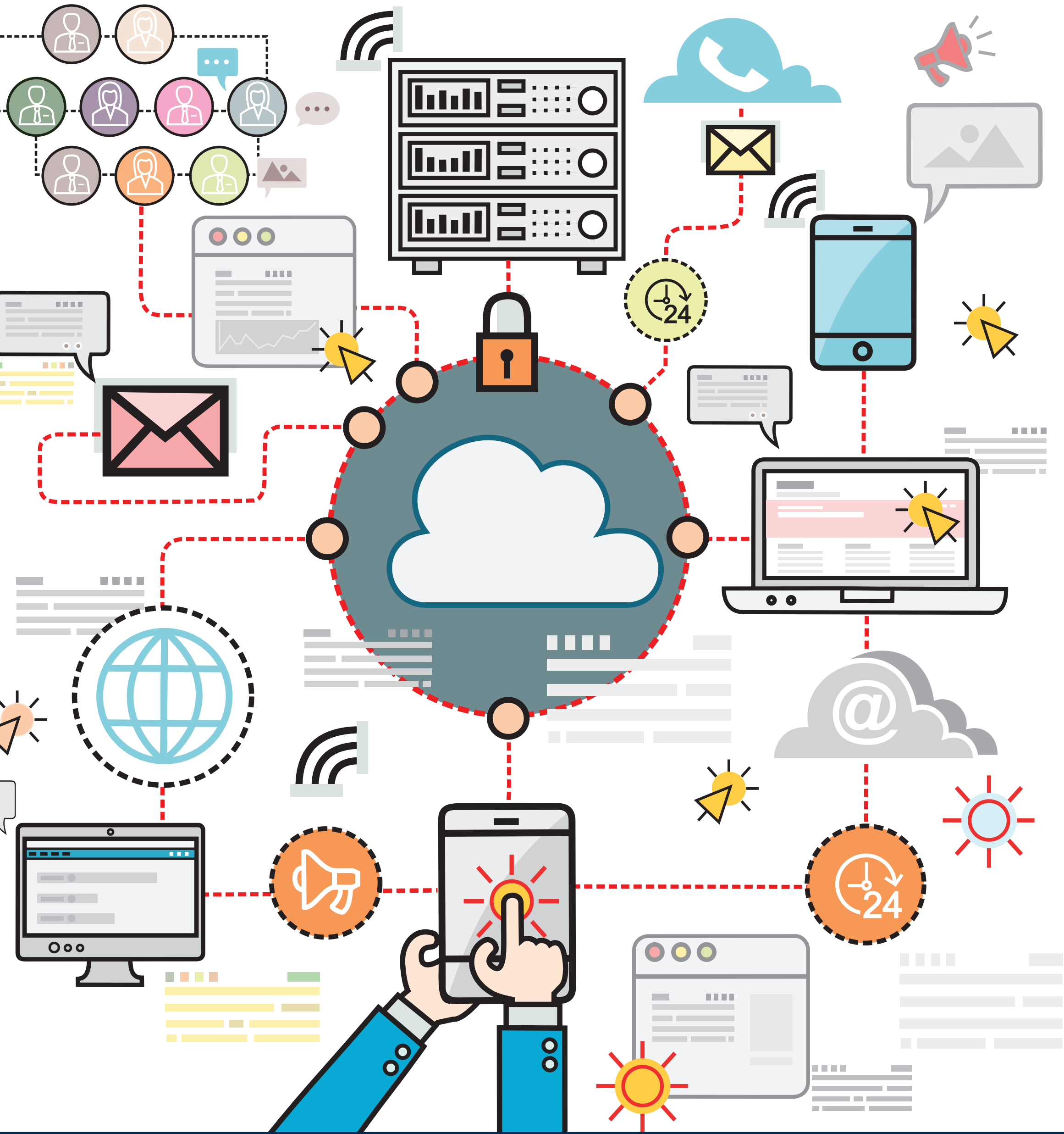
Simplifying Business



Solution Dynamics

Annual Report 2018

ANNUAL SHAREHOLDERS MEETING

will be held at

10.30am

Wednesday 24 October 2018

in the

Jupiter Meeting Room

Solution Dynamics Limited

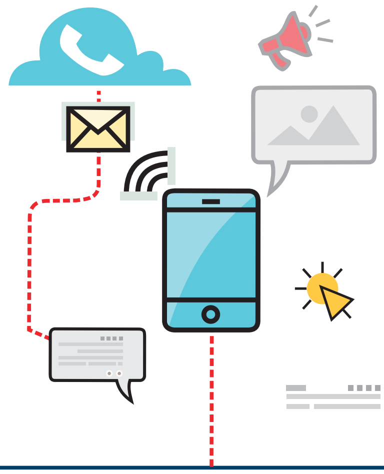
18 Canaveral Drive

Albany

Auckland

2018 KEY POINTS

- Net Profit after Tax up 1.7% to $1.33 million
  - up 18.8% adjusted for impact of acquisitions
- Dividend per share of 7.5 cents (prior year 6.75 cents)
- Revenue up 13.7% to $22.7 million
- European revenue up 33.9% to $4.0 million
- EBITDA up 8.9% to $2.27 million
  - up 17.2% adjusted for impact of acquisitions
- Cash from operations flat at $1.62 million
- Net cash on hand down 6.0% to $1.96 million
- Two acquisitions late in the financial year
- Entered international Hybrid Mail market and established presence in USA



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MANAGEMENT DISCUSSION AND ANALYSIS

FY2018 Result Overview

Solution Dynamics Limited ("SDL" or "Company") has produced an audited net profit after tax of $1.332 million for FY2018 (growth of 1.7%). This profit includes costs and losses from acquisitions made late in the financial year, which acted as a significant drag on the Company's profit. A like-for-like comparison (backing out the loss effect from acquisitions) against the prior year saw pleasing growth in net profit after tax of 18.8%. Highlights of the result are:

- revenue growth of 13.7% to $22.7 million, with revenue from the UK and Europe up $1.0 million or 33.9% to $4.0 million
- EBITDA growth of 8.9% to $2.27 million (growth was 17.1% to $2.44 million excluding the effects of acquisition costs and losses)
- net cash on hand at 30 June balance date was $1.96 million
- the Directors have declared a final, fully imputed dividend of 3.50 cents per share (FY2017: 3.25 cents), taking the total dividend for FY2017 to 7.50 cents per share (FY2017: 6.75 cents), an increase of 11.1%

In late FY2018, SDL acquired Auckland-based Scantech (scanning and scanning/workflow software) and US-based DigitalToPrint, Inc. ("DTP"), which provides of a globally distributed print and mail solution.

Business Overview

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

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

Services includes digital print and mail house processing for mail items such as invoices, statements and 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 service revenues. This service differs from traditional printing in that each document printed is typically personalised and unique. The revenue for Scantech is primarily included in Services (document handling services), although 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 related to a) multi-channel marketing communications, which includes: a) digital asset management, communication templates and campaign management, b) document archiving, c) document composition, d) desktop mail solutions, e) scanning and scanning workflow, and f) international cross-border print-on-demand management software. A range of further technology services are also offered relating to SDL's own software and the management of client data around the formatting, electronic output and archiving of customer communications. The US business, DTP, acquired by SDL in May 2018 is wholly included in Software & Technology.

Despite the ongoing erosion of transactional mail volumes, the Directors believe that SDL's key point of difference is in offering integrated solutions incorporating both physical print and digital technology. Some communications are better suited to print and will likely remain so for the foreseeable future. In other cases, use of software technology such as DéjarMail (SDL's desktop mail solution) can improve the handling efficiency, management and cost of physical mail. The 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 operates from leased premises in Albany, Auckland.

Acquisitions

SDL made two acquisitions late in the financial year, Scantech in April 2018 and DTP in May 2018.

Scantech is largely a “bolt-on” incremental transaction for the Company. SDL has offered scanning services to its customers for some time and then subcontracted this work to Scantech and taken a small margin in the process. Scantech has developed its own, in-house scanning workflow software, which means it is not reliant on click-cost-based external software to manage its scanning. There are opportunities to sell Scantech’s software in the UK and customer pilot projects are currently underway.

DTP is a riskier acquisition for SDL as it is currently unprofitable and is likely to remain so in the coming financial year. In that sense, the purchase price for SDL is a combination of what has been paid (plus likely vendor earn-out) plus the cost to fund near-term losses. However, DTP opens two new opportunities for SDL; cross border printing and a toe-hold into the US market. Cross-border printing is where a company needs to print and mail for offshore markets. Companies have two options here: either print-and-mail from their home country (expensive with international mail rates) or print in foreign countries (cheaper, but problematic around the logistics of managing a network of foreign printers, many of whom will have differing print composition requirements). DTP’s software and network of printer relationships enables cross border printing and SDL was aware from discussions with existing UK customers that there was a market need for this functionality. Stepping – carefully – into the US market is an opportunity, but one that will require additional sales and technical support overhead over time. The Company is already bidding on a sizeable pipeline of work and the scale of potential revenue from individual opportunities is large, although we are under no illusions about the difficulty of succeeding in this market. Our initial observation is that the switch to electronic in the US, while underway, appears much slower and at a far earlier stage than in New Zealand.

Both acquisitions are structured with cash upfront payments and subsequent vendor earn-outs for reaching profit targets. Note that accounting rules now require intangibles to be allocated to items such as intellectual property and the value of customer contracts, rather than goodwill. Unlike goodwill, which remains on the balance sheet subject to annual impairment testing, the intangibles must be written off by amortisation through the Income Statement. SDL is opting to write down acquired intangibles over a relatively short four to five year period. This means the Company will incur a non-cash, amortisation charge against profit of around $0.23 million each year for the next four years. Furthermore, a portion (relating to customer contracts and some of the acquired software) of this charge is not tax deductible. For the purposes of calculating the dividend, the Directors have determined that acquisition-related amortisation will be added back to net profit after tax before determining the dividend.

Description and Review of Revenue Streams

SDL Services

SDL Services predominantly provides mail house operations to high-volume postal mail users, mainly those in the business-to-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 does not sell directly to SMEs but reaches this market through channel partners.

SDL Services operates leased, high-speed digital colour and monochrome printers. In addition to digital printing, Services also provides the usual ancillary document handling operations such as automated envelope inserting and flowrap.

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

With general mail volumes continuing to decline, SDL’s FY2018 mail lodgement volumes fell 8.6% although the Company’s digital print volumes rose 7.6% as a result of new business wins offsetting declining volumes from existing clients. The differing growth outcome for mail lodgement versus print volumes is accounted for by two effects. The first is that not all SDL’s digital print volumes are related to mail, and secondly, changes in the average number of printed sheets of paper per mail item means that print and mail volumes are not one-to-one correlated. Note that part of the decline in physical mail volumes is offset by an increase in email volumes processed by SDL; these rose by just over 30% during FY2018. SDL has continued to increase its market share of declining mail volumes albeit at a lower rate of gain than in prior years. Note that the growth in Outsourced Services revenue in the following table is a combination of both very low margin postage and the outsourced printing for DéjarMail volumes in the UK.

SDL Services Revenue Breakdown (all figures $000)	FY2018	FY2017	Percentage Change
Digital Printing and Document Handling	6,773	6,712	0.9%
Outsourced Services	9,907	8,213	20.6%
Total Services Revenue	**16,680**	**14,925**	**11.8%**

Growth in digital printing was largely the result of adding new business and several non-mailing digital print clients. Last year's result commentary noted one of the Company's major customers had rationalised its print output during FY2017, and SDL's FY2018 saw the full annualised effect of that change.

The Directors remain cautious about acquisitions and will only proceed on the basis that any transaction is expected to be value adding for shareholders, and with manageable financial and operational risk profiles. While SDL's net cash position provides financial capacity for further acquisitions, the Company is conscious of first ensuring the two recent acquisitions are well integrated and adding value.

SDL Software & Technology

Digital tools and the ensuing digital transformation mean communication channels and the customer engagement model in most businesses has needed to adapt and become nimble and personalised. Organisations increasingly need to 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 should 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 Company's history in mailhouse and fulfilment means we fully understand the importance of data accuracy, timely delivery, and cost efficiency. The ongoing investment in software and technology demonstrates the SDL's commitment to making the most of the digital transformation opportunities available to our clients.

SDL Software has developed four software engines that are used as required to develop customer solutions. The acquisition of DTP in late FY2018 added further software capability with that company's Jupiter product and the Scantech acquisition has added scanning workflow software:

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.

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.

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.

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

Jupiter, acquired as part of the DTP acquisition, is a global print and mail solution that benefits Postal Administrations, 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 with Jupiter's global fulfilment network opens the door to expansion of the markets that the range of SDL solutions can apply to.

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.

SaaS (Software as a Service) is an alternative to the traditional, now largely defunct, licensing of software. Under SaaS, rather than pay an upfront fee, customers opt to run SDL's software on a pay-as-you-go model, typically by way of a per-document or per-electronic transaction charge. Under this model, SDL will usually host the software (using third party hosting infrastructure, such as Amazon Web Services) and related data on behalf of the client. While SDL forgoes the benefit of any large up-front licence revenue, the SaaS approach does build an annuity revenue base that then generates value over a longer term. The trend in recent years has been for customers to prefer SaaS rather than acquiring a software licence, to the point where the Company no longer expects to sell licences.

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.

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

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

In addition to New Zealand and Australia, both Déjar and Composer are sold internationally, mainly in the UK and Europe. Bremy is predominantly a New Zealand product, with several Australian and UK customers and the Company sees potential for ongoing and potentially strong growth in the UK, albeit from a low base. DéjarMail is continuing to see solid growth in the UK and given the early-stage client base in that region we expect this will be a secular growth trend that will run for a number of years. The roll out of Bremy to UK dental practices commenced during FY2017, although there was a period of additional development required, which constrained growth during the year. We continue to expect growth from Bremy, although as with DéjarMail, the speed of the take-up rate and eventual penetration levels is difficult to assess.

SDL sees a general trend for organisations to internally generate and self-store PDF files; this is likely to reduce demand for the Company's Déjar archival product over time.

In the UK, SDL has added additional sales and support personnel, as well as staff in Europe during FY2017 and incurred the full annualised impact on profitability from these costs during FY2018. Additional UK-based sales staff are currently being added.

Software & Technology generated revenue of $6.05 million in FY2018, an increase of 19.5% on the prior year's revenue of $5.07 million (and an acceleration of growth from 13.9% the prior year), largely the result of DéjarMail growth in the UK. There were no large, one-off licence revenues achieved, with some software development work undertaken and SaaS revenues continuing to build. Scandinavian postal operator, Post Nord's digital solutions arm, Stralfors, was added as a new customer in the second half, generating FY2018 revenue from setup and implementation, plus some software customisation.

Financial Performance

Revenue growth in FY2018 was generated by both Software and Technology, and Outsourced Services, both of which grew around 20% year-on-year, while Digital Imaging and Document Handling remained largely flat. Outsourced Services revenue gains are predominantly the effect of printing for DéjarMail volumes in the UK. Postage margins remain very low and this is unlikely to change as the wholesale rates and hence margin that New Zealand Post is able to offer is regulated by the Postal Network Access Committee, although changes to NZ Post's rebate requirements will negatively affect FY2019 margins.

Summary Financial Performance (all figures $000)	**FY2018**	**FY2017**	**Percentage Change**
Total Revenue	22,732	19,991	13.7%
Less: Cost of Goods Sold	14,315	12,274	16.6%
Gross Margin	**8,417**	**7,717**	**9.1%**
Gross Margin (%)	37.0%	38.6%	
Less: Selling, General & Admin	6,144	5,630	9.1%
EBITDA	**2,273**	**2,087**	**8.9%**
EBITDA margin (%)	10.0%	10.4%	
Depreciation	208	208	n.m.
Amortisation	161	78	n.m.
EBIT	**1,904**	**1,801**	**5.7%**
Net Interest	(5)	(1)	n.m.
Income Tax	577	492	17.3%.
Net Profit after Tax	**1,332**	**1,310**	**1.7%**
Tax rate	30.2%	27.3%	

FY2018 earnings were reduced by the Company's decision to make two acquisitions: Scantech, and DTP. The following table highlights the main costs involved from the acquisitions and provides a like-for-like comparison to SDL's results in the absence of these acquisitions.

Adjusted Financial Performance

(all figures $000)	FY2018	FY2017	Change
Reported Net Profit After Taxation	1,332	1,310	1.7%
Acquisition-related costs (net of any tax):			
Acquisition costs (e.g. legal, due diligence)	118		
Post-purchase trading losses (ex-amortisation)	58		
Amortisation (of acquired intangibles)	49		
SDL like-for-like profit	**1,557**	**1,310**	**18.8%**
Earnings per Share like-for-like basis (cents)	10.69	9.32	14.7%
Dividend per Share (cents)	7.50	6.75	11.1%
Dividend Payout ratio like-for-like basis	70.1%	72.4%	

The effect of the acquisition drag on SDL's profitability was compounded by the fact that DTP losses are quarantined in a US entity for tax purposes and thus not available to be offset against profits in other areas of SDL. Also, amortisation of acquired intangibles (other than a portion of the software) is not deductible for tax purposes. These factors pushed up the Company's headline tax rate to 30.2% for the year and 32.2% in 2H (these factors will continue in FY2019).

The second half remains the seasonally the quieter half of the year, especially in New Zealand, although growth in software (and directly associated Outsourced Services) revenue is now beginning to produce a more balanced profit split.

The FY2018 result includes a pre-tax benefit of $0.23 million from the Company's market development agreement with NZ Trade and Enterprise ("NZTE"). This agreement expired in June 2018. SDL intends applying for further NZTE market development support for its US expansion efforts through DTP, however, this application is not able to be made prior to January 2019 and there is no certainty the Company's application will be successful.

The change in mix of revenue towards a greater component of low margin, outsourced services is causing SDL's percentage Gross Margin to compress, although the dollar Gross Margin is continuing to grow. This trend is likely to persist as DéjarMail's offshore revenue grows at a faster rate than the rest of the Company's business. Nevertheless, despite the percentage Gross Margin compression, SDL's ongoing focus on cost control saw the Company's EBITDA margin decline only slightly, to 10.0%. Part of the reduction is the deliberate and ongoing addition to sales and support staff in offshore markets, particularly the UK, and during FY2019 probably also in the US.

The following table highlights first and second half performance for the last two financial years. Note that 2H FY2018 EBITDA contains approximately $0.15 million of costs and operating losses related to the two acquisitions made late in FY2018 (the positive EBITDA generated by Scantech was well outweighed by the EBITDA loss from DTP).

SDL Half Financial Years

(all figures $000)	2H FY2018	2H FY2017	Percent Change	1H FY2018	1H FY2017	Percent Change
Total Revenue	11,440	9,804	16.7%	11,292	10,187	10.8%
EBITDA	949	1,009	-5.9%	1,324	1,078	22.8%
EBITDA margin	8.3%	10.3%		11.7%	10.6%	
Tax rate	32.2%	29.9%		28.9%	24.9%	

Balance Sheet, Liquidity and Debt

Capital expenditure in FY2018 was $0.188 million, a drop of around 9% on the prior year ($0.206 million). The capex spend mainly related to IT equipment, a specialised booklet-making piece of print finishing equipment for which we see strong customer demand, and upgrading SDL's accounting and print job management systems.

The Company's net cash (i.e. cash net of interest bearing debt) position declined marginally, by $0.12 million or 6.0%, to $1.96 million, with the reduction a result of SDL investing $0.712 million in acquiring Scantech and DTP. Further payments for these two acquisitions are likely in FY2019 under vendor earnout arrangements.

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

Selected Balance Sheet and Cashflow Figures

(all figures $000)	FY2018	FY2017	Change
Net Bank Cash/(Debt & Borrowings)	1,956	2,080	(124)
Non-Current Assets	2,871	2,008	863
Net Other Liabilities	(816)	(569)	(247)
Net Assets	**4,011**	**3,519**	**492**
Cashflow from Trading	1,677	1,599	78
Movement in Working Capital	(55)	82	(137)
Cash Inflow from Operations	**1,622**	**1,681**	**(59)**
Cash dividends paid	**1,039**	**808**	**231**

Net Assets includes goodwill related to the original purchases of the software products Déjar and Bremy. Bremy accounts for around three quarters of the $1.06 million carrying value of goodwill. An impairment test is conducted against the carrying value of these assets each year and the Directors believe the current value of these products remains comfortably in excess of their carrying values.

The acquisitions of Scantech and DTP have resulted in additional intangible assets of $1.047 million, mainly related to the value of software IP plus customer contracts these companies have in place. Unlike goodwill, these intangibles are required to be amortised under accounting rules and the directors have determined they should be written off over periods of four to five years depending on the type of intangible asset. This will mean an additional, non-cash, amortisation charge of around $0.23 million to the Income Statement for the next four years.

While SDL's balance sheet shows a positive net-cash position, the Company is also carrying leases on its premises and much of its printing and document handling equipment. The annual cost of rentals and leases was $0.72 million in FY2018 ($0.69 million in FY2017) and represents off balance sheet leverage. We note that in FY2020 the accounting standards relating to leases will change. Finance leases will be capitalised and shown as a debt liability, increasing the amount of debt on the balance sheet, as well as altering the Income Statement by mandating that part of the lease payment be accounted for as a financing (i.e. interest cost) charge.

Excluding the net cash balance from SDL's working capital, the Company currently operates with a slightly negative working capital balance. The Company adopts a positive view to this aspect of its balance sheet. It means SDL can generally continue to grow revenue without particular requirement to fund any additional working capital needs. Note that SDL's Other Current Liabilities figure included $0.335 million as a provision for the earnout liability in relation to Scantech and DTP. To the extent that the actual earnout varies from this provision, the difference will affect the FY2019 Income Statement (and will be disclosed a separate item).

Taxation and Dividends

Aside from minor timing issues and non-deductible expenses, the Company pays full New Zealand tax on locally generated earnings. SDL completely utilised its remaining UK tax losses during the year and is now paying UK tax. The recently acquired DTP business in the US is currently making losses. These are effectively ring fenced within the US and SDL is not able to group them to offset other profits. Until the Company is able to improve trading performance of DTP it will therefore show an abnormally high tax rate although this position will reverse if SDL is able to return DTP to profitability and utilise any US tax losses that are then available (note that the losses may possibly be recognised earlier for accounting purposes, but this will not affect the cash tax position). Further, a portion (relating to customer contracts and some of the acquired software) of amortisation of acquired intangibles is not tax deductible and this will also bias the reported tax rate upwards until these are fully written down.

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 activity.

Earnings and Dividends per Share	FY2018	FY2017	Percentage Change
Shares on Issue (‘000)	14,560	14,059	3.6%
Earnings per Share (cents)	9.15	9.32	-1.8%
Adjusted Earnings per Share (cents) (a)	10.69	9.32	14.7%
Dividend per Share (cents)	7.50	6.75	11.1%
Dividend Proportion Imputed	100.0%	100.0%	
Dividend Payout ratio	82.0%	72.4%	
Dividend Payout ratio on Adjusted EPS	70.1%		

(a) Adjusted earnings per share is a non-GAAP accounting measure that is calculated by adding back the costs and losses relating to SDL’s two recent acquisitions. It is provided to provide investors with a more meaningful like-for-like comparison against the prior year earnings per share.

Shares on issue rose slightly (+3.6%) over FY2018, entirely the result of SDL staff exercising Employee Share Option Programme (“ESOP”) options that were issued in 2014. The bulk of ESOP options have been exercised with only 80,000 options now outstanding under this programme.

Operational Performance

The industry-wide decline in general mail volume is continuing and anecdotal industry comments suggest that the rate of decline increased in FY2018. SDL’s mail volumes dropped 8.6%, partly cushioned by some new business gain. The Company’s digital print volumes increased 7.6% on last year. SDL’s print equipment has significant capacity, particularly from a high-speed, continuous printer under the DMS agreement with FXNZ. The Company has progressively transitioning a greater proportion of its print jobs from cut sheet printers onto the continuous printer as this provides efficiency benefits. Any material growth in continuous print volume under the DMS agreement would likely require a modest increase in the level of production staff and possibly some additional document handling equipment.

New Zealand Postal Market

The domestic postal services market continues to evolve, and changes in 2018 are not positive for physical mail volumes. Previously, in July 2015, NZ Post commenced the process of reducing the number of delivery days per week for standard letter mail in major towns and cities to three days, although it is continuing to provide six-day-per-week delivery for premium mail. Earlier in 2018, NZ Post announced a substantial increase in the price of mail that took effect from 1 July 2018. The price of a standard letter increased by 20 cents from $1.00 to $1.20, and bulk mail prices also increased along with tighter conditions to achieve bulk pricing.

There are examples of one-off sizeable mail price increases overseas, including Australia, in recent years. The experience has tended to result in a one-off step down in mail volumes, subsequently followed by ongoing volume erosion then continuing from the lower base. SDL has no reason to assume anything other than a similar experience is likely in New Zealand, with the main uncertainty around how quickly the Company’s customers react and begin the push to digitise more of their communications.

These price changes by NZ Post may create opportunities for SDL as it may force some customers to accelerate moves towards greater use of digital communications solutions. The Company tracks how its major customers utilise print versus electronic delivery for transactional mail. FY2018 has already seen a pick-up in the rate at which customers are switching to digital and we expect a further, probably significant, step up in that rate during FY2019. SDL is well positioned to capitalise on this, given its breadth of technology offerings with solutions for digitally communicating with and servicing customers (these can also deliver significant communications and document creation cost savings).

Nevertheless, if the Company's customers opt in FY2019 to more rapidly switch towards greater electronic communications, SDL will inevitably suffer margin loss from lower utilisation of its printing assets and any revenue and margin gained from SDL Software & Technology will not be sufficient to offset this decline.

Risk Factors

The physical mail market will continue to decline in volume with the probability of a one-off more sizeable decline in FY2019 resulting from recent NZ Post price increases. This has several industry-wide implications. First, excess printing capacity in the mail house physical print sector, already a problem, will inevitably worsen. Secondly, increased competition for lower volumes may spill over into pricing and margin pressure. The risk is partly mitigated by SDL's ability to add value through its technology offerings although excessive price discounting of printing services would affect profitability across the entire industry and SDL would not be immune to this threat. Additionally, pressure on marginal print operators is likely to cause industry rationalisation, although SDL may benefit from being able to acquire distressed print volumes (without buying the associated print assets).

SDL's top five customers provided 40% of the Company's revenue in FY2018 with the largest customer accounting for 12% of revenue. Loss of one or more of those customers could cause financial results to differ materially from those outlined in the FY2019 Outlook section below. This risk is partly mitigated by having a number of these clients under contract, as well as the offset of expecting revenue growth outside these clients, particularly from DéjarMail.

The Company's software provides critical document management and storage functions for its clients. SDL needs to ensure it continues to maintain adequate levels of software quality control. 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, albeit with an offsite for data and server backup. The Directors are conscious of the operational risk a single site implies for digital imaging operations. SDL has investigated reciprocal disaster recovery ("DR") plans with other printers, and the Company has some capability with Fuji Xerox, however, in general, print capacity mismatches have meant there are few possible solutions. SDL continues to explore DR options.

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

Technology Innovation

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

SDL has been progressively managing its portfolio of digital document software IP to ensure the Company is capable of making this progressive transition towards the growing emphasis on digital customer communications. This involves increasing internationalisation of SDL's revenues, both through software product development and acquisitions such as DTP, as well as the development of channel partners to build distribution.

Share Trading Liquidity

The Directors are conscious that the Company's shares trade infrequently and that this is likely to result in higher than desired share price volatility and limited ability for investors to enter or exit a holding. There are likely several factors behind this, but predominantly two main ones; the high extent to which large blocks of SDL's shares are held by parties who do not normally trade them, reducing the effective free float, and the fact that SDL is listed on NZX's secondary, NZAX, board. There is no action the Company can take in respect of the first factor.

On the second factor, NZX has commenced a process to review and simplify its Listing Rules, and as part of that is also looking to simplify its equity market structure and consolidate the NZAX and NXT markets into a single NZSX Main Board. The NZX Listing Rule review is well advanced but is still subject to FMA approval. Subject to timing of the approval of the new Rules, the window for the Company to transition from NZAX to the main board should open in early 2019. With the caveat that the Directors are yet to see and take advice on the updated Listing Rules, SDL intends to transition to a NZSX Main Board listing as soon as practical in 2019 and then review liquidity to see if further actions are warranted.

FY2019 Outlook

After a good result for FY2018, the Company is cautious for FY2019. The mail pricing actions by NZ Post will inevitably mean volume and margin erosion in SDL's print and mail house operations. While there will be some offsetting volume switch into SDL's digital revenues, the amount of dollar margin achieved for a digital communication processed by SDL is significantly less than for a similar print and mail communication.

Software revenues in the UK are continuing to increase and we expect this trend to continue in FY2019. In Europe, Post Nord is expected to begin progressively utilising SDL's technology, although the rate of customer take up is uncertain at this stage and the FY2018 result benefitted from one-off setup and customisation revenues for Post Nord. Furthermore, SDL has added additional support and business development infrastructure in the UK and the market development cost subsidy programme from NZTE expired at 30 June, meaning UK costs will show a sizeable net increase in FY2019.

The acquisition of Scantech will make a positive addition to earnings and that business is currently operating to expectations. However, the Scantech contribution will be partially offset by expected losses from DTP in the US. DTP has a number of very significant customer opportunities, but even if some of these are successfully closed, the lead times to fully implement and bring the customers on board may mean that little benefit is gained in FY2019.

Lastly, the accounting rules around amortisation of acquisition intangibles mean that SDL will incur an additional non-cash charge of around $0.205 million (after tax) per annum for the next four years. The Directors have determined that the non-cash charge for amortisation related to acquired intangibles will be ignored for the purposes of SDL's dividend payout policy.

The combined effect of NZ Post price changes on margins, expiry of NZTE market development contribution, intangibles amortisation and DTP losses are sufficiently large that it is only broadly offset by the addition of Scantech earnings and Software & Technology growth in the UK and Europe.

Consequently, SDL's outlook for FY2019 is for a modest decline of around 5-10% in reported net profit after tax. Note that this forecast includes the full year impact of amortising the intangible assets that were acquired with Scantech and DTP and if these are excluded, then the FY2019 earnings are expected to show a low single digit percentage increase. The Company's forecast does include some moderate growth in new business assumptions and is subject to the usual risks that the print and mail house market remain extremely competitive and in decline.

Yours sincerely

John McMahon.

John McMahon
Director (Chairman)

Nelson Siva
Director (CEO)

STATEMENT OF CORPORATE GOVERNANCE

The corporate governance processes set out in this statement do not materially differ from the principles set out in the New Zealand Stock Exchange Corporate Governance Best Practice Code issued on May 2017.

Financial Statements

It is the Directors' responsibility to ensure preparation of consolidated financial statements that present fairly 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 consolidated financial statements.

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

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

Board of Directors

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

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

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

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

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

The primary responsibilities of the Board include:

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

Board procedures are governed by the Constitution.

Conflicts of Interest and Related Parties

All Directors must disclose any general and specific interests that could be in conflict with their obligations to the Group. Transactions with related parties and balances outstanding relating to the year ended 30 June 2018 are disclosed in Note 12 of the Notes to the Consolidated Financial Statements.

Risk Management

The Board is responsible for the Group's system of internal controls. The Board monitors the operational and financial aspects of the Group and considers recommendations from external auditors and advisors on the risks that the Group faces.

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

Internal Controls

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

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

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

Committees

The Board operates no committees.

Audit Committee

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

Attendance at meetings

During the period 1 July 2017 to 30 June 2018 attendance at meetings was:

	Board Meetings Held	Board Meetings Attended
John McMahon (Chairman)	11	11
Julian Beavis	11	11
Nelson Siva (CEO)	11	11
Elmar Toime	11	11

Directors' Remuneration

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

Executives' Remuneration

Executives' remuneration greater than $100,000 per annum received in their capacity as employees during the year is disclosed in Note 22 of the Notes to the Consolidated Financial Statements.

Entries in the Interests Register

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

Directors' Share Dealings and Shareholding

Directors' disclose the following relevant interests in shares in the Group at 30 June 2018 and transactions in relevant interests in shares during the financial year ended 30 June 2018.

Shareholder	Balance 30 June 2017	Additions	Disposals	Balance 30 June 2018
John McMahon	1,504,801	-	-	1,504,801
Nelson Siva	830,000	140,000	-	970,000

Independent Auditor's Report

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To the Shareholders of Solution Dynamics Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Solution Dynamics Limited (the Group) on pages 19 to 47 which comprise the consolidated statement of financial position as at 30 June 2018 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated 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 and the entities it controlled as at 30 June 2018 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 Audit 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 returns and advice. The firm has no other interests 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 MATTER	OUR PROCEDURES TO ADDRESS THE KEY AUDIT MATTER
Carrying Value of Goodwill The Group has significant goodwill of $1,061,000 of which $938,000 derives from historical acquisitions of businesses controlled by Dejar Holdings Ltd and Bremy Ltd. We considered the goodwill relating to these business acquisitions to be a key audit matter. Goodwill is allocated across its software cash generating units. Any risk of downturn in the macroeconomic environment could result in an indicator of impairment in goodwill. The inherent uncertainty involved in forecasting and discounting future cash flows is one of the key judgement areas that the audit is concentrated on. The uncertainty is affected by a number of factors including general market trends, the number of new customs for the technology solutions, expectation of future growth in demand for the software solutions, which form the basis for the assessment of recoverability. Goodwill additions of $123,000 during the year arose from two new business acquisitions. Note 19 and note 33 provides disclosures on the business combinations.	In this area our audit procedures included assessment of forecast and budgeting procedures as a basis for value in use calculations. We also compared management's historical budget to actual performance and future projections compared to prior year actual and testing reasonableness of forecasting assumptions. In addition, we performed our own assessments in relation to key inputs such as projected revenue growth, cost and overhead inflation and discount rates. We have used our own valuation specialist to evaluate the reasonableness of the assumptions and methodologies adopted including discount rates used by the Group. We also assessed whether the Group's disclosures about the value in use calculation including sensitivity in key assumptions reflected the risks inherent in the valuation of goodwill. For newly acquired goodwill refer to the key audit matter on Business Combinations.
Accuracy of revenue The Group has revenue of approximately $23m principally comprising sale of goods and rendering of services under contract. The principal risk associated with revenue associated with its commercial operations, relates to its recognition and recoverability. There are a number of factors that could affect this amount. • 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 contracts may not be appropriate with reference to the stage of completion. Stages of completion 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. Our audit work included assessing the stage of completion of any significant projects including the delivery of the goods to ensure that the risks and rewards associated with the contract had been passed to the customer, including obtaining evidence of post year end cash which provided evidence as to validity of debtors at the year end.
Business Combinations - valuation of investments in new businesses During the reporting year 30 June 2018 the Group acquired two new businesses, Scantech Limited and DigitalToPrint Inc. Net assets acquired of $1.0m and other disclosures can be seen in Note 33. We considered the measurement, recognition and disclosure of these business acquisitions to be a key audit matter.	The procedures we performed to conclude on the business combinations included: Understanding the sale and purchase agreements for each acquisition, critically assessing the approach and assumptions used to identify and value all the intangible assets present in these business combinations as well as the other tangible assets. We evaluated and tested the Directors estimates and judgements surrounding contingent consideration elements arising from future expected payments 'earn-out' to vendors based upon achieving specific sales targets over the following 12 month period from the acquisition date. We also assessed a range of possible outcomes and challenged assumptions made by Directors and whether there are indicators of impairment in respect of any of these investments.

Grant Thornton

Other Information

The directors are responsible for all other information included in the Group's Annual Report. The other information comprises the management discussion and analysis and the statement of corporate governance included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

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

Directors' responsibilities for the consolidated Financial Statements

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

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

Auditor's responsibilities for the Audit of the Consolidated Financial Statements

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

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

Restriction on use of our report

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

30 August 2018

Chartered Accountants and Business Advisers
Member of Grant Thornton International Ltd

Solution Dynamics Limited

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 30 June 2018

	NOTE	2018 $000	2017 $000
Revenue	4	22,383	19,788
Other revenue	4	349	203
		22,732	**19,991**
Expenses	5	20,459	17,904
Earnings before interest, tax, depreciation & amortisation (EBITDA)		**2,273**	**2,087**
Depreciation	17	208	208
Amortisation of intangible assets (software)	18	161	78
Net interest (income)	7	(5)	(1)
Profit before income tax		**1,909**	**1,802**
Income tax	8	577	492
Net profit after income tax		**1,332**	**1,310**
		Cents	**Cents**
Basic earnings per share	9	9.3	9.3
Diluted earnings per share	9	9.1	8.9

Solution Dynamics Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2018

	2018 $000	2017 $000
Net profit after income tax	1,332	1,310
Items that may be reclassified subsequently to profit and loss:		
Exchange gain on translation of foreign operations	(9)	1
Other comprehensive (loss)/income net of tax	**(9)**	**1**
Total comprehensive income for the year	**1,323**	**1,311**

The accompanying notes on pages 21 - 45 form part of the consolidated financial statements.

Solution Dynamics Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2018

	NOTE	2018 $000	2017 $000
Current Assets			
Cash and cash equivalents	10	1,956	2,080
Trade & other receivables	13	2,902	2,366
Inventories and work in progress	11	183	152
Prepayments		131	96
Total Current Assets		**5,172**	**4,694**
Current Liabilities			
Trade creditors		1,871	1,428
Other current liabilities	14	1,245	903
Other non-financial liabilities	15	444	405
Employee benefit liabilities	16	472	447
Total Current Liabilities		**4,032**	**3,183**
Working Capital		**1,140**	**1,511**
Non-Current Assets			
Deferred tax (liability) asset	8	(24)	108
Capital works in progress		61	73
Property, plant & equipment	17	594	595
Intangible assets	18	1,179	294
Goodwill	19	1,061	938
Total Non-Current Assets		**2,871**	**2,008**
Net Assets		**4,011**	**3,519**
Equity			
Share capital	20	5,357	5,169
Employee share option plan	31	28	113
Foreign currency translation reserve		(8)	1
Accumulated losses	21	(1,366)	(1,764)
Total Equity		**4,011**	**3,519**

For and on behalf of the Board who approved these consolidated financial statements for issue on 30 August 2018.

John McMahon

John McMahon – Director (Chairman)

Nelson Siva – Director (CEO)

The accompanying notes on pages 21 - 45 form part of the consolidated financial statements.

Solution Dynamics Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	SHARE CAPITAL $000	EMPLOYEE SHARE PLAN $000	CURRENCY TRANSLATION RESERVE $000	ACCUMULATED LOSSES $000	TOTAL EQUITY $000
Balance 1 July 2016	5,169	77	-	(2,266)	2,980
Issue of shares to employees	-	36	-	-	36
Transactions with owners	**-**	**36**	**-**	**-**	**36**
Profit for the year after tax	-	-	-	1,310	1,310
Dividend paid	-	-	-	(808)	(808)
Other comprehensive income	-	-	1	-	1
Total comprehensive income	**-**	**-**	**1**	**502**	**503**
Balance 30 June 2017	**5,169**	**113**	**1**	**(1,764)**	**3,519**
Exercise of employee share options	188	(108)	-	108	188
Issue of shares to employees	-	23	-	-	23
Transactions with owners	**188**	**(85)**	**-**	**108**	**211**
Profit for the year after tax	-	-	-	1,332	1,332
Dividend paid	-	-	-	(1,042)	(1,042)
Other comprehensive (loss)	-	-	(9)	-	(9)
Total comprehensive income	**-**	**-**	**(9)**	**290**	**281**
Balance 30 June 2018	**5,357**	**28**	**(8)**	**(1,366)**	**4,011**

The accompanying notes on pages 21 - 45 form part of the consolidated financial statements.

Solution Dynamics Limited

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

	NOTE	2018 $000	2017 $000
Cash Flow From Operating Activities			
Cash was provided from:			
Receipts from sales		25,041	22,339
Other revenue		293	131
		25,334	**22,470**
Cash was applied to:			
Payments to suppliers		15,830	13,543
Payments to employees		6,621	6,091
GST paid to Inland Revenue		1,261	1,155
		23,712	**20,789**
Net Cash Inflow From Operating Activities	**23**	**1,622**	**1,681**
Cash Flow From Investing Activities			
Cash was applied to:			
Purchase of property, plant and equipment & capital works in progress		120	112
Purchase of software & intangible assets		68	94
Payments for businesses acquired	33	712	-
		900	**206**
Net Cash Outflow From Investing Activities		**(900)**	**(206)**
Cash Flow from Financing Activities			
Cash was provided from:			
Exercise of employee share options		188	-
Interest received		5	6
		193	**6**
Cash was applied to:			
Payment of dividends		1,039	808
Interest paid		-	5
Finance lease liabilities secured on equipment		-	10
		1,039	**823**
Net Cash (Outflow) From Financing Activities		**(846)**	**(817)**
Net change in cash and cash equivalents		(124)	658
Add cash and cash equivalents held at beginning of year		2,080	1,422
Cash and cash equivalents at end of year	**10**	**1,956**	**2,080**

The accompanying notes on pages 21 - 45 form part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

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 2018 were authorised for issue in accordance with a resolution of directors on 30 August 2018.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

The consolidated financial statements of the Group comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

2.2 Basis of Preparation

2.2.1 Basis of Preparation

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

2.2.2 Basis of Consolidation

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

2.2.3 Rounding of Amounts

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

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.

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 are accounted for in the Consolidated Statement of Comprehensive Income.

2.4 Revenue Recognition

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

2.4.1 Sale of Goods

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

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

2.4.2 Rendering of Services

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

2.4.3 Interest Revenue

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

2.4.4 Government Grants

Government grants are recognised as 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

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

2.5.1 The Group as Lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2.5.2 The Group as Lessee

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

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

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

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

2.6 Employment Benefits

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

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

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

2.7 Share-based Payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding equity settled share-based transactions is set out in note 31.

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

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

2.8 Taxation

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

2.8.1 Current Tax

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

2.8.2 Deferred Tax

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

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

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

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

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

2.8.3 Current and Deferred Tax for Each Reporting Period

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

2.9 Goods and Services Tax (GST)

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

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

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

2.10 Property, Plant and Equipment

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

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

The principal depreciation rates used in the reporting periods are:

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

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

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

2.11 Intangible Assets

2.11.1 Intangible Assets Acquired with a Finite Life

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

2.11.2 Internally-Generated Intangible Assets with a Finite Life

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

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

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

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

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

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

2.11.3 Subsequent Measurement

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

- Software 3-5 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 Assets

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

2.16.1 Loans and Receivables

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

2.16.2 Impairment of Financial Assets

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

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

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

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

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

2.17 Share Capital

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

2.18 Trade Payables and Other Current Liabilities

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

2.19 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 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous reporting period, and no new or amended Standards since 1 July 2017 have affected these consolidated financial statements.

2.21 New IFRS standards and interpretations issued but not yet adopted

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

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

(a) NZ IFRS 16 – Leases (effective date from 1 January 2019)

In February 2016 the New Zealand Accounting Standards Board approved the issue of NZ IFRS 16 Leases.

NZ IFRS 16 changes the relevant information to be reported by lessors and lessees with a view to faithful representation of information to the users of financial statements so they can assess the effect leases have on cash flow, financial performance and the financial position of the entity. The standard requires the lessee to recognise assets and liabilities for the rights and obligations created by those leases. Lessors reporting requirements are similar to the previous standard NZ IAS 17 Leases. Management has made a preliminary assessment of the impact of adopting this policy on the Group financial statements and has determined that it will be material. Management expects to recognise a lease asset and lease liability for all lease contracts such as premises rent and equipment lease.

(b) NZ IFRS 15 – Revenue from Contracts with Customers (effective date from 1 January 2018)

NZIFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of NZ IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Due to the nature of revenue and short life cycle of the majority of contract revenues, Directors preliminary evaluation has indicated that there is no material effect on the Group's results, but additional disclosures may be required.

(a) NZ IFRS 9 – Financial instruments – classification and measurement (effective date from 1 January 2018)

The New Zealand Accounting Standards Board (NZASB) issued the completed version of NZ IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting to replace NZ IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9.

Management does not expect a significant change to the way in which the Group recognises and measures its financial instruments as a result but has not performed a full assessment.

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 (2017: $938,000).

The recoverable amount of $938,000 of goodwill has been determined based on a value in use model applying the budget, approved by the Directors covering the reporting period to 30 June 2018, and forecast sales based on assessments of the current market opportunities through existing distribution channels net of forecast costs, through to the end of 2022, at a post-tax discount rate of 5.6% (2017: 5.6%). Cash flows beyond 2022 have not been taken into account and no terminal value was determined.

The revenue assumptions used for the forecast period are based on management expectations supported by existing prospects for the budget period and allow for growth of 2.5% (2017: 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 arises this reporting period from deferred tax on business combinations. Refer to note 19 and 33 for Directors judgements and estimates.

3.2 Business Combinations

During the year the Group acquired two new businesses as detailed in note 33. The acquisition of the businesses involved assessments and judgements by Directors surrounding the fair value of assets acquired in the business combination, including identification of intangible assets.

The purchase price required judgement and estimate by directors of contingent consideration due to the vendor based upon achieving future sales targets over the 12-month period following acquisition date. Judgement included considering a range of possible outcomes in order to determine the most likely payable for earn out.

4. REVENUE & OTHER INCOME

	2018 $000	2017 $000
Sales income	22,383	19,788
Revenue	**22,383**	**19,788**
Government grant revenue	293	131
Rent	56	72
Other Revenue	**349**	**203**

5. EXPENSES

	Note	2018 $000	2017 $000
Acquisition related costs		118	-
Auditor's remuneration	6	89	76
Freight, postage & external print		8,826	6,892
Directors remuneration - directors fees	30	513	523
Loss / (gain) on foreign exchange		(39)	(10)
Rental and operating lease expenses		715	692
Redundancy costs		26	34
Research & development		473	334
Salaries		5,630	5,226
Superannuation (KiwiSaver)		152	138
Employee entitlements – share based payments		17	28
Donations		3	3
Other expenses		3,936	3,968
Total Operating Expenses		**20,459**	**17,904**

6. AUDITOR'S REMUNERATION

	2018 $000	2017 $000
Audit fees – statutory audit	61	52
Tax compliance and advisory services	28	24
Total auditor's remuneration	**89**	**76**

7. INTEREST

	2018 $000	2017 $000
Interest received	(5)	(6)
Interest on borrowings under finance facilities		
Interest on borrowings	-	5
Net interest received	(5)	(1)

8. INCOME TAX EXPENSE

8.1 Current Tax

	2018 $000	2017 $000
Income tax expense comprises:		
Current tax expense	586	517
Deferred tax expense relating to the origination and reversal of temporary differences	(9)	(25)
Total tax expense	**577**	**492**

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

	2018	2017
Net profit before income tax	1,909	1,802
Income tax at company tax rate (1)	534	504
Permanent differences	34	10
Under / over provision in prior years	(8)	(25)
Benefit of tax losses not recognised	17	-
Other	6	3
Utilisation of previously unrecognised tax losses	(6)	-
Income tax expense	**577**	**492**

(1) *The Group tax rate of 28% (2017: 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 2018 there are imputation credits available of $407,000 (2017: $472,000) for use in subsequent reporting periods.

8.2 Deferred Tax Balances

	2018 $000	2017 $000
Temporary differences		
Depreciable and amortisable assets	(121)	(7)
Accruals and provisions	97	115
	(24)	**108**
Net deferred tax asset not recognised	-	-
Deferred tax recognised	**(24)**	**108**

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.

	2018 $000	2017 $000
Deferred tax movement		
Balance at beginning of period	108	133
Current year movement through profit or loss	(9)	(25)
Deferred tax recognised on business acquisitions	(123)	-
Balance at end of period	**(24)**	**108**

9. EARNINGS PER SHARE (EPS)

	2018 $000	2017 $000
Net profit for the year attributable to ordinary shareholders	**1,332**	**1,310**
Basic		
Weighted average number of ordinary shares (000's)	14,296	14,060
	Cents	**Cents**
Basic earnings per share	9.3	9.3

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)	14,300	14,060
Adjustment for share options	340	580
Weighted average	14,640	14,640
	Cents	**Cents**
Diluted earnings per share	9.1	8.9

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

	2018 $000	2017 $000
Cash and cash equivalents	1,956	2,080
Total	**1,956**	**2,080**

Solution Dynamics has an overdraft facility in place with the ANZ Bank at an interest rate of 12.35% p.a. (2017: 12.35%). 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 2017: $200,000). The Group now holds a net cash position with no bank debt (2017: $Nil).

At the end of the reporting period the Bank provided commercial guarantees totalling $65,000 (2017: $65,000) to the Group's suppliers.

11. INVENTORIES AND WORK IN PROGRESS

	2018 $000	2017 $000
Work in Progress	94	73
Inventory	89	79
Total Inventories and Work in Progress	**183**	**152**

12. RELATED PARTIES TRANSACTIONS

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 2017 to 30 June 2018 were as follows:

- Key management were paid $783,835 (as employees of Solution Dynamics Limited and including the calculated benefit of the employee share option plan) during the reporting period (2017: $818,267) and were owed $62,939, including annual leave, at 30 June 2018 (2017: $73,615).
- During the year ended 30 June 2018 there were sales of $213,649 (2017: $361,005) between Solution Dynamics Limited and its wholly owned UK subsidiary Solution Dynamics International Limited. Solution Dynamics International traded at a profit of $153,434 (2017: $90,714). At the reporting date there was a receivable of $126,770 (2017: $126,770) due to the Company.
- Solution Dynamics Incorporated traded at a (loss) of ($61,625) (2017: n/a). At the reporting date there was a receivable of $87,861 (2017: n/a) due to the Company.

13. TRADE & OTHER RECEIVABLES

	2018 $000	2017 $000
Trade receivables	2,791	2,283
Allowance for doubtful debts	-	-
	2,791	**2,283**
Allowance for credit notes	(11)	(10)
Total trade receivables	**2,780**	**2,273**
Sundry debtors	122	93
Total Trade & Other Receivables	**2,902**	**2,366**

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 $407,000 (2017: $156,000) for which an allowance of $Nil (2017: $Nil) was made. There has not been a significant change in credit quality therefore the amounts are considered recoverable. The Group does not hold any collateral over these balances.

	2018 $000	2017 $000
30 – 60 days	192	130
60 – 90 days	187	10
90 – 120 days	28	16
Total overdue trade receivables	**407**	**156**

Movement in allowance for doubtful debts

	2018 $000	2017 $000
Balance at the beginning of the reporting period	-	-
Accounts written off as uncollectable	-	-
Total allowance for doubtful debts	**-**	**-**

In assessing the recoverability of trade receivables, the Group considers any change in the quality of the trade receivables from the date that the credit was initially granted up to the reporting date. The concentration of credit risk is limited with the largest customer comprising 11% (2017: 11%) of the gross trade receivable balance, 92% of the outstanding balance is less than 60 days old (2017: 99%). Accordingly, the directors believe that no further adjustments for credit are required in excess of the allowance for doubtful debts.

For the reporting period there are no provisions against third parties (2017: $Nil).

14. OTHER CURRENT LIABILITIES

	2018 $000	2017 $000
Sundry creditors	211	226
Payroll accruals	224	236
Provision for tax	256	192
Provision for deferred income	151	188
Provision for earnout (note 33)	335	-
Audit fees accrued	68	61
Total Other Current Liabilities	**1,245**	**903**

15. OTHER NON-FINANCIAL LIABILITIES

	2018 $000	2017 $000
PAYE	126	104
GST	318	301
Total Non-Financial Liabilities	**444**	**405**

16. EMPLOYEE BENEFIT LIABILITIES

	2018 $000	2017 $000
Provision for sick pay	3	5
Provision for long service leave	82	84
Provision for holiday pay	387	358
Total Employee Benefit Liabilities	**472**	**447**

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

17. PROPERTY, PLANT AND EQUIPMENT

	Plant & Machinery	Finance Leased Plant & Machinery	Furniture & Fittings	Leasehold Improvements	Total
	$000	$000	$000	$000	$000
Cost					
Balance 1 July 2016	2,053	55	141	537	2,786
Transfers	55	(55)	-	-	-
Additions	72	-	4	25	101
Disposals	-	-	-	-	-
Balance 30 June 2017	**2,180**	**-**	**145**	**562**	**2,887**
Transfers	-	-	-	-	-
Additions	100	-	6	26	132
Acquisitions through business combinations	44	-	-	31	75
Disposals	-	-	-	-	-
Balance 30 June 2018	**2,324**	**-**	**151**	**619**	**3,094**
Accumulated depreciation					
Balance 1 July 2016	1,677	35	131	241	2,084
Transfers	35	(35)	-	-	-
Depreciation expense	126	-	6	76	208
Disposals	-	-	-	-	-
Balance 30 June 2017	**1,838**	**-**	**137**	**317**	**2,292**
Transfers	-	-	-	-	-
Depreciation expense	137	-	2	69	208
Disposals	-	-	-	-	-
Balance 30 June 2018	**1,975**	**-**	**139**	**386**	**2,500**
Carrying amount					
Balance 1 July 2016	376	20	10	296	702
Balance 30 June 2017	342	-	8	245	595
Balance 30 June 2018	**349**	**-**	**12**	**233**	**594**

18. IDENTIFIABLE INTANGIBLES, FINITE LIFE

	Software - Déjar[(i)]	Software - Bremy	Software	Customer Contracts[(ii)]	Finance Leased Software	Total
	$000	$000	$000	$000	$000	$000
Cost						
Balance 1 July 2016	2,090	110	998	-	7	3,205
Transfers	-	-	7	-	(7)	-
Additions - purchased	-	-	94	-	-	94
Balance 30 June 2017	**2,090**	**110**	**1,099**	**-**	**-**	**3,299**
Transfers	-	-	-	-	-	-
Additions - purchased	-	-	74	-	-	74
- acquisitions through business combinations	-	-	531	441	-	972
Balance 30 June 2018	**2,090**	**110**	**1,704**	**441**	**-**	**4,345**
Accumulated amortisation						
Balance 1 July 2016	2,088	110	724	-	5	2,927
Transfers	-	-	5	-	(5)	-
Amortisation expense	2	-	76	-	-	78
Balance 30 June 2017	**2,090**	**110**	**805**	**-**	**-**	**3,005**
Transfers	-	-	-	-	-	-
Amortisation expense	-	-	135	26	-	161
Balance 30 June 2018	**2,090**	**110**	**940**	**26**	**-**	**3,166**
Carrying amount						
Balance 1 July 2016	2	-	274	-	2	278
Balance 30 June 2017	-	-	294	-	-	294
Balance 30 June 2018	**-**	**-**	**764**	**415**	**-**	**1,179**

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

(ii) Additions acquired through business combinations arose from the Scantech and DTP acquisitions (note 33).

19. GOODWILL

	Scantech $000	DTP $000	Déjar $000	Bremy $000	Total $000
Balance at beginning of year	-	-	215	723	938
Deferred tax on acquisition of customer contracts	66	57	-	-	123
Net carrying amount	**66**	**57**	**215**	**723**	**1,061**

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

No accumulated impairment losses have been recognised against the goodwill.

The carrying value of goodwill is tested on an annual basis through assessment of the value-in-use of the SDL Software cash generating unit. The cash flows used in the value-in-use calculations are based firstly on the management budget for the 2019 year followed by management forecasts over a further three-year period. Cash flows after 2022 have not been taken into account. Management has projected growth in sales for the Déjar and Bremy products at 2.5% per annum for the 2019-2022 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 26.0% (2017: 24.5%). The equivalent post-tax nominal rate for the forecast cash flows is 5.6% (2017: 5.6%). 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 (2017: $Nil).

Goodwill of $123,000 arises this period from deferred tax on business combinations. The Directors' judgement is that there are no indicators of impairment at reporting date or since the business acquisition date (note 33).

19.1 Sensitivity to Changes in Assumptions

As at 30 June 2018, the date of the Group's annual impairment test, the estimated recoverable amount of the indefinite life intangible assets exceeded their carrying amount by $1,450,000 (2017: $2,195,000).

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 at 30 June 2018.

20. SHARE CAPITAL

	2018 $000	2017 $000
Ordinary Shares		
Balance at beginning of year	5,169	5,169
Exercise of employee share options	188	-
Share Capital at End of Year	**5,357**	**5,169**

The Company had 14,559,810 (2017: 14,059,810) ordinary shares on issue as at 30 June 2018. 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.

21. ACCUMULATED LOSSES

	2018 $000	2017 $000
Balance at beginning of reporting period	(1,764)	(2,266)
Net operating profit after income tax	1,332	1,310
Exercise of employee share options	105	-
Payment of dividends	(1,039)	(808)
Accumulated Losses at end of reporting period	**(1,366)**	**(1,764)**

22. 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:

	2018 $000	2017 $000
$100,000 to $109,999	4	3
$110,000 to $119,999	-	2
$130,000 to $139,999	-	1
$140,000 to $149,999	1	-
$160,000 to $169,999	-	1
$170,000 to $179,999	2	-
$180,000 to $189,999	-	1
$190,000 to $199,999	1	-
$200,000 to $209,999	1	1
$210,000 to $219,999	-	1
$410,000 to $419,999	1	1
Total staff with remuneration exceeding $100,000	**10**	**11**

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

	2018 $000	2017 $000
Net profit / (loss) after income tax	1,332	1,310
Adjustments:		
Depreciation and amortisation of assets	369	286
Loss / (gain) on foreign exchange	(39)	(10)
Interest expense (reclassified as financing activity)	-	-
Interest income (reclassified as financing activity)	(5)	(1)
Other non-cash items	20	14
Cash flow from trading	**1,677**	**1,599**
Add movements in working capital:		
(Increase) in trade & other receivables	(536)	(295)
(Increase) in inventories and work in progress	(31)	(43)
(Increase) in prepayments	(35)	(20)
Increase / (decrease) in other current liabilities	28	(30)
Increase in other non-financial liabilities	39	48
Increase in trade creditors	443	347
Increase / (decrease) in employee benefit liabilities	37	75
	(55)	**82**
Net Cash Flows From Operating Activities	**1,622**	**1,681**

24. OPERATING LEASE COMMITMENTS

Operating leases include the property at 18 Canaveral Drive and other equipment. Operating leases have remaining lease terms of 1- 6 years. The initial term of the 18 Canaveral Drive lease has been varied and now terminates in September 2022 with a right, subject to penalty, to terminate from September 2020. The Canaveral Drive lease has a biennial inflationary rent review clause. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

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

	2018 $000	2017 $000
Less than 1 year	943	891
1 to 2 years	947	903
2 to 5 years	1,553	2,215
More than 5 years	-	102
Total Operating Lease Commitments	**3,443**	**4,111**

A portion of the Canaveral Drive premises lease are sub-leased on month to month terms. This results in a reduction in rental expense. Rental income during the 2018 year totalled $56,017 (2017: $71,644) associated with these rental agreements. The current full year rental on the Canaveral Drive property is $546,336 (2017: $530,452).

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 four streams; outsource services, technology & development services, intelligent imaging and output services. Specific elements of these streams are as follows:

- **Software & Technology**, Solution Dynamics owns the intellectual property in 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.

- **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 consolidated financial statements.

Segment Consolidated Statement of Profit or Loss

	2018 $000	%	2017 $000	%
Software & Technology	6,052	27%	5,066	25%
Digital Printing & Document Handling Services	6,773	30%	6,712	34%
Outsourced services	9,907	43%	8,213	41%
Total revenue	**22,732**	**100%**	**19,991**	**100%**
Less cost of sales	14,315	63%	12,274	61%
Gross margin	**8,417**	**37%**	**7,717**	**39%**
Selling, general & administration	6,144	27%	5,630	28%
Earnings before interest, tax, depreciation & amortisation	**2,273**	**10%**	**2,087**	**11%**
Less:				
Depreciation	208	1%	208	1%
Amortisation	161	1%	78	0%
Interest	(5)	0%	(1)	0%
Tax	577	2%	492	3%
Operating profit	**1,332**	**6%**	**1,310**	**7%**

Segment Assets

Assets are not segmented between service streams.

Information about Major Customers

Included in revenues for the Group of $22.7 million (2017: $20.0 million) are services revenues of $2.80million (2017: $2.16 million) which arose from sales to the Group's largest customer.

Geographical Information

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

	Revenue from External Customers		Non-current Assets	
	2018 $000	**2017** $000	**2018** $000	**2017** $000
New Zealand	17,604	16,658	2,434	2,008
Australia	1,111	380	-	-
United States of America	62	-	140	-
Europe	3,955	2,953	1	-
Total	**22,732**	**19,991**	**2,575**	**2,008**

26. CONTINGENT LIABILITIES

There were no contingent liabilities at reporting date for the Group (2017: $Nil).

27. CAPITAL COMMITMENTS

The Group had no capital commitments at the reporting date (2017: $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 13. This customer is not viewed as a credit risk due to trading and payment history. The Group does not require any collateral or security to support financial instruments as it only deposits with, or loans to banks and other financial institutions with credit ratings of 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

	2018 $000			2017 $000		
	Loans & Receivables	Financial Liabilities at Amortised Cost	Total	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost	Total
Assets						
Cash & cash equivalents (Note 10)	1,956	-	1,956	2,080	-	2,080
Trade & other receivables (Note 13)	2,902	-	2,902	2,366	-	2,366
Total Financial Assets	**4,858**	**-**	**4,858**	**4,446**	**-**	**4,446**
Total non-financial assets			3,185			2,256
Total Assets			**8,043**			**6,702**
Liabilities						
Trade creditors	-	1,871	1,871	-	1,428	1,428
Other current liabilities (Note 14)	-	1,245	1,245	-	903	903
Borrowings (Note 17)	-	-	-	-	-	-
Total Financial Liabilities	**-**	**3,116**	**3,116**	**-**	**2,331**	**2,331**
Total non-financial liabilities			916			852
Total Liabilities			**4,032**			**3,183**

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
2018							
Non-interest bearing	n/a	1,623	932	220	-	2,775	2,775
		1,623	**932**	**220**	**-**	**2,775**	**2,775**
2017							
Non-interest bearing	n/a	1,551	747	33	-	2,331	2,331
		1,551	**747**	**33**	**-**	**2,331**	**2,331**

28.4 Interest Rates

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

	2018	2017
Financial Liabilities:		
Finance facility (overdraft rate)	12.35%	12.35%

28.5 Foreign Currency Risk Management

Hosting and license sales linked to the Group's 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 2018 of total trade receivables of $2,791,000 (2017: $2,283,000) a total of $974,000 (2017: $470,000) was in foreign currencies. $784,000 (2017: $398,000) of the foreign currency receivables were denominated in European currencies, $63,000 in US $ with the remainder of the balance in AUD $.

In addition to the trade receivables of $974,000 (2017: $470,000) held in foreign currencies at the end of the reporting period, a further $352,000 (2017: $194,000) in cash was also held in foreign currencies, a total of $1,326,000 (2017: $664,000). Adjusted for offsetting payables balances, a movement in the exchange rate of 10% would give rise to an exchange fluctuation of $4,700 (2017: $14,100).

Trading operations for the UK and Europe are largely undertaken through SDL's UK subsidiary Solution Dynamics International Limited (SDIL). At period end the net assets for SDIL, comprising largely working capital, was a credit balance of NZ$110,000 (2017: NZ$36,000) with cash and receivable balances as noted above.

At 30 June 2018, the reporting date no forward exchange contracts were held (2017: $Nil). The Directors believe that any sensitivity to foreign exchange risk is not material.

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

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

Interest on finance leases is on fixed rates with no exposure to fluctuations in interest rates. There are no borrowings associated with the finance facility as at the end of the reporting period (2017: -).

At 30 June 2018 the interest rate on the overdraft facility was 12.35% (2017: 12.35%). With a net cash position of $1.96 million (2017: $2.08 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 again improved on the prior year. The Group is in a net cash position of $1.96 million (2017: $2.08 million) and a net cash inflow from operations of $1.63 million (2017: $1.68 million). There was an operating profit of $1.37 million in the current year (2017: $1.31 million) and no material change in financial performance is forecast for the 2018 year. The Group has no externally imposed covenants to manage.

	2018 $000	2017 $000
Cash & Finance facility (Note 10)	1,956	2,080
Net cash (debt)	**1,956**	**2,080**
Equity (all capital and reserves)	4,011	3,519
Net (cash) debt to equity ratio	(49%)	(59%)

29. DIRECTORS' REMUNERATION

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

	2018 $000	2017 $000
John McMahon (Chairman)	45	45
Nelson Siva (CEO)	413	419
Mike Smith (resigned 3 November 2017)	-	9
Julian Beavis	25	25
Elmar Toime	30	25
Total Directors' Remuneration	**513**	**523**

30. EMPLOYEE OPTIONS

On 17 February 2014 the Group 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.

	2018 Number of Shares $000	2017 Number of Shares $000
Unvested shares at 1 July	580	580
Granted	-	-
Vested	(500)	-
Unvested shares at 30 June	**80**	**580**
Percentage of total ordinary shares	0.5%	4.1%

The fair value of the options granted during the reporting period was $Nil (2017: $Nil). This cost is recognised over the vesting period.

Grant Date	Options Issued	Share Price at Grant Date	Exercise Price	Options Expire	Option Value $
March 2014	500,000	$0.450	$0.375	Sept 2018	$107,660
November 2015	80,000	$0.800	$0.700	May 2019	$29,395

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

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

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

32. SHAREHOLDERS AND SUBSTANTIAL SECURITY HOLDERS

32.1 The 20 largest shareholders as at 19 July 2018 were:

Shareholder	% of Total	Shares
New Zealand Permanent Trustees Limited - NZCSD <NZPT43>	11.33%	1,649,343
ASB Nominees Limited <574233 A/C>	10.34%	1,504,801
Philip Hadfield Hardie Boys <P & K Hardie Boys Family A/C>	8.59%	1,250,000
Indrajit Nelson Sivasubramaniam + Tracey Lee Sivasubramaniam	6.66%	970,000
Custodial Services Limited <A/C 4>	5.66%	823,650
Michael Charles Hare	4.88%	710,000
Accident Compensation Corporation - NZCSD <Acci40>	4.87%	708,500
Colin Glenn Giffney	3.78%	550,000
Christopher Veale + Penny Veale	3.41%	496,270
Jillian Bernadette Winstanley	2.23%	325,000
Investment Custodial Services Limited <990025995>	1.93%	280,881
Custodial Services Limited <A/C 3>	1.71%	248,472
Custodial Services Limited <A/C 1>	1.68%	245,000
Don Nominees Limited	1.61%	234,944
Roger Dixon Armstrong	1.59%	231,665
Deirdre Elizabeth Tallott	1.47%	214,444
FNZ Custodians Limited <DRP NZ A/C>	1.32%	192,143
Investment Custodial Services Limited <990027046>	1.24%	180,000
Zealandia Associates Limited	1.11%	162,000
Anna Lake	1.10%	160,000
Grand Total	**76.51%**	**11,137,113**

A total of 14,559,810 shares were on issue (2017: 14,059,810).

32.1 Size of Shareholding as at 18 July 2018

Holdings	Shareholders	Shares Held	% of Total
1-999	63	7,110	0.0%
1,000-4,999	39	82,031	0.6%
5,000-9,999	28	170,152	1.2%
10,000-49,999	47	880,698	6.0%
50,000-99,999	16	1,123,597	7.7%
100,000 and over	29	12,296,222	84.5%
TOTAL	**222**	**14,559,810**	**100.0%**

32.2 Substantial Security Holders

According to notices given under the Financial Markets Conduct Act 2013, the following persons were substantial shareholders in Solution Dynamics Limited as at 21 July 2018:

Shareholder	% of Total	Shares
New Zealand Permanent Trustees Limited (The Aspiring Fund)	11.33%	1,649,343
Meta Capital Limited (John McMahon)	10.34%	1,504,801
Philip Hadfield Hardie Boys (P & K Hardie Boys Family A/C)	8.59%	1,250,000
Indrajit Nelson Sivasubramaniam & Tracey Lee Sivasubramaniam	6.66%	970,000
Michael Charles Hare (& others)	5.08%	740,000

33. BUSINESS COMBINATIONS

During the year ended 30 June 2018, the Group acquired the business and assets of Auckland-based scanning services and technology provider Scantech Limited (Scantech) acquired 1 April 2018 and of United States-based technology company DigitalToPrint Inc. and its related companies (DTP) acquired 1 May 2018 for an aggregate purchase consideration of $1.05 million.

The Company obtained full control of these businesses by acquiring the assets of the Company, including property leases and some staff.

The acquisition includes contingent consideration determined by the Directors to be $335,000 based upon achieving sales targets within 12-months of acquisition date. The range of possible contingent consideration is nil to $1.21 million.

Details of the assets and liabilities acquired for these acquisitions are as follows:

	$000
Purchase Consideration	
Cash paid during the period	712
Estimate of earnout related to acquisitions (payable within 12-months of acquisition)	335
Total Estimated Consideration	**1,047**
Fair value of assets arising from the acquisitions	**-**
Property plant and equipment	75
Intangible assets software	531
Intangible assets customer contracts	441
Goodwill – arising on deferred tax	123
Less liabilities assumed:	
Deferred tax liability on customer contracts	(123)
Total	**1,047**

The contribution of these businesses to the Group results for the year ended 30 June 2018 was revenue of $248,000 and an operating loss before interest, income tax and amortisation of intangibles of $60,000. Legal and other costs incurred during the year ended 30 June 2018 related to these acquisitions (note 5) totalled $118,000, these are non-deductible for tax purposes.

Had the business combinations taken place at the beginning of the accounting period 1 July 2017, Group revenues would have increased to $25.4 million and profit before income tax would have been $1.8 million.

34. EVENTS AFTER THE REPORTING DATE

On 30 August 2018, the directors approved the payment of a fully imputed dividend of 3.50 cents per share amounting to $509,593 to be paid on 21 September 2018 (2017: The directors approved the payment of a fully imputed dividend of 3.25 cents per share, amounting to $456,944).

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COMPANY DIRECTORY

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

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

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