

# ANNUAL REPORT

2023

Transforming Global Customer  
Communications

# ANNUAL SHAREHOLDERS MEETING

The Annual Meeting of shareholders will be held at 10:30 am on Thursday, 19th October 2023, as an in-person meeting in the Jupiter Meeting Room Solution Dynamics Limited, 18 Canaveral Drive, Albany, AUCKLAND, and as an online meeting with details to be provided when the Company provides the Notice of Meeting to shareholders.

## 2023 HIGHLIGHTS

- Record net profit after tax, up 33% to \$3.42 million
- Earnings per share 23.3 cents (prior year 17.5 cents)
- Dividends per share of 11.5 cents (prior year 13.0 cents)
- Revenue broadly flat at \$40.4 million
- EBITDA up 26% to \$5.7 million
- Net cash on hand \$6.6 million

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# DIRECTORS' AND MANAGEMENT COMMENTARY

## FY2023 Result Overview

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Solution Dynamics Limited ("SDL" or "Company") recorded a net profit after tax of \$3.42 million for FY2023, a 33.6% gain on the profit of \$2.56 million the prior financial year. FY2023 earnings per share was 23.3 cents, up 33.6% from 17.5 cents the prior year. This is another record profit result for the Company.

The Company's revenue was broadly flat at \$40.4 million (up 0.6% from \$40.2 million). SDL's New Zealand operations made significant progress, gaining share in a declining local print and mail market. International operations generated only modest new business, but suffered from more difficult economic conditions, especially from customers in the US mortgage market where volumes were down around 75%. This international weakness drove a 4.6% reduction SDL's Software & Technology platform revenue, to \$28.4 million.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") increased 26.4% to \$5.71 million (FY2022 \$4.52 million), on the back of improved Gross Profit from growth in higher margin accounts, pricing actions and new business.

Cash flow from operations was \$4.84 million (FY2022 \$2.98 million) and the net cash position at year end was \$6.63 million (FY2022 \$5.01 million).

The directors have declared a final cash dividend of 1.5 cent per share (FY2022 4.0 cents), bringing total cash dividends for FY2023 of 11.5 cents per share (FY2022 13.0 cents). All dividends are fully imputed. During the second half of FY2023 (backdated to late in the first half), SDL received a three-year, co-funding International Growth Fund development grant from NZ Trade & Enterprise ("NZTE"). One of NZTE's conditions is that SDL's dividend payout ratio is capped at 50% for the duration of the grant and the final 1.5 cent dividend brings the full year payout ratio to 49.4%.

## FY2023 Business Performance

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The New Zealand business produced solid gains following a refreshed focus on new business activity that commenced in late FY2022, following staff changes and restructuring the sales team. Further gains were also achieved from changes amongst local competitors that occurred in FY2022.

SDL achieved broad-based price increases in New Zealand during the year, something that has not occurred for an extended time, although this is mainly offset inflation pressures that were particularly noticeable in certain areas of staffing.

The Company was pleased to implement a “living wage” policy during the year. This was not a significant cost but it was meaningful for the recipients.

International operations continued to expand business with higher margin clients that have global customer communications requirements, enabling significant growth in margins and profit despite relatively flat revenue growth. Postal organisations globally are continuing to implement significant hikes in postage rates, aimed at offsetting the revenue erosion they are suffering from falling volumes. SDL expects this trend to continue and expects ongoing sizeable increases in postage rates in the markets the Company operates in, including New Zealand Post. SDL is well positioned through its global customer communications cloud and distributed print network and expertise to capture postage savings while accelerating digital transformation. This was confirmed during FY2023 with the addition of a “big four” global Business Process Outsourcer based in New York choosing SDL for a leading global credit card provider’s international communications programme.



The Company refurbished its Auckland office space during the first half of the year. This has contributed to improved staff morale and engagement, along with assisting the process of staff returning to the office. The fitout was completed cost effectively.

SDL’s website has recently been updated to better reflect the Company’s unique advantages around digitally transforming global customer communications.

Given difficult macroeconomic conditions, and sales underperformance in International markets, the Company was pleased to generate a record profit in FY2023.

## Business Description

SDL operates in the global Customer Communications market, providing a comprehensive suite of software technology, professional services, and managed services to facilitate the digital transformation of global customer communications. SDL operates primarily in New Zealand, North America and the UK, increasingly supporting global organisations with customer communications needs. The Company’s products and services are represented by two revenue streams:

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

Services reflects the New Zealand business where SDL owns and operates mail house activities. Within Services, Digital Print & Document Handling revenues are generated from digital printing and mail house processing for two categories of mail items: transactional mail, such as invoices and statements; and direct marketing and promotional mail. Outsourced Services such as envelope printing and postage are typically bundled as part of the total solution albeit generally at much lower margins.

Software & Technology, reflecting the International business principally in North America and the UK, provides a comprehensive suite of global customer communications cloud solutions. This cloud service provides a complete global solution while the DMC (Digital Mail Centre) leverages and extends the capabilities of the SDL cloud to the desktop through a simple yet powerful user experience. Primary components of the SDL technology stack include:

- complete, workflow and integration;
- complete digital and print multi-channel distribution;
- global distributed print integration in over 50 countries;
- digital asset management;
- digital and print campaign optimisation and management;
- document scanning, workflow and archiving;
- artificial intelligence applied to document enhancement;
- document composition and hyper-personalisation;
- desktop digital mail centre User Interface (UX digital document management);
- data quality and enhancement; and,
- dashboards and analytics.

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

The primary focus for most clients is digital transformation of customer communications, while improving the efficiency and effectiveness of printed communications remains vital. While the majority of SDL's revenue in FY2023 are from printed communications, increasingly our growth and differentiation globally is in our software and in digital transformation.

Total Software & Technology revenue (some of which is revenue billed from New Zealand) as a proportion of total revenue was around 70% in FY2023.

## Description and Review of Revenue Streams

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### Services

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

Services now bases its sales approach around digital transformation; some of the largest SDL clients in New Zealand rely on SDL for digital services from data quality and enhancement, to digital channel distribution and closed loop reporting.

Services revenue also includes Outsourced Services, which encompasses a variety of outsourced functions or components such as postage, third party offset printing, freight, paper and envelopes, and digital channel delivery.

The Company has an access agreement with NZ Post and an alternative carrier which provides wholesale rates and bulk mail discounts off retail rates. The gross profit margins on many of these outsourced components, especially postage, are low but an important component of the total solution.

SDL is part way through implementing several updated systems to improve efficiency and productivity across various parts of the business. These include an end-to-end estimating, ordering, invoicing and production management information system that is expected to provide improved flexibility and control of the Company’s print operations. A more modern ERP/accounting package is expected to be installed and largely operational by year end, and a new sales CRM (customer relationship management) system is currently under testing for rollout.

In a declining mail market, SDL’s mail volumes managed a 2% rise on the prior year (FY2022 mail volumes fell by 8%). This resulted from market share gains, especially new wins amongst New Zealand Councils. However, the headwinds to physical transactional mail are exacerbating as rapidly increasing postage rates accelerate customers’ switch to digital. From 1 July 2023, NZ Post increased its standard medium-sized letter retail pricing by \$0.30 to \$2.00 a rise of 17.6%. SDL remains confident it holds a strongly competitive cost position in the market and has recently implemented a further broad-based price increase.

On the digital communications side, SDL’s volume of customer emails rose about 5%.

SDL Services Revenue Breakdown (all figures \$'000)	FY2023	FY2022 Restated <sup>1</sup>	Percentage Change
Digital Printing and Document Handling	4,430	4,271	3.7%
Outsourced Services	7,528	6,053	24.4%
<b>Total Services Revenue</b>	<b>11,958</b>	<b>10,324</b>	<b>15.8%</b>

*1. Total Services revenue is unchanged, this is a reallocation between the two revenue categories and is restated for classification purposes. Prior FY2022 revenue for Digital Print and Document Handling was \$3,812. Prior FY2022 revenue for Outsourced Services was \$6,512.*

The successful refocus of New Zealand sales to lead with SDL’s digital transformation produced solid FY2023 results with revenue up a strong 15.8% and the pipeline for FY2024 is robust. While the overall domestic postal market decline provides an ongoing headwind that makes sustained growth difficult to achieve, the full year benefit from FY2023 gains, a recent round of price increases, plus pipeline opportunities, should underpin further solid growth in FY2024.

## SDL Software & Technology

Software & Technology generated revenue of \$28.4 million in FY2023, a decline of 4.6% on the prior year’s revenue of \$29.8 million. There was some relative improvement in H2 which saw revenue rise 1.3% versus the H1 year-on-year decline of 8.2%.

SDL saw growth in the UK market as post-COVID recovery in volumes continued, although UK and European revenue still remains around 30% below FY2020 levels. The Company’s largest customer, based in North America, increased revenue by around 7%. Despite growth in the two largest clients, revenue overall was well down in North America as a result of the collapse of the US mortgage market and several large, one-time low margin deals in FY2022. The strategy going forward is to focus on global clients with global opportunities and avoid single country applications that are lower margin and where SDL’s technology services provide less value add. During the second half of FY2023, SDL won a large software and managed services contract for one of the “Big Four” Business Process Outsourcers based in New York servicing a major global credit card brand. This contributed to improved revenue and margin performance in H2.



Despite the lower revenue, Software and Technology achieved a mix of higher margin revenue that enabled North American gross profit to grow by 14% in FY2023.

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

SDL has "productised" its global customer communications platform, DMC, and made it easier for customers to access and "self serve". DMC simplifies onboarding of customers and sending and tracking of documents through physical and digital channels. DMC integrates with other SDL products including the document composition platform, Composer, and the automation tool, Autoprod, to enable creation of highly personalised communications at scale. DMC integrates with SDL's print partner network through the Company's distributed print platform, Jupiter, to manage and provide real time status updates on job completion and mailing. SDL's expertise in global postage management delivers significant cost savings by leveraging DMC to optimise production and delivery logistics. The Company's objective is to grow SaaS platform revenue at a faster rate than print services by focusing on digital transformation.

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

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

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

In H2 FY2023, SDL applied for and received an International Growth Fund ("IGF") co-funding grant from NZ Trade and Enterprise ("NZTE") to support a range of market development activities in North America. The IGF provides 50:50 co-funding for eligible project costs up to a maximum of \$0.6 million from NZTE over a three-year period from November 2022. A condition of the co-funding is that SDL cannot make distributions that exceed 50% of net profit after tax for the duration of the co-funding agreement.

## Financial Performance

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SDL's growth in earnings over FY2023 resulted from a combination of successful new business growth in New Zealand and improved margins on \$25.7 million of international revenue. Additionally, price increases in the local market helped offset inflationary cost pressures.

The improved revenue mix along with better sourcing to mitigate rising input costs, saw Gross Profit improve 14.7% on largely unchanged total revenue. SG&A costs suffered from inflationary pressures in some parts of the business, along with additional incentive payments for above-budget performance, rising 9.0% on the prior year. EBITDA grew 26.4% to \$5.71 million.

Summary Financial Performance (all figures \$'000)	FY2023	FY2022	Percentage Change
<b>Total Revenue</b>	<b>40,385</b>	<b>40,127</b>	<b>0.6%</b>
Less: Cost of Goods Sold	24,399	26,186	-6.8%
<b>Gross Profit</b>	<b>15,986</b>	<b>13,941</b>	<b>14.7%</b>
Gross Margin (%)	39.6%	34.7%	
Less: Selling, General & Admin (SG&A)	10,274	9,422	9.0%
<b>EBITDA</b>	<b>5,712</b>	<b>4,519</b>	<b>26.4%</b>
EBITDA margin (%)	14.1%	11.3%	
Depreciation	965	885	9.0%
Amortisation	85	168	-49.4%
<b>EBIT</b>	<b>4,662</b>	<b>3,466</b>	<b>34.5%</b>
Net Interest paid	18	59	-69.5%
Income Tax	1,219	844	44.4%
<b>Net Profit after Tax</b>	<b>3,425</b>	<b>2,563</b>	<b>33.6%</b>
Tax rate	26.2%	24.8%	

SDL's earnings in FY2023 benefitted from NZTE's market development co-funding assistance, which totaled \$0.1 million pre-tax.

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

SDL Half Financial Years (all figures \$'000)	2H FY2023	2H FY2022	Percentage Change	1H FY2023	1H FY2022	Percentage Change
Total Revenue	17,041	16,409	3.9%	23,344	23,718	-1.6%
EBITDA	1,601	898	78.3%	4,111	3,621	13.5%
EBITDA margin	9.4%	5.5%		17.6%	15.3%	
<b>Net Profit after Tax</b>	<b>968</b>	<b>531</b>	<b>82.3%</b>	<b>2,457</b>	<b>2,032</b>	<b>20.9%</b>

## Balance Sheet, Liquidity and Debt

SDL closed the year with net cash (i.e. cash less interest-bearing debt) on hand on \$6.63 million (FY2022 \$5.01 million). This net cash figure excludes debt liabilities relating to Right to Use Liabilities arising from the Lease Accounting standard; these liabilities are approximately offset by Right to Use Assets.

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



The Company maintains an overdraft arrangement from ANZ Bank with a \$200,000 limit. This was unused during FY2023.

Selected Balance Sheet and Cashflow Figures (all figures \$'000)	FY2023	Restated FY2022	Change
Net Cash/(Debt & Borrowings)	6,628	5,009	1,619
Non-Current Assets	1,663	1,541	122
Right of Use Assets	2,188	3,017	-829
Net Other Assets/(Liabilities)	-878	-602*	-276
Right of Use Liabilities	-2,250	-3,051	801
<b>Net Assets</b>	<b>7,351</b>	<b>5,914*</b>	<b>1,437</b>
Cashflow from Trading	4,740	3,902	838
Movement in Working Capital	103	-923	1,026
<b>Cash Inflow from Operations</b>	<b>4,843</b>	<b>2,979</b>	<b>1,864</b>

\*Restatement only for Right of Use asset and Right of Use liability around the timing of SDL's building lease renewal for IFRS 16 purposes, the FY2022 Right of Use asset and Right of Use liability amounts are both increased by \$0.4 million. There is no other impact from this change and the FY2022 Income Statement is unaffected.

Capital expenditure for the year was \$0.3 million. The Company does not capitalise any software development. The largest item of capex was the refurbishment to the fitout of SDL's Albany office, followed by a number of items of computer and print equipment, including a new server.

Net assets includes intangible assets of around \$1.1 million, which is all goodwill and subject to an annual impairment test.

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

## Taxation and Dividends

SDL pays full New Zealand tax on locally generated earnings. In both FY2022 and FY2023, the Company obtained some benefit from New Zealand's Research and Development Tax Incentive (RDTI) which provides a tax credit equal to 15% of eligible R&D expenditure. The RDTI tax credit benefit is the primary reason why the overall tax rate of 26.2% is below statutory tax rates in the jurisdictions in which SDL operates.

SDL intends to pay dividends only to the extent that it can fully impute them and also subject to the Company not experiencing any one-off requirements for abnormal capital expenditure or any significant acquisition or investment activity. Additionally, NZTE's IGF co-funding caps SDL's dividend payout ratio at 50% for the duration of the grant agreement. This limited the full year FY2023 final dividend to 1.5 cents per share.

Earnings and Dividends per Share	FY2023	FY2022	Percentage Change
Closing Shares on Issue ('000)	14,720	14,720	0.0%
<b>Reported Earnings per Share (cents)</b>	<b>23.23</b>	<b>17.41</b>	<b>33.4%</b>
<b>Dividend per Share (cents)</b>	<b>11.5</b>	<b>13.0</b>	<b>-11.5%</b>
Dividend Proportion Imputed	100.0%	100.0%	
Dividend Payout ratio	49.5%	74.7%	

The final dividend of 1.5 cents per share will be fully imputed and paid on 22 September 2023.

The number of shares on issue was unchanged year-on-year. At financial year end, the Company had outstanding ESOP rights to four key staff members in the plan (including the CEO) who collectively held rights to 0.6 million shares.

## Risk Factors

Physical mail volumes in New Zealand are continuing to show structural decline, especially for transactional mail. As previously noted, NZ Post standard-mail retail postage rates have increased 17.6% for FY2024. The Company has several key domestic contracts that, if lost, could place material pressure on local profitability although much of this is under medium-term contract. SDL expects that consolidation in the New Zealand print market is inevitable, but the Company will not participate unless there is clear value enhancement for shareholders.

SDL's largest five customers accounted for 59% of revenue. Loss of one or more of those, particularly the Company's largest customer, would cause financial results to change very materially.

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

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

The Company mainly relies on distribution channel partners to market its software products into the UK, Europe and the US. This means SDL has little or no contact with many of the end user customers of its products. While these channel partner arrangements are currently stable there is no guarantee these arrangements will continue. SDL aims to ensure its software meets channel partner requirements.

At present, the Company expects ongoing growth from existing customers and new contract wins as sufficient to support growth expectations. However, the global environment, especially macroeconomic conditions, remains extremely uncertain and this could materially affect the Company's results.

While the risks noted represent ongoing challenges and headwinds, the market opportunities to help organisations with their global customer communications digital transformation can be significant. SDL holds a leadership position in global postage management and distributed print, capturing significant savings as the first step in the digital transformation journey. Leading brands rely on SDL's digital document management platform and the Company's sales and marketing efforts should enable growth in key vertical global markets and offer longer term paybacks. Nevertheless, the shorter-term headwinds in the global environment, especially relating to macroeconomic conditions, are producing significant uncertainty and this could materially affect the Company's results.

## FY2024 Outlook

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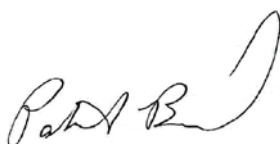
In SDL's domestic New Zealand market, there are two offsetting factors. First is SDL's ongoing success in winning new business, which is currently more than offsetting the rate of overall decline in the print and mail house market. Second is the continued rate hikes by postal operators globally, including NZ Post, in postage rates. This will inevitably hasten the move from physical to digital communications although the effect is more pronounced for transactional mail (severely affected) than for promotional mail (very modestly affected).

Internationally, renewed focus and staffing changes have occurred to the sales function. SDL has narrowed its focus to key vertical markets, such as sectors with cross-border mail, or where the Company has competitive advantage based on sector domain knowledge and the ability to utilise distributed print capability. Difficult macroeconomic conditions as higher interest rates effect economic growth are making sales cycles longer and more difficult, however, the changed focus has resulted in a developing pipeline of prospects.

SDL has previously announced that its largest customer has indicated it intends to review its communications contracts by issuing a Request for Proposal ("RFP") tender for the work the Company has undertaken for around five years. The customer has stated it is very satisfied with SDL's service quality and operational flexibility and that the RFP is part of the customer's periodic review of its large contracts. The current expectation is that the RFP is likely to be issued early in 2024, although timing remains uncertain and subject to change. This customer is very material to SDL and every effort will be undertaken to ensure the business is retained, although an RFP process will inevitably carry significant risk for the Company.

The timing of the RFP, and its outcome, make providing guidance for the financial year ahead unusually difficult. The directors have decided to defer providing FY2024 earnings guidance until the result of the RFP is known. At this stage, the first half result for FY2024 will not be affected.

In addition to the large-customer-specific risk, the Company cautions that significant volatility in results is possible and a number of factors, especially macroeconomic headwinds, are outside the Company's control.

A handwritten signature in black ink, appearing to read 'Patrick Brand'.

**Patrick Brand**  
Chief Executive Officer

A handwritten signature in black ink, appearing to read 'John McMahon'.

**John McMahon**  
Director (Chairman)

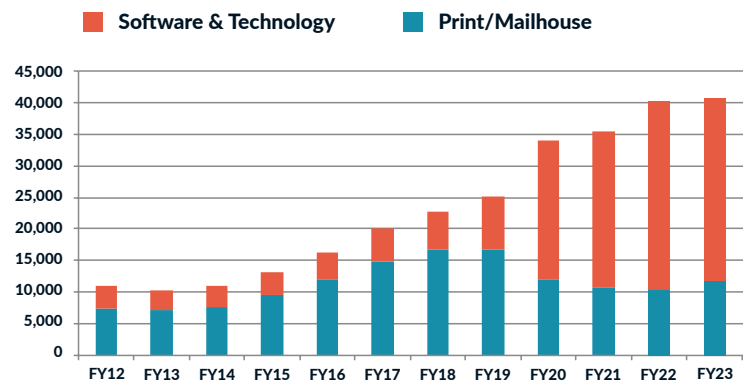
## Key Financial Trend Metrics

### Revenue (\$000)

Revenue CAGR (10 yr) 14.6%

Software CAGR (10 yr) 25.1%

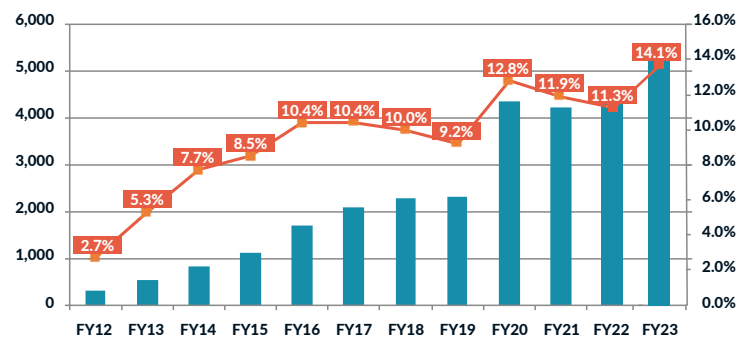
Print/Mail CAGR (10 yr) 5.1%



### EBITDA (\$000)

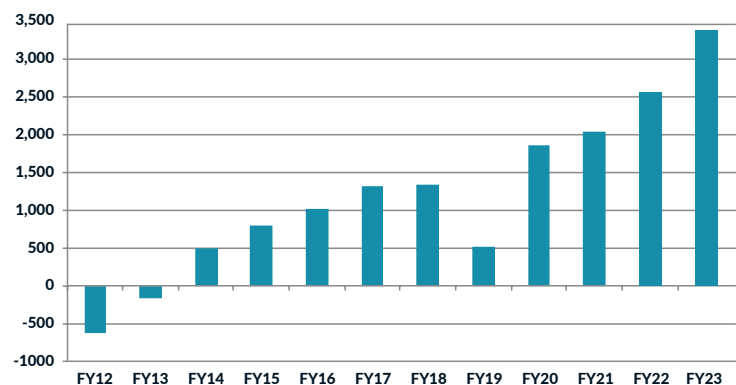
CAGR (10 year) 26.5%

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



### Net Profit (\$000)

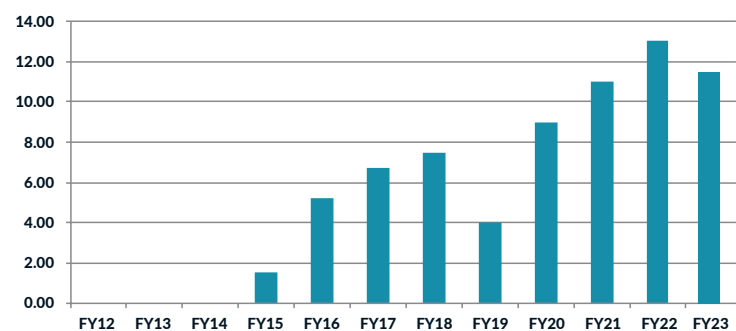
Reported net profit. Note that SDL paid no tax from FY2012 to FY2014.



### Dividends

Cents per share  
(excludes imputation credits).

All dividends are fully imputed.



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

Services reflects the New Zealand business where SDL owns and operates mail house activities. Within Services, Digital Print & Document Handling revenues are generated from digital printing and mail house processing for two categories of mail items: transactional mail, such as invoices and statements; and direct marketing and promotional mail. Outsourced Services such as envelope printing and postage are typically bundled as part of the total solution albeit generally at much lower margins.

Software & Technology, reflecting the International business principally in North America and the UK, provides a comprehensive suite of global customer communications cloud solutions. This cloud service provides a complete global solution while the DMC (Digital Mail Centre) leverages and extends the capabilities of the SDL cloud to the desktop through a simple yet powerful user experience. Primary components of the SDL technology stack include:

- complete, workflow and integration;
- complete digital and print multi-channel distribution;
- global distributed print integration in over 50 countries;
- digital asset management;
- digital and print campaign optimisation and management;
- document scanning, workflow and archiving;
- artificial intelligence applied to document enhancement;



- document composition and hyper-personalisation;
- desktop digital mail centre User Interface (UX digital document management);
- data quality and enhancement; and,
- dashboards and analytics.

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

The primary focus for most clients is digital transformation of customer communications, while improving the efficiency and effectiveness of printed communications remains vital. While the majority of SDL's revenue in FY2023 are from printed communications, increasingly our growth and differentiation globally is in our software and in digital transformation.

Total Software & Technology revenue (some of which is revenue billed from New Zealand) as a proportion of total revenue was around 70% in FY2023.

## Description and Review of Revenue Streams

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### Services

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

Services now bases its sales approach around digital transformation; some of the largest SDL clients in New Zealand rely on SDL for digital services from data quality and enhancement, to digital channel distribution and closed loop reporting.

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

SDL is part way through implementing several updated systems to improve efficiency and productivity across various parts of the business. These include an end-to-end estimating, ordering, invoicing and production management information system that is expected to provide improved flexibility and control of the Company's print operations. A more modern ERP/accounting package is expected to be installed and largely operational by year end, and a new sales CRM (customer relationship management) system is currently under testing for rollout.

In a declining mail market, SDL's mail volumes managed a 2% rise on the prior year (FY2022 mail volumes fell by 8%). This resulted from market share gains, especially new wins amongst New Zealand Councils. However, the headwinds to physical transactional mail are exacerbating as rapidly increasing postage rates accelerate customers' switch to digital. From 1 July 2023, NZ Post increased its standard medium-sized letter retail pricing by \$0.30 to \$2.00 a rise of 17.6%. SDL remains confident it holds a strongly competitive cost position in the market and has recently implemented a further broad-based price increase.

On the digital communications side, SDL's volume of customer emails rose about 5%.

SDL Services Revenue Breakdown (all figures \$'000)	FY2023	FY2022 Restated <sup>1</sup>	Percentage Change
Digital Printing and Document Handling	4,430	4,271	3.7%
Outsourced Services	7,528	6,053	24.4%
Total Services Revenue	11,958	10,324	15.8%

1. Total Services revenue is unchanged, this is a reallocation between the two revenue categories and is restated for classification purposes. Prior FY2022 revenue for Digital Print and Document Handling was \$3,812. Prior FY2022 revenue for Outsourced Services was \$6,512.

The successful refocus of New Zealand sales to lead with SDL's digital transformation produced solid FY2023 results with revenue up a strong 15.8% and the pipeline for FY2024 is robust. While the overall domestic postal market decline provides an ongoing headwind that makes sustained growth difficult to achieve, the full year benefit from FY2023 gains, a recent round of price increases, plus pipeline opportunities, should underpin further solid growth in FY2024.

## SDL Software & Technology

Software & Technology generated revenue of \$28.4 million in FY2023, a decline of 4.6% on the prior year's revenue of \$29.8 million. There was some relative improvement in H2 which saw revenue rise 1.3% versus the H1 year-on-year decline of 8.2%.

SDL saw growth in the UK market as post-COVID recovery in volumes continued, although UK and European revenue still remains around 30% below FY2020 levels. The Company's largest customer, based in North America, increased revenue by around 7%. Despite growth in the two largest clients, revenue overall was well down in North America as a result of the collapse of the US mortgage market and several large, one-time low margin deals in FY2022. The strategy going forward is to focus on global clients with global opportunities and avoid single country applications that are lower margin and where SDL's technology services provide less value add. During the second half of FY2023, SDL won a large software and managed services contract for one of the "Big Four" Business Process Outsourcers based in New York servicing a major global credit card brand. This contributed to improved revenue and margin performance in H2.

Despite the lower revenue, Software and Technology achieved a mix of higher margin revenue that enabled North American gross profit to grow by 14% in FY2023.

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

SDL has “productised” its global customer communications platform, DMC, and made it easier for customers to access and “self serve”. DMC simplifies onboarding of customers and sending and tracking of documents through physical and digital channels. DMC integrates with other SDL products including the document composition platform, Composer, and the automation tool, Autoprod, to enable creation of highly personalised communications at scale. DMC integrates with SDL’s print partner network through the Company’s distributed print platform, Jupiter, to manage and provide real time status updates on job completion and mailing. SDL’s expertise in global postage management delivers significant cost savings by leveraging DMC to optimise production and delivery logistics. The Company’s objective is to grow SaaS platform revenue at a faster rate than print services by focusing on digital transformation.

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

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

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

In H2 FY2023, SDL applied for and received an International Growth Fund (“IGF”) co-funding grant from NZ Trade and Enterprise (“NZTE”) to support a range of market development activities in North America. The IGF provides 50:50 co-funding for eligible project costs up to a maximum of \$0.6 million from NZTE over a three-year period from November 2022. A condition of the co-funding is that SDL cannot make distributions that exceed 50% of net profit after tax for the duration of the co-funding agreement.

## Financial Performance

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SDL’s growth in earnings over FY2023 resulted from a combination of successful new business growth in New Zealand and improved margins on \$25.7 million of international revenue. Additionally, price increases in the local market helped offset inflationary cost pressures.

The improved revenue mix along with better sourcing to mitigate rising input costs, saw Gross Profit improve 14.7% on largely unchanged total revenue. SG&A costs suffered from inflationary pressures in some parts of the business, along with additional incentive payments for above-budget performance, rising 9.0% on the prior year. EBITDA grew 26.4% to \$5.71 million.

Summary Financial Performance (all figures \$'000)	FY2023	FY2022	Percentage Change
<b>Total Revenue</b>	<b>40,385</b>	<b>40,127</b>	<b>0.6%</b>
Less: Cost of Goods Sold	24,399	26,186	-6.8%
<b>Gross Profit</b>	<b>15,986</b>	<b>13,941</b>	<b>14.7%</b>
Gross Margin (%)	39.6%	34.7%	
Less: Selling, General & Admin (SG&A)	10,274	9,422	9.0%
<b>EBITDA</b>	<b>5,712</b>	<b>4,519</b>	<b>26.4%</b>
EBITDA margin (%)	14.1%	11.3%	
Depreciation	965	885	9.0%
Amortisation	85	168	-49.4%
<b>EBIT</b>	<b>4,662</b>	<b>3,466</b>	<b>34.5%</b>
Net Interest paid	18	59	-69.5%
Income Tax	1,219	844	44.4%
<b>Net Profit after Tax</b>	<b>3,425</b>	<b>2,563</b>	<b>33.6%</b>
Tax rate	26.2%	24.8%	

SDL's earnings in FY2023 benefitted from NZTE's market development co-funding assistance, which totaled \$0.1 million pre-tax.

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

SDL Half Financial Years (all figures \$'000)	2H FY2023	2H FY2022	Percentage Change	1H FY2023	1H FY2022	Percentage Change
Total Revenue	17,041	16,409	3.9%	23,344	23,718	-1.6%
EBITDA	1,601	898	78.3%	4,111	3,621	13.5%
EBITDA margin	9.4%	5.5%		17.6%	15.3%	
<b>Net Profit after Tax</b>	<b>968</b>	<b>531</b>	<b>82.3%</b>	<b>2,457</b>	<b>2,032</b>	<b>20.9%</b>

## Balance Sheet, Liquidity and Debt

SDL closed the year with net cash (i.e. cash less interest-bearing debt) on hand on \$6.63 million (FY2022 \$5.01 million). This net cash figure excludes debt liabilities relating to Right to Use Liabilities arising from the Lease Accounting standard; these liabilities are approximately offset by Right to Use Assets.

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

The Company maintains an overdraft arrangement from ANZ Bank with a \$200,000 limit. This was unused during FY2023.

Selected Balance Sheet and Cashflow Figures (all figures \$'000)	FY2023	Restated FY2022	Change
Net Cash/(Debt & Borrowings)	6,628	5,009	1,619
Non-Current Assets	1,663	1,541	122
Right of Use Assets	2,188	3,017	-829
Net Other Assets/(Liabilities)	-878	-602*	-276
Right of Use Liabilities	-2,250	-3,051	801
<b>Net Assets</b>	<b>7,351</b>	<b>5,914*</b>	<b>1,437</b>
Cashflow from Trading	4,740	3,902	838
Movement in Working Capital	103	-923	1,026
<b>Cash Inflow from Operations</b>	<b>4,843</b>	<b>2,979</b>	<b>1,864</b>

\*Restatement only for Right of Use asset and Right of Use liability around the timing of SDL's building lease renewal for IFRS 16 purposes, the FY2022 Right of Use asset and Right of Use liability amounts are both increased by \$0.4 million. There is no other impact from this change and the FY2022 Income Statement is unaffected.

Capital expenditure for the year was \$0.3 million. The Company does not capitalise any software development. The largest item of capex was the refurbishment to the fitout of SDL's Albany office, followed by a number of items of computer and print equipment, including a new server.

Net assets includes intangible assets of around \$1.1 million, which is all goodwill and subject to an annual impairment test.

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

## Taxation and Dividends

SDL pays full New Zealand tax on locally generated earnings. In both FY2022 and FY2023, the Company obtained some benefit from New Zealand's Research and Development Tax Incentive (RDTI) which provides a tax credit equal to 15% of eligible R&D expenditure. The RDTI tax credit benefit is the primary reason why the overall tax rate of 26.2% is below statutory tax rates in the jurisdictions in which SDL operates.

SDL intends to pay dividends only to the extent that it can fully impute them and also subject to the Company not experiencing any one-off requirements for abnormal capital expenditure or any significant acquisition or investment activity. Additionally, NZTE's IGF co-funding caps SDL's dividend payout ratio at 50% for the duration of the grant agreement. This limited the full year FY2023 final dividend to 1.5 cents per share.

Earnings and Dividends per Share	FY2023	FY2022	Percentage Change
Closing Shares on Issue ('000)	14,720	14,720	0.0%
<b>Reported Earnings per Share (cents)</b>	<b>23.23</b>	<b>17.41</b>	<b>33.4%</b>
<b>Dividend per Share (cents)</b>	<b>11.5</b>	<b>13.0</b>	<b>-11.5%</b>
Dividend Proportion Imputed	100.0%	100.0%	
Dividend Payout ratio	49.5%	74.7%	

The final dividend of 1.5 cents per share will be fully imputed and paid on 22 September 2023.

The number of shares on issue was unchanged year-on-year. At financial year end, the Company had outstanding ESOP rights to four key staff members in the plan (including the CEO) who collectively held rights to 0.6 million shares.

## Risk Factors

Physical mail volumes in New Zealand are continuing to show structural decline, especially for transactional mail. As previously noted, NZ Post standard-mail retail postage rates have increased 17.6% for FY2024. The Company has several key domestic contracts that, if lost, could place material pressure on local profitability although much of this is under medium-term contract. SDL expects that consolidation in the New Zealand print market is inevitable, but the Company will not participate unless there is clear value enhancement for shareholders.

SDL's largest five customers accounted for 59% of revenue. Loss of one or more of those, particularly the Company's largest customer, would cause financial results to change very materially.

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

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

The Company mainly relies on distribution channel partners to market its software products into the UK, Europe and the US. This means SDL has little or no contact with many of the end user customers of its products. While these channel partner arrangements are currently stable there is no guarantee these arrangements will continue. SDL aims to ensure its software meets channel partner requirements.

At present, the Company expects ongoing growth from existing customers and new contract wins as sufficient to support growth expectations. However, the global environment, especially macroeconomic conditions, remains extremely uncertain and this could materially affect the Company's results.

While the risks noted represent ongoing challenges and headwinds, the market opportunities to help organisations with their global customer communications digital transformation can be significant. SDL holds a leadership position in global postage management and distributed print, capturing significant savings as the first step in the digital transformation journey. Leading brands rely on SDL's digital document management platform and the Company's sales and marketing efforts should enable growth in key vertical global markets and offer longer term paybacks. Nevertheless, the shorter-term headwinds in the global environment, especially relating to macroeconomic conditions, are producing significant uncertainty and this could materially affect the Company's results.

## FY2024 Outlook

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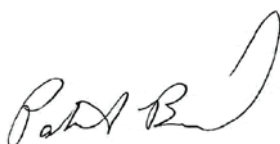
In SDL's domestic New Zealand market, there are two offsetting factors. First is SDL's ongoing success in winning new business, which is currently more than offsetting the rate of overall decline in the print and mail house market. Second is the continued rate hikes by postal operators globally, including NZ Post, in postage rates. This will inevitably hasten the move from physical to digital communications although the effect is more pronounced for transactional mail (severely affected) than for promotional mail (very modestly affected).

Internationally, renewed focus and staffing changes have occurred to the sales function. SDL has narrowed its focus to key vertical markets, such as sectors with cross-border mail, or where the Company has competitive advantage based on sector domain knowledge and the ability to utilise distributed print capability. Difficult macroeconomic conditions as higher interest rates effect economic growth are making sales cycles longer and more difficult, however, the changed focus has resulted in a developing pipeline of prospects.

SDL has previously announced that its largest customer has indicated it intends to review its communications contracts by issuing a Request for Proposal ("RFP") tender for the work the Company has undertaken for around five years. The customer has stated it is very satisfied with SDL's service quality and operational flexibility and that the RFP is part of the customer's periodic review of its large contracts. The current expectation is that the RFP is likely to be issued early in 2024, although timing remains uncertain and subject to change. This customer is very material to SDL and every effort will be undertaken to ensure the business is retained, although an RFP process will inevitably carry significant risk for the Company.

The timing of the RFP, and its outcome, make providing guidance for the financial year ahead unusually difficult. The directors have decided to defer providing FY2024 earnings guidance until the result of the RFP is known. At this stage, the first half result for FY2024 will not be affected.

In addition to the large-customer-specific risk, the Company cautions that significant volatility in results is possible and a number of factors, especially macroeconomic headwinds, are outside the Company's control.



**Patrick Brand**  
Chief Executive Officer



**John McMahon**  
Director (Chairman)



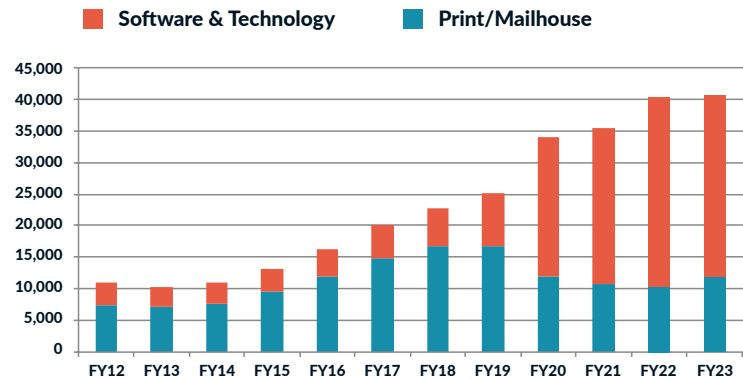
## Key Financial Trend Metrics

### Revenue (\$000)

Revenue CAGR (10 yr) 14.6%

Software CAGR (10 yr) 25.1%

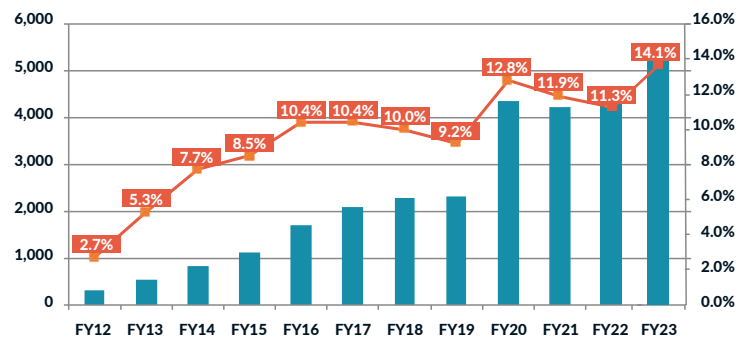
Print/Mail CAGR (10 yr) 5.1%



### EBITDA (\$000)

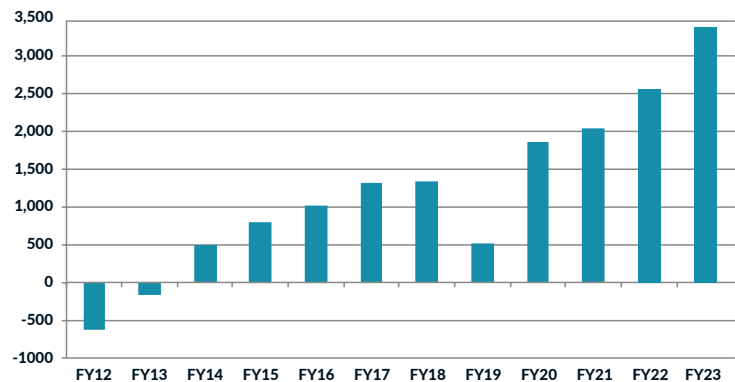
CAGR (10 year) 26.5%

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



### Net Profit (\$000)

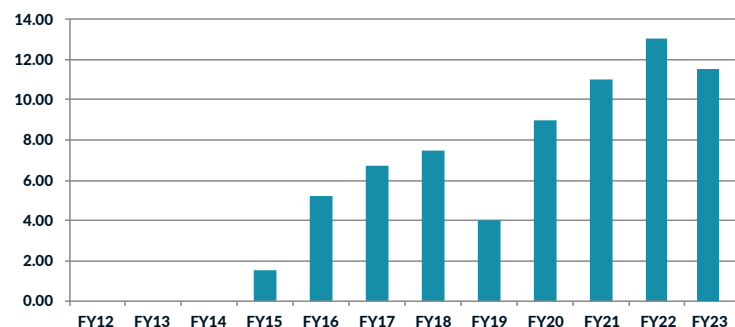
Reported net profit. Note that SDL paid no tax from FY2012 to FY2014.



### Dividends

Cents per share  
(excludes imputation credits).

All dividends are fully imputed.



# Independent Auditor's Report

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To the Shareholders of Solution Dynamics Limited

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Solution Dynamics Limited and its subsidiaries (the Group) on pages 18 to 51 which comprise the consolidated statement of financial position as at 30 June 2023, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2023 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) issued by the New Zealand Accounting Standards Board.

### Basis for Opinion

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

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

### Key Audit Matters

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

<i>Key audit matters</i>	<i>Our procedures to address the key audit matters</i>
<p><b>Carrying Value of Goodwill</b></p> <p>The Group has significant goodwill of \$1,061,000 arising from historical acquisitions of businesses. Goodwill is allocated across the Groups software cash generating units. The inherent uncertainty involved in forecasting and discounting future cash flows is one of the key judgement areas that our audit concentrated on. The uncertainty is affected by several factors including general market trends, current environment and economic factors, the number of new customers and future demand for the software solutions. All of which form the basis for assessment of the carrying value of the goodwill balance.</p>	<p>For this key audit matter our audit procedures included assessment of the Group's forecast and budgeting procedures used to form the basis for value in use calculations. We also compared the Group's historical budget to actual performance and compared its future projections to prior year actual results, testing the reasonableness of forecasting assumptions. In addition, we performed our own assessments in relation to key inputs such as projected revenue growth, cost and overhead inflation expectations and discount rates used and engaged Corporate Finance for peer review on the impairment assessment.</p> <p>We further evaluated the reasonableness where changes to inputs, methodology or assumptions from the prior year have occurred. We also assessed whether the Group's disclosures around the sensitivity in key assumptions fairly reflected the risks inherent in the carrying value of the goodwill balance.</p>
<p><b>Accuracy of revenue</b></p> <p>The Group recognised revenue of \$40.4 million for the year ended 30 June 2023 (2022: \$40.2 million) comprising sale of goods and rendering of services under contract. Revenue recognition has an inherent risk of overstatement to be reported by management, and due to the significance of revenue to the financial statements, it has been included as a key audit matter. There are several factors that could affect revenue including:</p> <ul style="list-style-type: none"> <li>• Delivery may not have occurred before year end resulting in recorded sales being recognised in the incorrect accounting period.</li> <li>• Revenues recognised from contract sales of products and services may be at a point in time or over time with reference to the various performance obligations existing with customers.</li> <li>• Revenue may include estimates and judgements that impact the amount of revenue recognised.</li> </ul>	<p>For the key audit matter our audit procedures included evaluating the Group's recognition of revenue by assessing the procedures and controls in place and ensuring appropriate revenue recognition policies have been applied. In relation to sales not being recorded in the correct period, we performed detailed substantive testing on sales recognised or adjusted either side of year end to substantiate the appropriate terms of the relevant contracts had been satisfied in line with contract performance obligations.</p> <p>Our audit work included assessing performance obligations of any significant projects or contracts including the delivery of the goods to ensure appropriate revenue recognition.</p> <p>For contracts recognised at a point in time we inspected a sample of delivery notes, invoices raised and cash receipts.</p> <p>For contracts recognised over time we reperformed the calculation of any material revenue to be recognised at year end and agreed the assumptions used in determining the various performance obligations to supporting documentation.</p>

### Other Information

The Directors are responsible for all other information included in the Group's Annual Report. The other information comprises 2023 key points, Management Discussion and Analysis, Statement of Corporate Governance and the Company Directory, included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

### Directors' Responsibilities for the Consolidated Financial Statements

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

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

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

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

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

### Restriction on use of our report

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

### Grant Thornton New Zealand Audit Limited



**VJ Black**  
**Auckland**

**24 August 2023**

# CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023



# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Statement of Profit or Loss

For the year ended 30 June 2023

	Note	2023 \$000	2022 \$000
Revenue	4	40,443	40,152
Other income/expenses	4	(58)	(25)
<b>Total revenue</b>		<b>40,385</b>	<b>40,127</b>
Expenses	5	34,673	35,608
<b>Earnings before interest, tax, depreciation &amp; amortisation (EBITDA)</b>		<b>5,712</b>	<b>4,519</b>
Depreciation	17, 18	965	885
Amortisation of intangible assets (software)	19	85	168
Net interest paid	7	18	59
<b>Profit before income tax</b>		<b>4,644</b>	<b>3,407</b>
Income tax	8	1,219	844
<b>Net profit after income tax</b>		<b>3,425</b>	<b>2,563</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	9	23.3	17.5
Diluted earnings per share	9	22.9	17.1

## Consolidated Statement of Comprehensive Income

For the year ended 30 June 2023

	2023 \$000	2022 \$000
Net profit after income tax	3,425	2,563
<i>Items that may be reclassified subsequently to profit and loss:</i>		
Exchange gain (loss) on translation of foreign operations	(5)	125
<b>Other comprehensive (loss) / income net of tax</b>	<b>(5)</b>	<b>125</b>
<b>Total comprehensive income for the year</b>	<b>3,420</b>	<b>2,688</b>

The accompanying notes on pages 22 – 51 form part of the consolidated financial statements.

## Consolidated Statement of Financial Position

As at 30 June 2023

	Note	2023 \$'000	Restated 2022 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	10	6,628	5,009
Trade & other receivables	12	4,565	4,002
Inventories and work in progress	11	179	234
Deferred tax benefit	8	187	207
Prepayments		311	419
<b>Total Current Assets</b>		<b>11,870</b>	<b>9,871</b>
<b>Current Liabilities</b>			
Trade creditors		2,389	2,046
Other current liabilities	13	2,707	2,417
Other non-financial liabilities	14	152	178
Lease liability - current	16	676	666
Employee benefit liabilities	15	872	823
<b>Total Current Liabilities</b>		<b>6,796</b>	<b>6,130</b>
<b>Working Capital</b>		<b>5,074</b>	<b>3,741</b>
<b>Non-Current Assets</b>			
Capital works in progress		263	206
Property, plant & equipment	17	339	189
Right of use assets	18	2,188	3,017*
Intangible assets	19	-	85
Goodwill	20	1,061	1,061
<b>Total Non-Current Assets</b>		<b>3,851</b>	<b>4,558</b>
<b>Non-Current Liabilities</b>			
Lease liability	16	1,574	2,385*
<b>Total Non-Current Liabilities</b>		<b>1,574</b>	<b>2,385</b>
<b>Net Assets</b>		<b>7,351</b>	<b>5,914</b>
<b>Equity</b>			
Share capital	21	5,574	5,574
Employee share option plan	30	142	65
Foreign currency translation reserve		(39)	(34)
Accumulated profit	22	1,674	309
<b>Total Equity</b>		<b>7,351</b>	<b>5,914</b>

\*Restatement only for Right of Use asset and Right of Use liability, refer to note 2.2.5. There is no other impact from this change and the FY2022 Income Statement is unaffected.

For and on behalf of the Board who approved these financial statements for issue on 24 August 2023.



John McMahon – Director  
(Chairman)



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

The accompanying notes on pages 22 – 51 form part of the consolidated financial statements.



## Consolidated Statement of Changes in Equity

For the year ended 30 June 2023

	Share Capital \$000	Employee Share Plan \$000	Currency Translation Reserve \$000	Accumulated Profit/(Loss) \$000	Total Equity \$000
<b>Balance 30 June 2021</b>	<b>5,413</b>	<b>31</b>	<b>(159)</b>	<b>(350)</b>	<b>4,935</b>
Issue of share options to employees	161	34	-	-	195
Dividends paid	-	-	-	(1,904)	(1,904)
<b>Transactions with owners</b>	<b>161</b>	<b>34</b>	<b>-</b>	<b>(1,904)</b>	<b>(1,709)</b>
Profit for the year after tax	-	-	-	2,563	2,563
Other comprehensive income	-	-	125	-	125
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>125</b>	<b>659</b>	<b>784</b>
<b>Balance 30 June 2022</b>	<b>5,574</b>	<b>65</b>	<b>(34)</b>	<b>309</b>	<b>5,914</b>
Issue of share options to employees	-	77	-	-	77
Dividends Paid	-	-	-	(2,060)	(2,060)
<b>Transactions with owners</b>	<b>-</b>	<b>77</b>	<b>-</b>	<b>(2,060)</b>	<b>(1,983)</b>
Profit for the year after tax	-	-	-	3,425	3,425
Other comprehensive income	-	-	(5)	-	(5)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(5)</b>	<b>-</b>	<b>(5)</b>
<b>Balance 30 June 2023</b>	<b>5,574</b>	<b>142</b>	<b>(39)</b>	<b>1,674</b>	<b>7,351</b>

The accompanying notes on pages 22 – 51 form part of the consolidated financial statements.

## Consolidated Statement of Cash Flows

For the year ended 30 June 2023

	Note	2023 \$'000	Restated 2022 \$'000
<b>Cash Flow from Operating Activities</b>			
<i>Cash was provided from:</i>			
Receipts from sales		42,315	42,810
Other income/(losses)		(58)	(25)
		<b>42,257</b>	<b>42,785</b>
<i>Cash was applied to:</i>			
Payments to suppliers		24,899	27,688
Payments to employees		10,909	11,229
GST and Income Tax paid to Inland Revenue		1,606	889
		<b>37,414</b>	<b>39,806</b>
<b>Net Cash Inflow from Operating Activities</b>	<b>24</b>	<b>4,843</b>	<b>2,979</b>
<b>Cash Flow from Investing Activities</b>			
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment & capital works in progress		275	154
Purchase of right of use asset		-	2,431*
		<b>275</b>	<b>2,585</b>
<b>Net Cash Outflow from Investing Activities</b>		<b>(275)</b>	<b>(2,585)</b>
<b>Cash Flow from Financing Activities</b>			
<i>Cash was provided from:</i>			
Issue of shares		-	161
Right of use asset additions		-	2,520*
		<b>-</b>	<b>2,681</b>
<i>Cash was applied to:</i>			
Payment of dividends		2,060	1,904
Net interest paid		18	59
Lease liability payments		871	816
		<b>2,949</b>	<b>2,779</b>
<b>Net Cash Outflow from Financing Activities</b>		<b>2,949</b>	<b>(98)</b>
<b>Net change in cash and cash equivalents</b>		<b>1,619</b>	<b>296</b>
Add cash and cash equivalents held at beginning of year		5,009	4,713
<b>Cash and cash equivalents at end of year</b>	<b>10</b>	<b>6,628</b>	<b>5,009</b>

\*Restatement only for Right of Use asset and Right of Use liability, refer to note 2.2.5 .

## Notes to the Consolidated Financial Statements

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For the year ended 30 June 2023

### 1. Corporate Information

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#### Principles of consolidation

The consolidated financial statements include the accounts 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 2023 were authorised for issue in accordance with a resolution of directors on 24 August 2023.

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

#### Nature of Operations

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.

#### Accounting Framework

The preparation of the consolidated financial statements have been prepared in compliance with generally accepted accounting practice in New Zealand (NZ GAAP), the requirements set out in Part 7 of the Financial Markets Conduct Act 2013 as a reporting entity, the Main Board Listing Rules of the NZX, the Companies Act 1993, and other authoritative pronouncements issued by the New Zealand Accounting Standards Board (NZ ASB).

### 2. Summary of Significant Accounting Policies

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#### 2.1 Statement of Compliance

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

#### 2.2 Basis of Preparation

##### 2.2.1 Basis of Preparation

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

##### 2.2.2 Basis of Consolidation

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

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

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

### 2.2.3 Rounding of Amounts

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

### 2.2.4 Changes in Accounting Policies and Disclosures

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

### 2.2.5 Prior Period Restatement

The consolidated statement of financial position and consolidated statement of cashflows has been restated to accurately recognise the correct timing of the Canaveral Drive office lease renewal; this should have been recognised from March 2022, the date the contract was executed, whereas the prior period had originally utilised the date of the commencement of lease right of renewal in September 2022. This discrepancy resulted in a \$430k adjustment to both the non-current right of use assets (originally: \$5,951m, corrected: \$5,521m) and non-current lease liabilities (originally: \$2,815m, corrected: \$2,385m) during the 2022 fiscal year (refer to Notes 16 and 18). This adjustment has no impact on the consolidated statement of profit and loss or the consolidated statement of equity.

## Specific Accounting Policies

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

### 2.3 Foreign Currency

#### 2.3.1 Functional and Presentation Currency

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

#### 2.3.2 Transaction and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Profit or Loss. For consolidation purposes, the subsidiaries SDIL and SD Inc. is translated into the Group's presentation currency of New Zealand Dollars. Assets and liabilities are translated using the exchange rate prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rate for the relevant period. Translation differences are recognised in other comprehensive income (loss) and are accumulated within equity in the currency translation reserve.

### 2.4 Revenue Recognition

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

#### 2.4.1 Sale of Goods

Revenue is recognised at a point in time or over time in accordance with NZ IFRS 15:

The Group often enters into transactions involving a range of the Group's products and services.

**Services revenue:** SDL generates revenue from providing mail house operations to high-volume postal users in the business -to-consumer sector. Services also includes ancillary document handling operations such as automated envelope inserting and flow-wrap. Services revenue is recognised at a point in time when either services or goods are performed for the customer. It is at this point the obligation of the services or transfer of the goods have passed to the customer .

**Outsourced Services revenue :** SDL encompasses a variety of outsourced functions or components such as postage, third party offset printing , freight, paper and envelopes. Revenue is recognized when both service and goods are received by the customer at a point in time. This translates to revenue at this point once the services or goods are carried out.

**Software & Technology revenue:** SDL generates revenue from platform-based SaaS model (software as a service arrangement), which can be priced as a monthly subscription, tiered on volume, or on a per document basis. Revenue is recognized when both service and goods are received by the customer. Performance obligation is met for monthly subscription which are then invoiced and services are invoiced at a point in time when services are performed.

**Digital communications revenue:** SDL generates revenue by managing the total communications solution, based on SDL's platforms, including printing and distribution for the customer. SDL through our DMC platform can onboard customers , sending and tracking documentation through physical and digital channels. Revenue is recognized when both service and goods are received by the customer. This can be at a point in time or over time which consists of support related work through the DMC and distribution and delivery of print documentation for the customer and bill accordingly depending on the type of transaction.

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.

#### **2.4.2 Government Grants**

Government grants which compensate the Group for expenses incurred are recognised in the statement of Financial Performance on a systematic basis over the period in which the related costs are recognised when they become unconditional, and the conditions are met.

#### **2.5 Leases**

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

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

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

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

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

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

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

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

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

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

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

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

## **2.6 Employment Benefits**

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

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

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

## **2.7 Share-based Payments**

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

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

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

## **2.8 Taxation**

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

### **2.8.1 Current Tax**

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

### **2.8.2 Deferred Tax**

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

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.

## **2.9 Goods and Services Tax (GST)**

Revenue, expenses, assets and liabilities are recognised net of the amount of goods and service tax (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 7.8 – 25.0%
- Furniture and Fittings 8.5 – 39.6%
- Plant and Machinery 7.0 - 30.0%
- Computer Equipment 20.0 – 36.0%

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

## **2.11 Intangible Assets**

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

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

### **2.11.2 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.

## **2.12 Goodwill**

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

## **2.13 Impairment of Assets**

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

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

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

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

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

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

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

#### **2.15 Inventories**

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

#### **2.16 Financial Instruments**

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

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

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

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

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

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

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

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

The classification is determined by both:

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

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

##### **2.16.3 Subsequent Measurement of Financial Assets Financial assets at amortised cost**

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

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

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

#### **2.16.4 Classification and Measurement of Financial Liabilities**

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

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

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

#### **2.16.5 Impairment of Financial Assets**

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

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

#### **2.17 Share Capital**

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

#### **2.18 Trade Payables and Other Current Liabilities**

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

#### **2.19 Statement of Cash Flows**

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

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

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

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

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

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

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

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

## 2.21 New IFRS standards adopted

There were no new standards adopted during the year.

## 2.22 Non-GAAP Measure

The Group uses a non-GAAP financial measure, EBITDA, that is not prepared in accordance with NZ IFRS. EBITDA is included in the financial statements of the Group to provide useful information to readers in order to assist in the understanding of the Group's financial performance. EBITDA should not be viewed in isolation nor be used as a substitute for measures reported in accordance with NZ GAAP.

The Group calculates EBITDA by adding back depreciation and amortisation, finance expense and income tax expense and subtracting finance income. A reconciliation of Group's EBITDA is provided below and based on amounts taken from, and consistent with, those presented in these financial statements.

Reconciliation of net profit before tax to EBITDA	2023 \$000	2022 \$000
Net profit before income tax	4,644	3,407
Less: Interest income	(118)	(4)
Add back: Finance expense	136	63
Add Back: Depreciation and amortisation expenses	1,050	1,053
<b>Earnings before other income and expense, income tax, depreciation and amortization (EBITDA)</b>	<b>5,712</b>	<b>4,519</b>

## 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 (2022: \$1,061,000).

The recoverable amount of \$938,000 of goodwill associated with the acquisition of the Déjar and Bremy businesses has been determined based on a value in use model applying the budget, approved by the Directors covering the reporting period to 30 June 2023, and forecast sales based on assessments of the current market opportunities through existing distribution channels net of forecast costs, through to the end of 2028, at a post-tax discount rate of 12.8% (2022: 12.1%). Cash flows beyond 2028 have been taken into account by the calculation of a terminal value.

The revenue assumptions used for the forecast period are based on management expectations supported by existing prospects for the budget period and allow for growth of 2.5% (2022: 2.5%) per annum over the balance of the forecast period. The assumptions are subject to fundamental uncertainties, particularly those surrounding future license sales which comprise a substantial portion of projected revenues and hence only inflationary growth rates have been applied. Gross margin is forecast to be consistent through the budget and forecast period.

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

Goodwill of \$123,000 is associated with the acquisition of the Scantech and DTP business (2022: \$123,000). This has similarly been tested for impairment through a review of revenue and earnings forecasts for the financial year ended 30 June 2023. Refer to note 20 for Directors' judgements and estimates.

### 3.2 Right-of-use assets

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

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

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

In assessing the lease liability an incremental borrowing rate is applied to lease liabilities recognised under NZ IFRS 16. This is 4.5% (2022: 4.5%) for property and 8.5% (2022: 8.5%) on plant & equipment. The incremental borrowing rate is the estimated rate that SDL would have to pay to borrow the same amount over a similar term, and with similar security to obtain an asset of equivalent value.

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

#### 4. Revenue & Other Income

	2023 \$000	2022 \$000
Revenue recognised over time	38,032	37,642
Revenue recognised at a point in time	2,411	2,510
<b>Revenue</b>	<b>40,443</b>	<b>40,152</b>
Government grant revenue	80	-
Gain (loss) on foreign exchange – realised	(168)	(25)
Other income	30	-
<b>Other Income (losses)</b>	<b>(58)</b>	<b>(25)</b>

#### 5. Expenses

	Note	2023 \$000	2022 \$000
Auditor's remuneration	6	90	87
Bad debts provision		-	95
Freight, postage & external print		6,730	5,334
Directors' remuneration - directors fees	29	268	414
Research & Development		812	788
Salaries		9,416	9,284
Superannuation (KiwiSaver)		559	396
Employee entitlements – share based payments		77	34
Donations		66	76
Other expenses		16,655	19,100
<b>Total Operating Expenses</b>		<b>34,673</b>	<b>35,608</b>

## 6. Auditor's Remuneration

	2023 \$000	2022 \$000
Audit fees – statutory audit	75	65
Tax compliance and advisory services	15	22
<b>Total auditors' remuneration</b>	<b>90</b>	<b>87</b>

## 7. Interest

	2023 \$000	2022 \$000
Interest on financing of right of use assets	78	59
Other Interest	58	-
(Interest Received)	(118)	-
<b>Net interest paid</b>	<b>18</b>	<b>59</b>

## 8. Income Tax Expense

### 8.1 Current Tax

	2023 \$000	2022 \$000
Income tax expense comprises:		
Current tax expense	1,201	890
Deferred tax movement relating to the origination and reversal of temporary differences	18	(46)
<b>Total tax expense</b>	<b>1,219</b>	<b>844</b>

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

Net profit before income tax	4,644	3,407
Income tax at company tax rate <sup>(1)</sup>	1,300	954
Permanent differences	89	15
Under / (over) provision in prior years	(105)	(116)
Other	(65)	(9)
<b>Income tax expense</b>	<b>1,219</b>	<b>844</b>

(1) The Group tax rate of 28% (2022: 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 2023 there are imputation credits available of \$522,848 (2022: \$451,770) for use in subsequent reporting periods.



## 8.2 Deferred Tax Asset

	2023 \$000	2022 \$000
<b>Temporary differences</b>		
Depreciable and amortisable assets	(7)	(13)
Accruals and provisions	194	220
<b>Deferred tax asset recognised</b>	<b>187</b>	<b>207</b>

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

	2023 \$000	2022 \$000
<b>Deferred tax liability asset movement</b>		
Balance at beginning of period	207	161
Current year movement through profit or loss	(20)	46
<b>Balance at end of period</b>	<b>187</b>	<b>207</b>

## 9. Earnings Per Share (EPS)

	2023 \$000	2022 \$000
<b>Net profit for the year attributable to ordinary shareholders</b>	<b>3,425</b>	<b>2,563</b>
<b>Basic</b>		
Weighted average	<b>14,720</b>	<b>14,660</b>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	23.3	17.5

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.

	2023 \$000	2022 \$000
<b>Diluted</b>		
Weighted average number of ordinary shares (000's)	14,720	14,660
Adjustment for share options	220	359
Weighted average	<b>14,940</b>	<b>15,019</b>
	<b>Cents</b>	<b>Cents</b>
Diluted earnings per share	22.9	17.1

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

## 10. Cash & Cash Equivalents

	2023 \$000	2022 \$000
Cash & cash equivalents	6,628	5,009
<b>Total</b>	<b>6,628</b>	<b>5,009</b>

Solution Dynamics has a \$200,000 overdraft facility in place with the ANZ Bank at an interest rate of 12.05% p.a. (2022: 8.45%). This facility, which was unused at the reporting date, is to support the operational requirements of the Group, is interest only and is secured by first ranking debenture over the assets of the Group.

At period end, the ANZ Bank has imposed no financial covenants to secure the existing facilities. The Group holds a net cash position with no bank debt (2022: \$Nil).

At the end of the reporting period the Bank provided commercial guarantees totalling \$74,500 (2022: \$65,000) to the Group's suppliers.

## 11. Inventories & Work in Progress

	2023 \$000	2022 \$000
Work in Progress	117	147
Inventory	62	87
<b>Total Inventories &amp; Work in Progress</b>	<b>179</b>	<b>234</b>

## 12. Trade & Other Receivables

	2023 \$000	2022 \$000
Trade receivables	4,445	4,091
Credit loss allowance	(79)	(94)
	<b>4,366</b>	<b>3,997</b>
Allowance for credit notes	(6)	(32)
<b>Total trade receivables</b>	<b>4,360</b>	<b>3,965</b>
Sundry debtors	205	37
<b>Total Trade &amp; Other Receivables</b>	<b>4,565</b>	<b>4,002</b>

### Trading terms & aging of past due trade receivables

The Group's trading terms require settlement by the 20th of the month following the date of invoice. At the reporting date the Group had past due debtors of \$204,000 (2022: \$441,000) for which an allowance of \$79,000 (2022: \$94,301) was made. With overage receivables at 6.31% of total receivables (2022: 10.8%) there has not been a significant change in credit quality, therefore the amounts are considered recoverable. The Group does not hold any collateral over these balances.

	2023 \$000	2022 \$000
30 – 60 days	168	279
60 – 90 days	36	59
90 – 120 days	-	103
<b>Total overdue trade receivables</b>	<b>204</b>	<b>441</b>

### Movement in allowance for credit losses

	2023 \$000	2022 \$000
Balance at the beginning of the reporting period	94	5
Accounts written off as uncollectable or (recovered)	(15)	(5)
Credit loss provision	-	94
<b>Total allowance for credit losses</b>	<b>79</b>	<b>94</b>

In assessing the recoverability of trade receivables, the Group considers any change in the quality of the trade receivables from the date that the credit was initially granted up to the reporting date. The concentration of credit risk is limited with the largest customer comprising 37.1% (2022: 36.9%) of the gross trade receivable balance, of which all was current. 98.0% of the outstanding balance is less than 60 days old (2022: 96%). Accordingly, the directors believe that no further adjustments for credit are required in excess of the allowance for credit losses.

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

## 13. Other Current Liabilities

	2023 \$000	2022 \$000
Sundry creditors	1,807	1,268
Payroll accruals	13	35
Provision for tax	478	528
Provision for deferred income	336	522
Audit fees accrued	60	64
Other	13	-
<b>Total Other Current Liabilities</b>	<b>2,707</b>	<b>2,417</b>

## 14. Other Non-Financial Liabilities

	2023 \$000	2022 \$000
PAYE	152	157
GST	-	21
<b>Total Non-Financial Liabilities</b>	<b>152</b>	<b>178</b>

## 15. Employee Benefit Liabilities

	2023 \$000	2022 \$000
Provision for sick pay	4	2
Provision for long service leave	150	144
Provision for holiday pay	718	677
<b>Total Employee Benefit Liabilities</b>	<b>872</b>	<b>823</b>

Provisions for sick and long service leave are based on the Group's estimate of the present value of future costs assuming payroll inflation rate of 2% (2022: 2%).

## 16. Leases

	2023 \$000	Restated 2022 \$000
Current	676	666
Non-current	1,574	2,385
	<b>2,250</b>	<b>3,051</b>

The Group has property leases for its Canaveral Drive office and production facility, and a sales office in North America. The Company has also elected not to recognise leases with original lease terms of less than 12 months (short-term leases) on the balance sheet. Right-of-use assets and lease liabilities are recognised at the lease commencement date based on the estimated present value of lease payments over the lease term. The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known.

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

Right of use (ROU) assets	No of ROU assets leased	Range of remaining term	Average remaining term
Property	1	4 years	4 years
Plant & equipment	1	0 – 8 months	8 months

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 30 June 2023 were as follows:

Reconciliation of Lease Liabilities	Within 1-year \$000	1 – 2 years \$000	2 – 5 years \$000	After 5 years \$000	Total \$000
<b>30 June 2023</b>					
Lease payments	655	562	1,220	108	2,545
Finance charges	114	92	89	-	295
<b>Net present values</b>	<b>541</b>	<b>470</b>	<b>1,131</b>	<b>108</b>	<b>2,250</b>
<b>Restated 30 June 2022</b>					
Lease payments	753	683	1,153	740	3,329
Finance charges	130	84	41	23	278
<b>Restated net present values</b>	<b>623</b>	<b>599</b>	<b>1,112</b>	<b>717</b>	<b>3,051</b>

The expense relating to payments not included in the measurement of the lease liability is as follows :

	2023 \$000	2022 \$000
Variable lease payment	171	169
	<b>171</b>	<b>169</b>

Reconciliation of Lease liabilities	2023 \$000
<b>Year ended 30 June 2022</b>	
Opening Balance	3,051
Interest expense	78
Repayments	(879)
<b>Balance 30 June 2023</b>	<b>2,250</b>
<b>Year ended 30 June 2021</b>	
Opening Balance	1,346
<b>Leases entered into during the year</b>	<b>-</b>
<b>Restated Remeasurements</b>	<b>2,520</b>
Proceeds from lease liabilities	-
Interest expense	63
Repayments	(878)
<b>Balance 30 June 2022</b>	<b>3,051</b>

## 17. Property, Plant and Equipment

	Plant & machinery \$000	Furniture & fittings \$000	Leasehold improvements \$000	Total \$000
<b>Cost</b>				
Balance 1 July 2022	2,776	159	665	3,600
Additions	35	1	14	50
Balance 30 June 2022	2,811	160	679	3,650
Additions	71	28	175	274
Disposals	(3)	-	-	(3)
Assets removed from use*	(444)	(62)	(80)	(586)
Balance 30 June 2023	2,435	126	774	3,335
<b>Accumulated depreciation</b>				
Balance 1 July 2021	2,532	151	610	3,293
Depreciation expense	128	4	36	168
Balance 30 June 2022	2,660	155	646	3,461
Depreciation expense	85	4	34	123
Assets removed from use*	(446)	(62)	(80)	(588)
Balance 30 June 2023	2,299	97	600	2,996
<b>Carrying amount</b>				
Balance 1 July 2021	244	8	55	307
Balance 30 June 2022	151	5	33	189
Balance 30 June 2023	136	29	174	339

\* "Assets removed from use" represents the removal of assets from registry full depreciated and with nil book value.

## 18. Right of Use Assets

	Right of Use Assets. Property \$000	Right of Use Assets. Plant \$000	Total \$000
<b>Cost</b>			
<b>Balance 1 July 2021</b>	<b>2,336</b>	<b>754</b>	<b>3,090</b>
Restated Remeasurements <sup>(1)</sup>	2,520	-	2,520
Disposals	(67)	-	(67)
Adjustment	-	(22)	(22)
<b>Restated Balance 30 June 2022</b>	<b>4,789</b>	<b>732</b>	<b>5,521</b>
Disposals	(55)	-	(55)
Adjustment	6	-	6
<b>Balance 30 June 2023</b>	<b>4,740</b>	<b>732</b>	<b>5,472</b>
<b>Accumulated depreciation</b>			
<b>Balance 1 July 2021</b>	<b>1,708</b>	<b>172</b>	<b>1,880</b>
Depreciation expense	500	211	711
Disposal	(67)	-	(67)
Adjustment <sup>(2)</sup>	(14)	(6)	(20)
<b>Balance 30 June 2022</b>	<b>2,127</b>	<b>377</b>	<b>2,504</b>
Depreciation expense	608	227	835
Disposal	(55)	-	(55)
<b>Balance 30 June 2023</b>	<b>2,680</b>	<b>604</b>	<b>3,284</b>
<b>Carrying amount</b>			
Balance 1 July 2021	628	582	1,210
Restated Balance 30 June 2022	2,662	355	3,017
Balance 30 June 2023	2,060	128	2,188

Note (1) Restatement only for Right of Use asset and Right of Use liability, refer to note 2.2.5.

Note (2) Adjustments arise from variations in lease term

## 19. Identifiable Intangibles, Finite life

	Software - Déjar \$000	Software - Bremy \$000	Software \$000	Customer Contracts \$000	Total \$000
<b>Cost</b>					
Balance 1 July 2021	2,090	110	1,738	441	4,379
Balance 30 June 2022	2,090	110	1,738	441	4,379
<b>Balance 30 June 2023</b>	<b>2,090</b>	<b>110</b>	<b>1,738</b>	<b>441</b>	<b>4,379</b>
<b>Accumulated amortisation</b>					
<b>Balance 1 July 2021</b>	<b>2,090</b>	<b>110</b>	<b>1,539</b>	<b>387</b>	<b>4,126</b>
Amortisation expense	-	-	114	54	168
Balance 30 June 2022	2,090	110	1,653	441	4,294
Amortisation expense	-	-	85	-	85
<b>Balance 30 June 2023</b>	<b>2,090</b>	<b>110</b>	<b>1,738</b>	<b>441</b>	<b>4,379</b>
<b>Carrying amount</b>					
Balance 1 July 2021	-	-	199	54	253
Balance 30 June 2022	-	-	85	-	85
Balance 30 June 2023	-	-	-	-	-

## 20. Goodwill

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

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

No accumulated impairment losses have been recognised against goodwill.

The carrying value of goodwill relating to the Déjar and Bremy acquisitions is tested on an annual basis through assessment of the value-in-use of the SDL Software cash generating unit. The cash flows used in the value-in-use calculations are based firstly on the management budget for the 2024 year followed by management forecasts over a further four-year period. Cash flows after 2028 have been taken into account through a terminal value calculation. Management has projected growth in sales for the Déjar and Bremy products at 2.5% per annum for the 2024-2028 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 16.47% (2022: 15.4%). The equivalent post-tax nominal rate for the forecast cash flows is 12.8% (2022: 12.1%). In the Directors' view this represents the rate that the market would expect on an investment of equivalent risk. There has been no impairment in the reporting period (2022: \$Nil).

Goodwill of \$123,000 has arisen from deferred tax on business combinations associated with the Scantech Limited and DigitalToPrint acquisitions. Following a review of forecast cash flows for the 2024 budget period the Directors' judgement is that there are no indicators of impairment at reporting date.

### 20.1 Sensitivity to Changes in Assumptions

As at 30 June 2023, the date of the Group's annual impairment test, the estimated recoverable amount of the Déjar and Bremy indefinite life intangible assets exceeded their carrying amount by \$10,656 (2022: \$11,917).

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

## 21. Share Capital

	2023 \$000	2022 \$000
<b>Ordinary Shares</b>		
Balance at beginning of year	5,574	5,413
Exercise of employee share options	-	161
<b>Share Capital at End of Year</b>	<b>5,574</b>	<b>5,574</b>

The Company had 14,719,810 (2022: 14,719,810) ordinary shares on issue as at 30 June 2023. All ordinary shares ranked equally with one vote attached to each fully paid ordinary share and share equally in dividends and surplus on winding up.

## 22. Accumulated profit/(loss)

	2023 \$000	2022 \$000
Balance at beginning of reporting period	309	(350)
Net operating profit after income tax	3,425	2,563
Payment of dividends	(2,060)	(1,904)
<b>Accumulated Profit at end of reporting period</b>	<b>1,674</b>	<b>309</b>

## 23. Employee Remuneration

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

	2023 \$000	2022 \$000
\$100,000 to \$109,999	7	3
\$110,000 to \$119,999	4	5
\$120,000 to \$129,999	1	3
\$130,000 to \$139,999	4	2
\$140,000 to \$149,999	1	-
\$150,000 to \$159,999	1	-
\$160,000 to \$169,999	1	-
\$170,000 to \$179,999	-	1
\$200,000 to \$209,999	1	1
\$210,000 to \$219,999	3	1
\$220,000 to \$229,999	-	1
\$230,000 to \$239,999	3	-
\$250,000 to \$259,999	-	1
\$260,000 to \$269,999	-	2
\$270,000 to \$279,999	-	1
\$300,000 to \$309,999	1	-
\$340,000 to \$349,999	-	1
\$350,000 to \$359,999	-	1
\$360,000 to \$369,999	1	-
\$540,000 to \$549,999	-	1
\$670,000 to \$679,999	-	1
\$760,000 to \$769,999	1	-
<b>Total staff with remuneration exceeding \$100,000</b>	<b>29</b>	<b>25</b>

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

	2023 \$000	2022 \$000
Net profit after income tax	3,425	2,563
<b>Adjustments:</b>		
Depreciation and amortisation of assets	1,050	1,053
Loss (Gain) on foreign exchange	168	25
Bad and doubtful debts	(15)	89
Interest expense (reclassified as financing activity)	18	59
Other non-cash items	94	113
<b>Cash flow from trading</b>	<b>4,740</b>	<b>3,902</b>
Add movements in working capital:		
Increase / (decrease) in trade & other receivables	(504)	1,483
Increase / (decrease) in inventories and work in progress	54	(69)
Increase / (decrease) in prepayments	105	434
Increase / (decrease) in other current liabilities	113	(1,399)
(Decrease)/ increase in other non-financial liabilities	(85)	98
Increase / (decrease) in trade creditors	344	(1,137)
Increase / (decrease) in employee benefit liabilities	76	(333)
<b>Net Movement in Working Capital</b>	<b>103</b>	<b>(923)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>4,843</b>	<b>2,979</b>

## 25. Segment Information

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

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

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

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

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

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

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

#### Segment Consolidated Statement of Profit or Loss

	2023		2022	
	\$000	%	\$000	%
Software & Technology	28,427	70%	29,803	74%
Digital Printing & Document Handling Services	4,430	11%	3,812	9%
Outsourced services	7,528	19%	6,512	16%
<b>Total revenue</b>	<b>40,385</b>	<b>100%</b>	<b>40,127</b>	<b>100%</b>
Less cost of sales	24,399	60%	26,186	65%
Gross margin	15,986	40%	13,941	35%
Selling, general & administration	10,274	25%	9,422	23%
<b>Earnings before interest, tax, depreciation &amp; amortisation</b>	<b>5,712</b>	<b>14%</b>	<b>4,519</b>	<b>11%</b>
Less:				
Depreciation	965	2%	885	2%
Amortisation	85	0%	168	0%
Interest	18	0%	59	0%
Tax	1,219	3%	844	2%
<b>Operating profit</b>	<b>3,425</b>	<b>8%</b>	<b>2,563</b>	<b>5%</b>

#### Segment Assets

Assets are not segmented between service streams.

### Information about Top Five Customers

Included in revenues for the Group of \$40.39 million (2022: \$40.13 million) are revenues of \$23.7 million (2022: \$25.6 million) which arose from sales to the top five customers in the Group.

### Geographical Information

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

	Revenue from external customers		Non-current assets	
	2023 \$000	2022 \$000	2023 \$000	Restated 2022 \$000
New Zealand	14,668	13,131	3,845	4,545
Australia	536	438		-
United States of America	22,214	23,628	1	5
Europe	2,967	2,930	5	8
<b>Total</b>	<b>40,385</b>	<b>40,127</b>	<b>3,851</b>	<b>4,558</b>

## 26. Contingent Liabilities

There were no contingent liabilities at reporting date for the Group (2022: \$Nil).

## 27. Capital Commitments

The Group had no capital commitments at the reporting date (2022: \$Nil).

## 28. Financial Instruments

### 28.1 Categories of Financial Instruments

	2023 \$000	Restated 2022 \$000
	Financial Assets & liabilities at amortised cost	Financial Assets & liabilities at amortised cost
<b>Assets</b>		
Cash & cash equivalents (Note 10)	6,628	5,009
Trade & other receivables (Note 12)	4,565	4,002
<b>Total Financial Assets</b>	<b>11,193</b>	<b>9,011</b>
Total non-financial assets	4,528	5,418
<b>Total Assets</b>	<b>15,721</b>	<b>14,429</b>
<b>Finance Liabilities</b>		
Trade creditors	2,389	2,046
Other current liabilities (Note 13)	2,707	2,417
<b>Total Financial Liabilities</b>	<b>5,096</b>	<b>4,463</b>
Lease liability – right of use assets	2,250	3,051
Total non-financial liabilities	1,024	1,001
<b>Total Liabilities</b>	<b>8,370</b>	<b>8,515</b>

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

## 28.2 Credit Risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of trade, cash & 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. 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.

## 28.3 Categories of Financial Instruments

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

## 28.4 Foreign Currency Risk Management

Hosting and license sales linked to SDL Software operations are denominated in foreign currency and sold under standard terms and conditions. Any variation in exchange rate between the date of sale and the date cash is received is accounted for as a foreign exchange gain/loss in the period in which it occurs. At 30 June 2023 of total trade receivables of \$4,445,361 (2022: \$4,091,262) a total of \$2,883,438 (2022: \$2,694,529) was in foreign currencies. \$207,341 (2022: \$291,193) of the foreign currency receivables were denominated in European currencies, \$2,539,280 (2022: \$2,276,902) in USD with the remainder of the balance in AUD.

In addition to the trade receivables of \$2,883,438 (2022: \$2,694,529) held in foreign currencies at the end of the reporting period, a further \$1,374,728 (2022: \$1,784,311) in cash was also held in foreign currencies, a total of \$4,258,167 (2022: \$4,478,840). Adjusted for offsetting payables balances of \$2,324,178 (2022: \$2,913,642), a movement in the exchange rate of 10% would give rise to an exchange fluctuation of \$193,440 (2022: \$156,250). A movement exchange rate of 10% would also give rise to a net profit on foreign entities of \$101,474 (2022: \$130,831).

Trading operations for the UK and Europe are largely undertaken through SDL's UK subsidiary Solution Dynamics International Limited (SDIL). For North America operations are undertaken through Solution Dynamics Incorporated. At period end the net assets for SDIL and SD Inc., comprising largely working capital, was a credit balance of NZ \$3,368,494 (2022: NZ\$1,993,000) with cash and receivable balances as noted above.

## 28.5 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.

## 28.6 Interest Rate Sensitivity Analysis

At 30 June 2023 the interest rate on the overdraft facility was 12.05% (2022: 8.45%). With a net cash position of \$6.63 million (2022: \$5.01 million) at the end of the reporting period a material change in the interest expense is not expected.

## 28.7 Capital Management

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

Earnings in the Group has improved on the prior year. The Group is in a net cash position of \$6.63 million (2022: \$5.01 million) and a net cash inflow from operations of \$4.84 million (2022: \$2.98 million). There was an operating profit of \$3.42 million in the current year (2022: \$2.56 million). The Group has no externally imposed covenants to manage, the only debt on the balance sheet relates to right of use assets.

	2023 \$000	Restated 2022 \$000
Borrowings – Liability right of use assets	2,250	3,051
Cash & Finance facility (Note 10)	6,628	5,009
Net cash (debt)	4,378	1,958
Equity (all capital and reserves)	7,351	5,914
Net (cash) debt to equity ratio	60%	33%

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

## 29. Related Parties Transactions and Directors' Remuneration

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

Related party transactions were as follows:

Key management were paid \$2,249,947 (as employees of Solution Dynamics Limited or its subsidiaries and including the calculated benefit of the employee share option plan) during the reporting period (2022: \$1,825,396) and were owed \$172,876, including annual leave, at 30 June 2023 (2022: \$119,358).

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

	2023 \$000	2022 \$000
John McMahon (Chairman)	73	60
Nelson Siva (Former CEO)	-	185
Julian Beavis	47	40
Elmar Toime	47	40
Lee Eglinton	47	40
Andy Preece (Chairman Audit & Risk Management Committee)	54	49
<b>Total Directors' Remuneration</b>	<b>268</b>	<b>414</b>

At 30th June 2023, payables to other related entities amounted to \$28,561 (2022: 14,340).

The changes approved at the 2022 annual meeting were expected to result in an increase in the total level for directors' fees (not including ad hoc fees) to \$287,500 per annum.

### 30. Employee Options

Solution Dynamics Limited offer 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, note this is at any one time.
- 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 Directors made an exception to this limit for the US-based CEO Patrick Brand)
- 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.

Share options were approved for 220,000 shares for three key members in October 2022 (with an exercise price of \$2.25), all three remain as employees at 30 June 2023 bringing the total of share options to 592,796.

	2023 Number of shares 000	2022 Number of shares 000
Unvested shares at 1 July	373	360
Granted	220	173
Lapsed (on resignation of staff member)	-	(80)
Vested	-	(80)
<b>Unvested shares at 30 June</b>	<b>593</b>	<b>373</b>
Percentage of total ordinary shares	3.9%	2.5%

The net fair value of the options granted during the reporting period was \$68,066 (2022: \$56,404). This cost is recognised over the vesting period.

Grant Date	Options Issued	Share price at Grant Date	Exercise Price	Options Expire	Option Value \$
March 2021	200,000	\$2.60	\$2.60	September 2025	\$114,625
February 2022	172,796	\$2.90	\$2.90	August 2026	\$29,994
October 2022	220,000	\$2.25	\$2.25	October 2027	\$68,066

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 27.5%. This is based on an analysis of share price movements over the 12-months prior to the issue of the options.
- Average dividend yield of 4.66%.
- Average annual risk-free rate of 4.52%.

## 31. Shareholders and Substantial Security Holders

### 31.1 The 20 largest shareholders as at 8 July 2023 were:

	% of total	Shares
ASB Nominees Limited <574233 A/C>	10.87%	1,600,658
Philip Hadfield Hardie Boys <P & K Hardie Boys Family A/C>	7.13%	1,050,000
Indrajit Nelson Sivasubramaniam + Tracey Lee Sivasubramaniam + Comac Trustees Limited	6.05%	890,000
Public Trust - NZCSD <The Aspiring Fund>	5.81%	854,624
Custodial Services Limited <A/C 4>	5.43%	799,829
Hobson Wealth Custodian Limited <Resident Cash Account>	5.20%	765,578
Accident Compensation Corporation - NZCSD <Acci40>	4.74%	698,234
Jbwere (NZ) Nominees Limited <NZ Resident A/C>	4.27%	628,266
Michael Charles Hare	3.80%	558,938
Colin Glenn Giffney	3.53%	520,000
Kirsten Roberts	3.16%	465,000
Deirdre Elizabeth Tallot	2.99%	440,000
Stephen Christopher Montgomery	2.82%	415,000
Jillian Bernadette Winstanley	2.23%	328,500
Roger Dixon Armstrong	2.05%	301,665
FNZ Custodians Limited <DRP NZ A/C>	2.03%	298,215
Don Nominees Limited	1.60%	234,944
New Zealand Depository Nominee Limited <A/C 1 Cash Account>	1.44%	212,008
Christopher Veale + Penny Veale	1.39%	204,016
Ace Finance Limited	1.22%	180,000
<b>GRAND TOTAL</b>	<b>77.76%</b>	<b>11,445,475</b>

A total of 14,719,810 shares were on issue (2022: 14,719,810).

### 31.2 Size of Shareholding as at 8 July 2023

Holdings	Shareholders	Shares held	% of total
1-999	111	27,513	0.19%
1,000-4,999	106	215,949	1.47%
5,000-9,999	31	193,746	1.32%
10,000-49,999	48	916,712	6.23%
50,000-99,999	11	739,000	5.02%
100,000 and over	30	12,626,890	85.78%
<b>Total</b>	<b>337</b>	<b>14,719,810</b>	<b>100%</b>

### 31.3 Substantial Security Holders

According to notices given under the Financial Markets Conduct Act 2013, the following persons were substantial shareholders in Solution Dynamics Limited as at 8 July 2023:

Shareholder	% of total	Shares
Meta Capital Limited (John McMahon)	10.87%	1,600,658
Philip Hadfield Hardie Boys (P & K Hardie Boys Family A/C)	7.13%	1,050,000
Indrajit Nelson Sivasubramaniam + Tracey Lee Sivasubramaniam + Comac Trustees Limited	6.05%	890,000
Public Trust - NZCSD <The Aspiring Fund>	5.81%	854,624

## 32. Events after the reporting date

On 24 August 2023, the directors approved the payment of a fully imputed dividend of 1.5 cents per share amounting to \$306,663 to be paid on 22 September 2023 (2022: The directors approved the payment of a fully imputed dividend of 4.00 cents per share, amounting to \$589,000).

# STATEMENT OF CORPORATE GOVERNANCE

The corporate governance processes set out in this statement do not materially differ from the principles set out in the New Zealand Stock Exchange Corporate Governance Best Practice Code issued on May 2017. The information in this report is current as at 24 August 2023 and has been approved by the Board.

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

For the purposes of this Corporate Governance Statement, SDL has continued to report against the NZX Code published as at 17 June 2022. As required by the NZX Listing Rules, SDL will transition to the new NZX Code on and from 1 April 2023 and report against that NZX Code in its next Annual Report.

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

## Principle 1 – Code of Ethical Behaviour

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

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

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

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

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

SDL has a Share Trading Policy to mitigate the risk of insider trading in SDL's securities by employees and Directors. A copy of this Policy can also be found with the other policies on the Company website. Share trading restrictions apply to Restricted Persons including Directors and certain employees.

### Directors' Share Dealings and Shareholding

Directors disclose the following relevant interests in shares in the Group at 30 June 2023 and transactions in relevant interests in shares during the financial year ended 30 June 2023.

Shareholder	Balance 30 June 2022	Additions	Disposals	Balance 30 June 2023
John McMahon	1,600,658	-	-	1,600,658
Nelson Siva <sup>(1)</sup>	890,000	-	-	-
Andy Preece	53,000	-	-	53,000
Lee Eglinton	18,000	-	-	18,000

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

### Entries in the Interests Register

In addition to the interests and related party transactions disclosures in Note 29 and the director remuneration disclosed under principle 5 below, the following interests were disclosed to the Board and noted in the interests register during the financial year ended 30 June 2023:

- Indemnification of officers and directors: The Company indemnifies directors and executive officers of the Group against all liabilities which arise out of the performance of their normal duties as director or executive officer.
- Directors' & Officers' insurance: In parallel with the indemnity coverage, the Group has Directors & Officers' liability insurance. The total cost of this insurance expensed during the year ended 30 June 2023 was \$35,196 (2022 - \$35,191).

### 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 2023 are disclosed in Note 29 of the Notes to the Financial Statements.

## Principle 2 – Board Composition & Performance

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

The primary responsibilities of the Board include:

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

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

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

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

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

### **Board Composition and Appointment**

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

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

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

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

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

The Board supports the separation of the roles of chairman and CEO. The chair of SDL as at 24 August 2023 is non-executive director, John McMahon, who has (through a related party) a 10.87% shareholding in SDL and is therefore not considered independent under the NZX Listing Rules. The Board believes that John's shareholding aligns his interests well with those of Solution Dynamics' shareholders' interests. The Directors consider that John's broad analytical and commercial experience, including as a director of other NZX-listed companies, along with his understanding of the Company's products, markets and strategy, mean that he is the right person to lead the Board.

The Board currently comprises five directors (2022: five directors), being a non-executive chairman (non-independent, see note above) and four non-executive directors (independent). They are all elected based on the value they bring to the Board.

In order for a director to be independent, the Board has determined that he or she must not be an executive of SDL and must have no 'Disqualifying Relationships'. In this regard, the Board follows the requirements of the NZX Listing Rules (and NZX guidance on the application of those requirements). Information on each director can be found at <http://www.solutiondynamics.com/about/our-leadership-team/>. Director's interests are disclosed on Note 29 of the 2023 Annual Report.

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

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

## Diversity

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

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

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

As at 30 June 2023, the gender balance of SDL's directors and people was as follows:

	30 June 2023	30 June 2022
<b>Directors</b>		
Females	1	1
Males	4	4
<b>Management Team</b>		
Females	1	1
Males	6	6
<b>All Employees</b>		
Females	36	38
Males	50	51

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

## Board Meetings and Attendance

The Board has 11 scheduled meetings a year.

During the period 1 July 2022 to 30 June 2023 attendance at Board and Committee meetings was:

	Board Meetings <sup>(1)</sup>		Audit & Risk Committee <sup>(2)</sup>	
	Held	Attended	Held	Attended
John McMahon (Chairman) <sup>(1)</sup>	11	11	2	2
Julian Beavis	11	10	n/a	n/a
Elmar Toime	11	11	n/a	n/a
Andy Preece <sup>(2)</sup>	11	10	2	2
Lee Eglinton	11	11	2	2

(1) John McMahon is the board chairman.

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

## Principle 3 - Committees

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

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

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

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

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

The membership and performance of the Committee is reviewed annually.

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

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

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

### **Audit and Risk Committee**

The role of the Audit and Risk Committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 2013 regarding accountancy practices, policies and controls relative to the Company's financial position and make appropriate enquiry into the audits of the Company's financial statements. This responsibility includes providing the Board with additional assurance about the quality and reliability of the financial information issued publicly by the Company. All matters required to be addressed and for which the Committee has responsibility were addressed during the 2023 financial year.

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

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

Members as at 30 June 2023 were Andy Preece (Chairman), Lee Eglinton and John McMahon. It met twice during the financial year.

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

## Takeovers

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

## Principle 4 – Reporting & Disclosure

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

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

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

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

### Financial Statements

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

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

For the financial year ended 30 June 2023, the directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of SDL and the Group and facilitate compliance of the financial statements with the Companies Act 1993 and the Financial Reporting Act 2013.

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

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

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

### Non-financial information

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

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



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

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

## Principle 5 – Remuneration

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

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

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

Details of directors and management remuneration and entitlements for the 2023 financial year are set out in Note 29 of the annual report.

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

### Directors' Remuneration

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

Directors are paid on a per director rate as follows:

Position	Approved Remuneration
Chairman	\$73,333
Non-executive Director	\$46,675
Audit & Risk Committee Chair	\$7,500
Hourly rates for abnormal/particularly time intensive projects or transactions outside the scope of typical board work	\$250/Hour

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

### Executives' Remuneration

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

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

Details of the SDL Share Option Plan are detailed in Note 30 to the 2023 Financial Statements.

### Chief Executive Officer Remuneration

The review and approval of the chief executive officer's remuneration is the responsibility of the Board. The Chief Executive Officer's remuneration comprises a fixed base salary and annual bonus that is structured based on meeting various tiers of EBITDA.

The CEO's remuneration for FY 2023 can be summarised as follows:

Description	(USD000's)
Base salary	\$272
Maximum incentive (1)	\$272
<b>Total on target earnings</b>	<b>\$544</b>

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

## Principle 6 – Risk Management

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

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

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

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

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

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

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

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

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

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

SDL also maintains insurance policies that it considers adequate to meet its insurable risks. Key financial and non-financial risks are included in Note 28 to the financial statements.

## Health and Safety

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

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

## Principle 7 –Auditors

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

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

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

For the financial year ended 30 June 2023, Grant Thornton continued in their appointment as the external auditor for SDL. Grant Thornton has occupied that role since 2009. The audit partner has been rotated in 2021 (the prior rotation was in 2016).

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

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

Grant Thornton attends the Annual Meeting, and the lead audit partner is available to answer questions from shareholders at that meeting. In this capacity, Grant Thornton attended the 2022 annual meeting.

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

## Principle 8 – Shareholder Rights & Relations

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

The Board is committed to open dialogue and to facilitating engagement with shareholders. SDL has a calendar of communications for shareholders, including but not limited to:

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

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

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

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

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

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

## Company Directory

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### Nature of Business

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

### Directors

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John McMahon – Non-independent Chairman

Elmar Toime – Independent

Julian Beavis - Independent

Andy Preece – Independent

Lee Eglinton - Independent

### Registered Office and address for service

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18 Canaveral Drive, Albany

AUCKLAND

PO Box 301248, Albany

AUCKLAND 0752

Tel +64 9 970 7700

### Company Executives

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Patrick Brand – CEO

Suzanne Watts – CFO & Company Secretary

### Solution Dynamics (International) Limited

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Lancaster Court, 8 Barnes Wallis Road,

Fareham, PO15 5TU

Hampshire

UNITED KINGDOM

Tel +44 1489 668219

### Auditors

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Grant Thornton New Zealand Audit Limited

Grant Thornton House

152 Fanshawe Street, AUCKLAND

### Solution Dynamics Incorporated

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260 Madison Avenue, 8th floor

New York, New York 10016

UNITED STATES OF AMERICA

Tel: +1 (917) 319 5625

### Bankers

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ANZ National Bank Limited

9-11 Corinthian Drive, Albany, AUCKLAND

### Legal Representative

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Stephen Layburn

Commercial Barrister

Level 3, 175 Queen Street, AUCKLAND

### Déjar International Limited (non-trading)

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18 Canaveral Drive, Albany

AUCKLAND

PO Box 301248, Albany

AUCKLAND 0752

Tel +64 9 970 7700

### Share Registry

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Computershare Investor Services

Level 2, 159 Hurstmere Rd, Takapuna

AUCKLAND

Private Bag 92119, Auckland Mail Centre

AUCKLAND 1142