right of Use Assets Plant $000	Total $000
Depreciation expense	651	303	954
Balance 30 June 2020	**1,233**	**606**	**1,839**
Carrying amount			
Balance 1 July 2018	2,438	807	3,245
Balance 30 June 2019	1,856	504	2,360
Balance 30 June 2020	**1,205**	**201**	**1,406**

19. IDENTIFIABLE INTANGIBLES, FINITE LIFE

	Software - Dejar $000	Software - Bremy $000	Software $000	Customer Contracts $000	Total $000
Cost					
Balance 1 July 2018	2,090	110	1,704	441	4,345
Transfers	-	-	-	-	-
Additions - purchased	-	-	28	-	28
Balance 30 June 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**
Accumulated amortisation					
Balance 1 July 2018	2,090	110	940	26	3,166
Transfers	-	-	-	-	-
Amortisation expense	-	-	224	123	347
Balance 30 June 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**
Carrying amount					
Balance 1 July 2018	-	-	764	415	1,179
Balance 30 June 2019	-	-	568	292	860
Balance 30 June 2020	**-**	**-**	**367**	**169**	**536**

[i] Déjar software (intellectual property) includes software costs of $1,400,000 purchased from Efactor and Déjar Holdings.
[ii] Addition as acquired through business combinations arose from the Scantech and DTP acquisitions.

20. GOODWILL

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

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

No accumulated impairment losses have been recognised against the goodwill.

The carrying value of goodwill relating to the Déjar and Bremy acquisitions is tested on an annual basis through assessment of the value-in-use of the SDL Software cash generating unit. The cash flows used in the value-in-use calculations are based firstly on the management budget for the 2021 year followed by management forecasts over a further four-year period. Cash flows after 2025 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 2022-2025 forecast period because it reflects inflation. Growth above inflation has not been projected due to there being uncertainty around this.

The pre-tax discount rate used in the impairment calculation is 13.2% (2019: 13.8%). The equivalent post-tax nominal rate for the forecast cash flows is 10.2% (2019: 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 (2019: $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 2021 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 2020, 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 $4,874,000 (2019: $7,200,000).

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

	2020 $000	2019 $000
Ordinary Shares		
Balance at beginning of year	5,413	5,357
Exercise of employee share options	-	56
Share Capital at End of Year	**5,413**	**5,413**

The Company had 14,639,810 (2019: 14,639,810) ordinary shares on issue as at 30 June 2020. 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

	2020 $000	2019 $000
Balance at beginning of reporting period	(1,615)	(1,366)
Net operating profit after income tax	1,866	526
Exercise of employee share options	-	29
Payment of dividends	(732)	(804)
Accumulated Losses at end of reporting period	**(481)**	**(1,615)**

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:

	2020 $000	2019 $000
$100,000 to $109,999	5	3
$110,000 to $119,999	4	1
$120,000 to $129,999	-	2
$130,000 to $139,999	1	-
$140,000 to $149,999	-	1
$150,000 to $159,999	1	2
$160,000 to $169,999	1	1
$170,000 to $179,999	2	-
$180,000 to $189,999	3	2
$200,000 to $209,999	2	-
$250,000 to $259,999	-	1
$260,000 to $269,999	1	-
$270,000 to $279,999	1	-
$340,000 to $349,999	1	-
$390,000 to $399,999	-	1
$430,000 to $439,999	1	-
Total staff with remuneration exceeding $100,000	**23**	**14**

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

	2020 $000	2019 $000
Net profit / (loss) after income tax	1,866	526
Adjustments:		
Depreciation and amortisation of assets	1,481	1,474
(Gain) on foreign exchange	(1,356)	(21)
Bad and doubtful debts	19	21
Interest expense (reclassified as financing activity)	92	197
Other non-cash items	190	(15)
Cash flow from trading	**2,292**	**2,182**

	2020 $000	2019 $000
Add movements in working capital:		
(Increase) in trade & other receivables	(1,541)	(419)
Decrease / (Increase) in inventories and work in progress	143	(176)
(Increase) / decrease in prepayments	(139)	3
Increase in other current liabilities	3,769	36
(Decrease) in other non-financial liabilities	(368)	(4)
Increase / (decrease) in trade creditors	803	(165)
Increase / (decrease) in employee benefit liabilities	807	(155)
	3,474	(880)
Net Cash Flows from Operating Activities	**5,766**	**1,302**

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

	2020 $000	%	2019 $000	%
Software & Technology	22,012	65%	8,345	33%
Digital Printing & Document Handling Services	4,568	13%	5,561	22%
Outsourced services	7,450	22%	11,270	45%
Total revenue	**34,030**	**100%**	**25,176**	**100%**
Less cost of sales	20,571	60%	16,682	66%
Gross margin	13,459	40%	8,494	34%
Selling, general & administration	9,105	27%	6,174	25%
Earnings before interest, tax,depreciation & amortisation	**4,354**	**13%**	**2,320**	**9%**
Less:				
Depreciation	1,151	4%	1,127	4%
Amortisation	330	1%	347	2%
Interest	92	0%	198	1%
Tax	915	2%	122	0%
Operating profit	**1,866**	**6%**	**526**	**2%**

Segment Assets

Assets are not segmented between service streams.

Information about Major Customers

Included in revenues for the Group of $34.03 million (2019: $25.2 million) are revenues of $8.28 million (2019: $3.15 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	
	2020 $000	2019 $000	2020 $000	2019 $000
New Zealand	16,687	16,493	3,613	4,921
Australia	484	519	-	-
United States of America	12,625	3,033	50	76
Europe	4,234	5,131	53	59
Total	**34,030**	**25,176**	**3,716**	**5,056**

26. CONTINGENT LIABILITIES

There were no contingent liabilities at reporting date for the Group (2019: $Nil).

27. CAPITAL COMMITMENTS

The Group had no capital commitments at the reporting date (2019: $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

	2020 $000 Financial Assets & liabilities at amortised cost	2019 $000 Financial Assets & liabilities at amortised cost
Assets		
Cash & cash equivalents (Note 10)	5,012	1,182
Trade & other receivables (Note 12)	4,838	3,300
Total Financial Assets	**9,850**	**4,482**
Total non-financial assets	4,183	5,543
Total Assets	**14,033**	**10,025**

	2020 $000 Financial Assets & liabilities at amortised cost	2019 $000 Financial Assets & liabilities at amortised cost
Finance Liabilities		
Trade creditors	2,511	1,708
Other current liabilities (Note 13)	4,131	1,094
Total Financial Liabilities	**6,642**	**2,802**
Lease liability - right of use assets	1,531	2,502
Total non-financial liabilities	967	931
Total Liabilities	**9,140**	**6,235**

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)
2020							
Non-interest bearing	n/a	3,791	2,098	753	-	6,642	6,642
		3,791	**2,098**	**753**	**-**	**6,642**	**6,642**
2019							
Non-interest bearing	n/a	1,946	933	(79)	-	2,800	2,775
		1,946	**933**	**(79)**	**-**	**2,800**	**2,775**

28.4 Interest Rates

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

	2020	2019
Financial Liabilities:		
Finance facility (overdraft rate)	6.95%	8.1%

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 2020 of total trade receivables of $3,666,000 (2019: $3,055,000) a total of $2,085,000 (2019: $1,384,000) was in foreign currencies. $235,000 (2019: $1,076,000) of the foreign currency receivables were denominated in European currencies, $1,761,000 (2019: $177,000) in US $ with the remainder of the balance in AUD $.

In addition to the trade receivables of $2,085,000 (2019: $1,384,000) held in foreign currencies at the end of the reporting period, a further $4,143,000 (2019: $700,000) in cash was also held in foreign currencies, a total of $6,228,000 (2019: $2,084,000). Adjusted for offsetting payables balances of $3,976,000 (2019: 1,243,000), a movement in the exchange rate of 10% would give rise to an exchange fluctuation of $225,000 (2019: $78,700).

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$153,000 (2019: NZ$225,000) with cash and receivable balances as noted above.

At 30 June 2020, the reporting date forward exchange contracts were held to sell USD totalling NZ$5,785,000 (2019: $Nil), on which an unrealised gain of $648,000 is recognised at the reporting date. The forward exchange contracts are for the purchase of NZD and GBP. A movement in the exchange rate of 10% would give rise to a fluctuation of $578,000 on these contracts.

The realised foreign exchange gains disclosed in Note 4 relate to USD forward exchange contracts to purchase NZD and GBP totalling USD$5,500,000 closed between April and June end on trade and other receivables through the 12-months ending 30 June 2020.

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 2020 the interest rate on the overdraft facility was 6.95% (2019: 8.1%). With a net cash position of $5.01 million (2019: $1.18 million) at the end of the reporting period a material change in the interest expense is not expected.

28.8 Capital Management

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

Earnings in the Group has improved on the prior year. The Group is in a net cash position of $5.01 million (2019: $1.18 million) and a net cash inflow from operations of $5.77 million (2019: $0.36 million). There was an operating profit of $1.87 million in the current year (2019: $0.53 million). A material improvement in financial performance is forecast for the 2021 year. The Group has no externally imposed covenants to manage, the only debt on the balance sheet relates to right of use assets.

	2020 $000	**2019 $000**
Borrowings – Liability right of use assets	(2,208)	(3,162)
Cash & Finance facility (Note 10)	5,012	1,182
Net cash (debt)	**2,804**	**(1,980)**
Equity (all capital and reserves)	4,893	3,790
Net (cash) debt to equity ratio	(57%)	52%

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 2019 to 30 June 2020 were as follows:

- Key management were paid $1,485,985 (as employees of Solution Dynamics Limited or its subsidiaries and including the calculated benefit of the employee share option plan) during the reporting period (2019: $711,903) and were owed $150,918, including annual leave, at 30 June 2020 (2019: $48,022).

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

	2020 $000	2019 $000
John McMahon (Chairman)	55	45
Nelson Siva (CEO)	342	374
Julian Beavis	36	25
Elmar Toime	60	25
Lee Eglinton	36	4
Andy Preece (Chairman Audit & Risk Management Committee)	41	4
Total Directors' Remuneration	**570**	**477**

One of SDL's directors, Mr Elmar Toime, has significant experience in the global mail and logistics markets (former CEO of NZ Post, former Deputy executive Chair of Royal Mail Group, was a Supervisory Board member of Deutsche Post DHL, and is a non-executive director of Qatar Post). He is providing 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 provided on normal commercial terms and totalled $24,000 during the year.

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 80,000 share options was approved to another key member of the Company's IT team in September 2019 (with an exercise price of $1.65).

	2020 Number of shares '000	2019 Number of Shares '000
Unvested shares at 1 July	160	80
Granted	80	160
Lapsed (on resignation of staff member)	(80)	-
Vested	-	(80)
Unvested shares at 30 June	**160**	**160**
Percentage of total ordinary shares	0.5%	0.5%

The fair value of the options granted during the reporting period was $50,445 (2019: $Nil). 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
September 2019	80,000	$1.65	$1.65	March 2024	$70,160

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%.

31. SHAREHOLDERS AND SUBSTANTIAL SECURITY HOLDERS

31.1 The 20 largest shareholders as at 31 July 2020 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)	7.92%	1,160,000
New Zealand Permanent Trustees Limited - NZCSD (NZPT43)	7.27%	1,064,486
Indrajit Nelson Sivasubramaniam & Tracey Lee Sivasubramaniam & Comac Trustees Limited	6.08%	890,000
Custodial Services Limited (A/C 4)	5.04%	737,138
Michael Charles Hare	4.82%	705,000
Accident Compensation Corporation - NZCSD (ACCI40)	4.77%	698,238
Colin Glenn Giffney	3.55%	520,000
Kirsten Roberts	2.97%	434,923
Stephen Christopher Montgomery	2.73%	400,000
Deirdre Elizabeth Tallott	2.46%	359,444
Jillian Bernadette Winstanley	2.22%	325,000
Roger Dixon Armstrong	2.06%	301,665
FNZ Custodians Limited (DRP NZ A/C)	2.05%	299,793
Investment Custodial Services Limited (990025995)	1.92%	280,881
Christopher Veale & Penny Veale	1.81%	265,704
Custodial Services Limited (A/C 3)	1.73%	253,785
Don Nominees Limited	1.60%	234,944
Custodial Services Limited (A/C 18)	1.25%	182,595
Investment Custodial Services Limited (990027046)	1.23%	180,000
Grand Total	**74.42%**	**10,894,254**

A total of 14,639,810 shares were on issue (2019: 14,639,810).

31.2 Size of Shareholding as at 22 July 2020

Holdings	Shareholders	Shares Held	% Of Total
1-999	90	18,418	0.13%
1,000-4,999	77	150,492	1.03%
5,000-9,999	38	240,317	1.64%
10,000-49,999	56	1,039,058	7.10%
50,000-99,999	17	1,181,338	8.07%
100,000 and over	29	12,010,187	82.04%
Total	**307**	**14,639,810**	**100.0%**

31.3 Substantial Security Holders

According to notices given under the Financial Markets Conduct Act 2013, the following persons were substantial shareholders in Solution Dynamics Limited as at 31 July 2020:

Shareholder	% Of Total	Shares
Meta Capital Limited (John McMahon)	10.93%	1,600,658
New Zealand Permanent Trustees Limited (The Aspiring Fund)	7.27%	1,064,486
Philip Hadfield Hardie Boys (P & K Hardie Boys Family A/C)	7.92%	1,160,000
Indrajit Nelson Sivasubramaniam & Tracey Lee Sivasubramaniam	6.08%	890,000
Michael Charles Hare (& others)	5.05%	740,000

32. COVID-19

The key outcome of COVID-19 has been SDL's success to date in ensuring its staff remained safe, after strict health monitoring and effective work practices were put in place early and rigorously adhered to. The use of segregated teams, health monitoring, and controlled facility access helped ensure no SDL staff member has been infected by COVID-19. These measures are expected to remain in place for an extended period or until a vaccine is available. A range of SDL's clients are essential services businesses and consequently the Company continued partial onsite production operations throughout the New Zealand lockdown. The Company's non-production employees were able to work successfully from home, including SDL's international staff. 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.

SDL has seen several financial effects from COVID which are estimated to have had an aggregate moderately negative impact on the FY2020 result.

Given some of SDL's customers were essential services, revenue during the New Zealand lockdown period only declined by around 15%, a better result than had initially been anticipated, but nevertheless causing a drag on New Zealand profitability over a three-month period. SDL claimed the New Zealand government's wage subsidy on the basis that revised budgets at the start of lockdown suggested revenue would decline by slightly more than 30%, however, when this did not eventuate, the wage subsidy was returned.

SDL's UK volumes were materially affected as large parts of that economy slowed significantly during lockdown, including one large client whose activity declined around 85%. The UK economy has been slow to recover and, at the time of this report has only seen a slight uplift in activity as the government there is attempting to slowly normalise activity. The UK lockdown and economic slowdown tipped SDL's UK business into loss for the half and this has distorted the Company's overall tax rate upwards as that loss is ring fenced for tax purposes so is not able to offset profits in other jurisdictions.

Some costs savings were made, with travel reducing to near zero and several months of rent relief at SDL's Albany premises. However, these were insufficient to offset the decline in gross margin from lower revenues.

31. EVENTS AFTER THE REPORTING DATE

On 27 August 2020, the directors approved the payment of a fully imputed dividend of 6.00 cents per share amounting to $878,000 to be paid on 21 October 2020 (2019: The directors approved the payment of a fully imputed dividend of 2.00 cents per share, amounting to $293,000).

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 Best Practice Code issued on May 2017. The information in this report is current as at 27 August 2020 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.

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).

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 is 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.

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. 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 2020 and transactions in relevant interests in shares during the financial year ended 30 June 2020.

Shareholder	Balance 30 June 2019	Additions	Disposals	Balance 30 June 2020
John McMahon	1,545,658	55,000	-	1,600,658
Nelson Siva	970,000	-	80,000	890,000
Andy Preece	0	53,000	0	53,000
Lee Eglinton	0	18,000	0	18,000

Entries in the Interests Register

In addition to the interests and related party transactions disclosures in Note 29 and the Director remuneration disclosed under principle 5 below, the following interests were disclosed to the Board and noted in the interests register during the financial year ended 30 June 2020:

- 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 2020 was $21,250 (2019 - $21,300).

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 2020 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 27 August 2020 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 based on the value they bring to the Board.

In order for a Director to be independent, the Board has determined that he or she must not be an executive of SDL and must have no 'Disqualifying Relationships'. In this regard, the Board follows the requirements of the NZX Listing Rules (and NZX guidance on the application of those requirements). Information on each director can be found at http://www.solutiondynamics.com/our-team/. Director's interests are disclosed in Note 29 of the 2020 Annual Report.

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

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

Diversity

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

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

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

As at 30 June 2020, the gender balance of SDL's directors and people was as follows:

	30 June 2020	30 June 2019
Directors		
Females	1	1
Males	5	5
Management Team		
Females	-	-
Males	7	9
All Employees		
Females	34	32
Males	50	53

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 2019 to 30 June 2020 attendance at Board and Committee meetings was:

	Board Meetings (1)		Audit & Risk Management (2)	
	Held	**Attended**	**Held**	**Attended**
John McMahon (Chairman)	11	11	3	2
Julian Beavis	11	10	n/a	n/a
Nelson Siva (CEO)	11	11	n/a	n/a
Elmar Toime	11	11	n/a	n/a
Andy Preece (appointed 2 May 2019)	11	11	3	3
Lee Eglinton (appointed 29 May 2019)	11	10	3	2

(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.

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 2020 financial year.

A written charter outlines the Audit and Risk Committee's delegated authority, duties, responsibilities and relationship with the Board. The Charter is available on the Company's website at: http://www.solutiondynamics.com/wp-content/uploads/2019/05/Audit_Risk_Charter.pdf

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

Members as at 30 June 2020 were Andy Preece (Chairman), Lee Eglinton and John McMahon. It met three times during the financial year.

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

Takeovers

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

PRINCIPLE 4 –REPORTING & DISCLOSURE

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

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

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

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

Financial Statements

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

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

For the financial year ended 30 June 2020, 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 2020 financial year are set out in Note 29 of the annual report.

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

Directors' Remuneration

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

Directors are paid on a per director rate as follows,

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

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

Executives' Remuneration

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

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

Details of the SDL Share Option Plan are detailed in Note 30 to the 2020 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	247
Incentive based on earnings performance (1)	185
Total on target earnings	**432**

[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 at: http://www.solutiondynamics.com/wp-content/uploads/2020/05/Audit_Risk_Charter.pdf

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

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

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

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

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

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

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

Health and Safety

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

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

PRINCIPLE 7 –AUDITORS

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

The Board's approach to the appointment and oversight of the external auditor are outlined in SDL's Audit and Risk Committee Charter, which can be found at: 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 2020, Grant Thornton continued in their appointment as the external auditor for SDL. Grant Thornton has occupied that role since 2009. The last audit partner rotation was in 2016.

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

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

Grant Thornton attends the Annual Meeting, and the lead audit partner is available to answer questions from shareholders at that meeting. In this capacity, Grant Thornton attended the 2019 annual meeting.

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

PRINCIPLE 8 – SHAREHOLDER RIGHTS & RELATIONS

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

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

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

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

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

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

Company Directory

Nature of Business

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

Directors

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

Auditors

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

Bankers

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

Legal Representative

Stephen Layburn
Commercial Barrister
Level 3, 175 Queen Street
AUCKLAND

Share Registry

Computershare Investor Services
Level 2, 159 Hurstmere Rd
Takapuna
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